



National Audit Office

Report

by the Comptroller
and Auditor General

International Development Committee

Managing the Official Development Assistance target – a report on progress

Key facts

£12.1bn

UK 2015 spending on aid – Official Development Assistance (ODA)

0.7%

2015 ODA as a percentage of the UK's gross national income

14

number of central government departments and funds that spent ODA in 2015

80.5% proportion of total 2015 UK ODA spent by the Department for International Development, expected to drop to 70% by 2020

4 number of objectives in the 2015 UK aid strategy

19.8% proportion of total UK ODA accounted for by promissory notes

Summary

1 In 2010, the coalition government committed to spend 0.7% of UK gross national income on overseas aid – known as Official Development Assistance (ODA) – from 2013 onwards. 0.7% is the proportion of a nation's income that the United Nations has said developed countries should aim to spend on overseas aid.

2 In 2015, ODA expenditure was £12.1 billion, 0.7% of gross national income. The United Kingdom therefore met the target for the third year in a row, having met the target for the first time in 2013.¹ Because of increases in gross national income, the UK had to spend 3.7% more than in 2014 to meet the target, and 6.4% more than in 2013. As part of the Spending Review 2015, the government estimated that ODA expenditure will be £16.3 billion by 2021. It updates this figure if there are significant changes to economic forecasts.

3 The Department for International Development has always spent the majority of ODA expenditure (just over 80% in 2015). The remaining fifth is made up of spending by central government departments (such as the Foreign & Commonwealth Office and the Home Office), cross-government funds (such as the Conflict, Stability and Security Fund), and by other payments and attributions.

4 There have been two important developments since the UK first achieved the target in 2013:

- In June 2015, the International Development (Official Development Assistance Target) Act came into effect. This enshrined the 0.7% ODA target into legislation. The government is now legally obliged to meet the target.
- In November 2015, the government published a new aid strategy. The strategy proposed that while the Department for International Development would remain the UK's primary channel for overseas aid, a greater proportion of it would be administered by other government departments and through cross-government funds. The government expects that the proportion not spent by the Department for International Development will represent up to 30% by 2020, compared with 20% when the strategy was published. In practice, this means that while the number of departments with spending that counts as ODA will remain about the same, they will be managing larger budgets and may be involved in new areas of activity.

¹ In April 2017, the Department for International Development published provisional ODA statistics that estimate the UK government has met the target in 2016 as well.

Scope of this report

5 In 2015, we reported on the Department for International Development's management of its increased budget to meet the ODA target. We identified some steps that the Department for International Development had taken to prepare for the increase in its budget. We also identified a number of challenges that it had, at that point, to overcome.

6 Given the increased emphasis on ODA spending by other government departments this report takes an early look at government's preparedness for, and progress in, managing this new landscape for ODA expenditure.

7 This report supports the work of the International Development Committee. Specifically we examined:

- government's management and oversight of the ODA target; and
- progress by government departments in managing their ODA expenditure.

8 We have not looked at the effectiveness of ODA expenditure. We have however considered whether departments and other bodies with such expenditure have mechanisms in place to measure effectiveness.²

9 Appendices One and Two explain our audit approach and evidence base. Appendix Three explains the sources of ODA expenditure outside the Department for International Development. Appendix Four sets out a timeline of how the Department for International Development managed delivery of the 2015 and 2016 target. Appendix Five sets out trends in ODA expenditure.

Key findings

Government's management and oversight of the ODA target

10 The new UK Aid Strategy changed the focus of ODA expenditure in two ways.

First, it established four objectives – for example, 'Strengthening global peace, security and governance' and 'tackling extreme poverty and helping the world's most vulnerable' – for the UK's spending on overseas aid. It stated that ODA expenditure would be aligned to these objectives. Second, it set out that more expenditure would come from departments and cross-government funds, with less in relative terms from the Department for International Development (paragraphs 1.2 to 1.4).

² Through our programme of value-for-money work we do look at the effectiveness of expenditure in government departments. The Independent Commission on Aid Impact, which reports to the International Development Committee, also has a role in scrutinising the UK's overseas aid budget.

11 With only one of the four of the UK Aid Strategy’s objectives supported by measurable targets, it is not possible to assess progress in its implementation.

The government can measure progress against aspects of its objective of ‘tackling extreme poverty and helping the world’s most vulnerable’. However, it cannot do the same for its other objectives, for example, ‘promoting global prosperity’. The absence of measures across the strategy limits the government’s ability not only to assess progress but also to consider the coherence of its ODA expenditure (paragraphs 1.5 and 1.6, and Figure 1).

12 The government has yet to decide how it will assess whether it has met its commitment to improve the transparency of its ODA expenditure.

The UK Aid Strategy sets out the aim for “all UK government departments to be ranked as ‘Good’ or ‘Very Good’ on the international Aid Transparency Index, within the next five years”. However, the Department for International Development was the only department to receive a rating in 2016. The organisation that maintains the Index no longer assesses organisations with annual expenditure under \$1 billion (or £833 million), excluding all UK government departments apart from the Department for International Development and the Foreign & Commonwealth Office. The Department for International Development has set aside some funding for an assessment of departments’ transparency but it has not yet decided what form this assessment might take (paragraphs 1.7 to 1.10).

13 Since 2013, the government has met the ODA target. Over that period, sources other than the Department for International Development have contributed an increasing proportion of total ODA expenditure.

The amount of ODA attributable to the Department for International Development fell from almost 88% in 2013, when the target was first met, to just over 80% in 2015. Expenditure by other government departments, cross-government funds, and other sources increased. Like the Department for International Development, this expenditure might be on programmes or payments to multilateral organisations. HM Treasury is responsible for making a number of ODA payments that are not considered departmental ODA expenditure. This includes, for example, the relevant part of the UK’s contribution to the European Union (EU) budget that is spent on overseas aid (paragraphs 1.18 to 1.20, and Figures 4 and 5).

14 The Department for International Development and HM Treasury have taken steps to develop cross-government working to support meeting the 0.7% target, ultimately underwritten by the Department for International Development’s status as spender of last resort. Responsibilities for the target are fragmented across government.

For example, HM Treasury is responsible for allocating ODA budgets to departments; and each department’s accounting officer is responsible for the proper stewardship of the ODA funding allocated to their department. The Department for International Development therefore does not control all of the expenditure that contributes to meeting the target, for which in practice it is responsible. HM Treasury established a Senior Officials Group to support the management and delivery of the ODA target, and it issued jointly with the Department for International Development guidance to all departments and cross-government funds to support their approach to managing ODA expenditure. The Department for International Development has typically spent the difference between other departments’ expenditure and the total required to meet the 0.7% target (paragraphs 1.11 to 1.17, 1.21, and 1.29 to 1.34, and Figures 2 and 3).

15 Despite government's efforts to coordinate its approach, we have identified two gaps in responsibility and accountability.

- The UK Aid Strategy was jointly produced by the Department for International Development and HM Treasury. Their strategy did not identify which part of government – either on its own or jointly – has responsibility for implementing it or for checking on its progress, or is ultimately accountable for its delivery (paragraph 1.15).
- The Department for International Development and HM Treasury monitor other government departments' and funds' ODA expenditure. And each department has a responsibility to make sure all of its expenditure, including ODA, secures value for money. But no single part of government has responsibility for monitoring the overall effectiveness and coherence of ODA expenditure (paragraph 2.15 and Figure 2).

16 HM Treasury took an evidence based approach to allocating ODA budgets but did not assess fully departments' capacity to manage increased expenditure.

As part of the Spending Review 2015, HM Treasury asked departments to look at their existing expenditure to see what might be eligible as ODA. It also asked departments to bid for new activities that might be funded through ODA. HM Treasury collected evidence from departments on their planned ODA expenditure – details of the programmes planned, their objectives, and ODA eligibility. However, it did not request information on each department's capacity and capability to manage the increased expenditure, either as part of initial bids or in subsequent requests for more details on departments' spending plans (paragraphs 1.22 to 1.25 and Figure 6).

17 For 2016, HM Treasury put in place a target that requires other government departments to spend 90% of their financial year ODA allocation within the calendar year. HM Treasury sets such a target each year. This approach has the benefit of encouraging departments to meet their spending targets. It also creates a risk that expenditure might be rushed, potentially undermining value for money. In August 2016, HM Treasury relaxed the target based on departments' and funds' monitoring returns and because it was too challenging for some departments to meet, given their lack of capacity and progress with projects (paragraphs 1.27 and 1.28).

18 The Department for International Development has supported other government departments as their budgets have increased. The Department for International Development expanded its central ODA team to increase its capacity to support other government departments on eligibility issues. This team has provided advice, workshops and tailored training to other government departments on several occasions. The Department for International Development has also provided support to other government departments to build their project management capability (paragraphs 1.31 and 1.34).

Progress by government departments in managing their ODA expenditure

19 The Department for International Development has improved its management of its ODA budget. For example, we previously reported that the Department for International Development spent 40% of its ODA in November and December in 2013. Its spending profile is now smoother. Also for 2014, 2015 and 2016, the Department for International Development had a pipeline of projects the value of which exceeded its budget for those years, creating choice and more opportunities to consider value for money. This contrasts with its position between 2011 and 2013, when planned project expenditure was less than the budget (paragraphs 2.3 and 2.4, and Figure 7).

20 The continued growth in the balance of outstanding promissory notes could undermine the credibility of the ODA target. Promissory notes – a legally binding agreement to provide funding at some point in the future – accounted for 19.8% of the government's ODA in 2015, similar to the amounts in previous years. Promissory notes can enable multilateral organisations to enter into commitments with those organisations that will implement programmes on their behalf. However, this does mean that the year in which the money is actually used for beneficial purposes is not necessarily the same as the year in which the money counted as ODA. The value of uncashed promissory notes issued to multilateral organisations has increased. In March 2014,³ uncashed promissory notes totalled £4.3 billion. At the end of December 2016, they totalled £8.7 billion (paragraphs 2.5 to 2.7 and Figure 8).

21 Departments' governance arrangements for their ODA expenditure developed alongside rather than in advance of planned increases in their budgets. During 2016, all government departments with significant ODA programme expenditure established boards that are responsible for overseeing the department's ODA spending across their various policy areas. All departments also reported their actual and forecast ODA expenditure to HM Treasury and the Department for International Development (paragraphs 2.8 to 2.10 and 2.15).

22 Departments have taken positive steps to build their capacity to spend larger ODA budgets. For example, most departments built their capacity to assess eligibility for ODA expenditure and identified the need for an expanded team with responsibility for that expenditure. Some departments have also started to use the Department for International Development's approach to monitoring and measuring impact, although progress is varied across programmes (paragraphs 2.11 to 2.13).

23 Other government departments and cross-government funds are experiencing similar challenges to those the Department for International Development faced in 2013. For example, five of the 11 bodies we looked at spent more than half their 2016 calendar year budget in the last quarter of the calendar year. And only two of the 11 bodies were able in August 2016 to forecast within 10% accuracy what their spending in the last quarter of 2016 would be (paragraphs 2.14 to 2.18 and Figures 9 and 10).

³ Data on encashments of promissory notes are currently only available on a financial year basis in years up to 2016.

24 Some departments struggled to spend their 2016-17 ODA budgets. A number of projects that were due to start in 2016 were delayed. We identified two reasons for this (paragraphs 2.19 and 2.20, and Figure 11):

- There was a short time span between the Spending Review settlements being finalised and the need to spend money for it to count as ODA expenditure in the same calendar year.
- Departments underestimated the time it would take to set up new international projects, which required the recruitment of specialist skills and coordination with other departments overseas.

25 Other government departments and cross-government funds have developed monitoring and evaluation arrangements that will enable them to measure the effectiveness of their ODA expenditure. Departments that have been managing significant amounts of ODA expenditure previously, such as the Department for Business, Energy & Industrial Strategy, already had monitoring and evaluation arrangements for ODA expenditure in place before the Spending Review. Other departments designed them as part of their bids and spending plans submitted to HM Treasury. For some new ODA programmes there is not yet a plan in place for how the programme will be evaluated, but we did not identify any instances of programmes not being monitored against their objectives (paragraph 2.23).

Conclusion

26 The government has decided that departments and funds other than the Department for International Development should have responsibility for expenditure which contributes to meeting the 0.7% aid target. The landscape for meeting the target has become more complex as a consequence and a number of gaps in accountability and responsibility have appeared. To date the focus, both centrally and in departments, has been on establishing appropriate governance and reporting arrangements so that progress towards meeting the target can be monitored. HM Treasury and the Department for International Development, together with other relevant bodies, should focus on developing ways of capturing the overall effectiveness of ODA expenditure and assessing its coherence across government. Doing so will help them to demonstrate that ODA is being used to achieve the UK Aid Strategy's objectives.