National Audit Office

REPORT

Progress with the merger of the Foreign & Commonwealth Office (FCO) and the Department for International Development (DFID)

Foreign, Commonwealth & Development Office

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Key facts

£24.7mn	59	7
minimum total costs of the merger in 2020-21 to 2022-23, including direct costs such as staff and consultancy pay and IT costs, but not including indirect costs such as lower productivity due to disruption	number of workstreams within the 12 programmes of the original Transformation Portfolio	number of core programmes within the Integration Portfolio completed by April 2023 (a streamlined next iteration of the Transformation Portfolio)

16 June 2020	date when the Prime Minister announced the merger of the Foreign & Commonwealth Office (FCO) and the Department for International Development (DFID), to form the Foreign, Commonwealth & Development Office (FCDO)
2 September 2020	date FCDO was created
97%	percentage of staff working in merged teams by April 2021 across 42 directorates and 57 posts, reported by FCDO against a target of 95%
6	percentage point fall in FCDO's staff engagement score in the annual Civil Service People Survey, from 67% in 2020 (survey conducted in October–November 2020) to 61% in 2022 (rising to 66% in 2023), compared to the civil service median scores of 66% in 2020 and 65% in 2022 (falling to 64% in 2023)
£10.4 billion	FCDO's outturn expenditure in 2022-23, compared to £2.7 billion for FCO and £10.8 billion for DFID in 2019-20 (a 23% decrease in outturn expenditure, primarily due to a decrease in development programme spending)
17,549	FCDO staff by headcount as at 31 January 2024, an increase of 556 staff compared to a total of 16,993 staff by headcount as at 1 September 2020 in the former departments FCO (13,559) and DFID (3,434)

Summary

Introduction

1 On 16 June 2020, the then Prime Minister announced the merger of the Foreign & Commonwealth Office (FCO) and the Department for International Development (DFID), to form the Foreign, Commonwealth & Development Office (FCDO). The aim of the merger was to unite development and diplomacy in one new department and enable the Foreign Secretary to make decisions on aid spending in line with the UK's priorities overseas. The former DFID had higher outturn expenditure than the former FCO because of its development programmes (£10.8 billion DFID outturn expenditure compared to £2.7 billion FCO outturn expenditure in 2019-20), but it had fewer staff by headcount (3,434 in DFID compared to 13,559 in FCO as at 1 September 2020).[1] As part of its merger planning, FCDO sought input from counterparts in other countries who have implemented similar mergers, and other organisations with relevant experience and expertise. The new department was created on 2 September 2020.

2 FCDO developed a Transformation Portfolio to merge the two departments, consisting of 12 programmes which it aimed to complete by October 2022. In May 2022, FCDO reduced the scope of the original Transformation Portfolio to create the Integration Portfolio. This consisted of seven programmes focussed on core integration activities such as a single HR and finance system, single intranet, single pay framework and aligned finance policies. FCDO has completed these programmes but is continuing work to embed the merger and address outstanding system and HR issues such as aligning allowances. Following closure of the Integration Portfolio in June 2023, FCDO set up an Organisation Improvement Directorate, tasked with prioritising and overseeing ongoing improvement to departmental systems and processes.

3 In 2010, our report on *Reorganising central government* examined the reasons for reorganisations, the costs and benefits resulting from them and how they are managed. We set out key principles that should be applied when re-organising central government such as: ensuring broad support for the change; communicating well with staff and stakeholders; quickly establishing solid reporting systems; being clear about the outcomes sought; breaking down old 'silos'; and ensuring that normal business is maintained during the transition.[2] We have considered these principles in our review of the FCDO merger.

1 Staff in scope for reporting of headcount numbers are UK-based staff (home and overseas) and country-based staff. Staff not in scope are contingent labour, employees not on the payroll and not being paid during the period (such as those on career breaks or periods of unpaid sickness absence), ministers, special advisers and non-executive directors. As the scope includes country-based staff who are not civil servants, these headcounts do not align with the published statistics for FCDO civil service employment as part of ONS Public Sector Employment Statistics or Cabinet Office Civil Service Statistics releases.

2 Comptroller and Auditor General, *Reorganising central government*, Session 2009-10, HC 452, National Audit Office, March 2010, pp. 4–5, 23.

Scope of the report

4 This report examines whether FCDO has managed the merger effectively and in a way that will maximise its benefits. It considers whether:

- the objectives of the merger were clear and supported by an appropriate portfolio of work;
- programmes to merge the departments have been implemented effectively so far; and
- FCDO is on track to maximise the long-term benefits that were envisaged.

5 The report does not examine the decision for the merger, but focuses on how the merger has been implemented, with a view to identifying lessons for FCDO going forward and for other government departments faced with machinery of government changes.

Key findings

Planning the merger

6 The then Prime Minister announced an overarching vision for a merged FCDO in June 2020, but FCDO did not do enough in the early stages of the merger to set out a clear vision and direction for the department. The aim of the merger was to unite the UK's development and diplomacy efforts in one new department, achieve a more coherent and integrated approach, and increase the UK's impact. FCDO was formally created in September 2020, and it developed a draft outline business case for a Transformation Portfolio in April 2021. This was not completed, as, following further discussions with FCDO, the Infrastructure and Projects Authority (IPA) concluded that a standard business case was not a good fit for FCDO's portfolio delivery model. In place of a business case, FCDO subsequently produced a high-level transformation strategy that set out FCDO's overall ambition for the next phase of the merger and how it intended to track benefits, but this did not contain quantified costs or a delivery plan. FCDO launched a vision and mission in December 2021, following delays caused by the management of several crises and a change in Foreign Secretary. Successive publications, most recently the International Development White Paper, published in November 2023, reiterated the vision behind the merger, of combining diplomacy and development to increase impact. Staff and stakeholders have continued to raise concerns around a lack of clarity of vision and direction for the department in the years following the merger. However, the proportion of FCDO staff who were positive about leadership vision in the 2023 annual Civil Service People Survey increased by nine percentage points, from 42% in 2022 to 51% in 2023 (paragraphs 1.5, 1.7, 1.14 and 3.4).

7 **Implementing the merger during the COVID-19 pandemic made organisational change more difficult, and managing further crises and reductions to the aid budget also affected progress.** The merger was announced at a time when the two departments were handling the repercussions of COVID-19, both in supporting international efforts for vaccines and aid, and in managing their own staff, many of whom had to work remotely or be repatriated. Staff were not able to meet in person, which made it more challenging to implement change, build trust, build new teams and develop a new culture. FCDO also had to implement significant cuts to the aid budget, which the government introduced because of the continuing economic impacts of the COVID-19 pandemic and its assessment of the impact of this on public finances. FCDO's total expenditure of £10.4 billion in 2022-23 was 23% lower than the combined total expenditure of the former departments in 2019-20, primarily due to the decrease in development programme spending. Successive international crises, including Afghanistan withdrawal and the war in Ukraine, affected the whole organisation, with a knock-on impact on the merger. Responding to these crises and events took up management capacity, and staff, including some with merger responsibilities, were re-deployed to work on other priorities. Two Director Generals with overall responsibility for transformation activity, and the Permanent Under-Secretary provided continuity in senior leadership between the date of the merger and April 2023. However, during that time there were seven Transformation Directors, with tenures ranging from two to 15 months, three of whom provided interim cover. In addition, changes in Foreign Secretary over this period also introduced uncertainty, and slowed progress in some areas, for example, strategic workforce planning (paragraphs 1.4, 1.9, 2.2 and 2.3 and Figure 3).

8 **The initial Transformation Portfolio of programmes to deliver the merger was unrealistic in scope and timing.** The Transformation Portfolio consisted of 12 programmes, containing 59 workstreams in total. FCDO initially used this as an opportunity to fix issues within the former departments, while simultaneously delivering elements vital for FCDO to function as a single organisation. This resulted in a portfolio which encompassed many major change initiatives rather than prioritising the key elements of the merger. While acknowledging that delivery of large IT programmes and the creation of a new culture would take time to deliver, FCDO set out a challenging two-year implementation timeframe, to ensure sufficient momentum and reduce the risk of staff losing interest or experiencing change fatigue. This included a transition phase from June to September 2020 to deliver a legal, functioning department, followed by a transformation phase which was expected to last until October 2022 (paragraphs 1.12 and 1.13, and Figure 4).

Implementing the merger

9 FCDO rescoped the Transformation Portfolio to form a slimmed-down Integration Portfolio in 2022, which brought the merger back on track. FCDO recognised that it needed to revise its plans to focus on the essential elements required to integrate the department. In November 2021, FCDO's Management Board discussed how to prioritise the Transformation Portfolio and agreed on a list of building blocks scored against key criteria. Following a red delivery confidence rating from the IPA in February 2022, FCDO further reduced the scope of the original Transformation Portfolio to create a new Integration Portfolio. This consisted of seven core programmes, including a single HR and finance system, single intranet, single pay framework and aligned finance policies. The Integration Portfolio received a green rating from the IPA in August 2022 which recognised improvements in several areas, including scope, governance and reporting. FCDO successfully completed all programmes within the Integration Portfolio by April 2023, meeting its core objective of providing the foundations from which FCDO would be able to create an integrated organisation in the future, and the portfolio was formally closed in June 2023. There are still some operational and user issues to address, and responsibility for this has moved to the relevant teams across the department (paragraphs 2.5 to 2.7, 2.9 to 2.11, 2.24, and Figures 5 and 6).

10 FCDO has completed the alignment of pay structures but still has further work to do on overseas allowances, and this remains a key issue for staff. FCDO completed pay alignment for UK-based staff in autumn 2022 and for country-based staff in January 2023. While it has made significant progress with aligning terms and conditions and overseas allowances, there are several contentious allowances that have yet to be addressed, including children's education and the overseas travel package. Staff have continually raised the lack of progress with aligning allowances as an area of concern. In November 2023, FCDO announced work on an Overseas Employment Framework to modernise existing arrangements and create a single set of arrangements for all UK staff working overseas. In February 2024, FCDO confirmed the need to modernise and simplify allowances so that all staff are treated consistently. FCDO aims to achieve a simpler, streamlined system that involves fewer complicated transactions, and takes account of local factors at the overseas post, composition of households and the cost of living. This will include looking at other parts of the framework for staff that have a financial element, including travel and education. It plans to implement these changes within its existing workforce spending budget. If agreed internally, FCDO will seek relevant approvals from HM Treasury in line with FCDO's plan to start implementing these changes for people applying for new overseas postings from summer 2024. FCDO anticipates that it will take time to implement fully since staff already posted overseas will continue to receive their current allowances until their posting ends (paragraphs 2.18 to 2.20).

11 In some areas, teams across FCDO have drawn on the strengths of the former departments to develop new ways of working. Due to its large programme spending, DFID had more developed risk management, programme management, and supplier management functions. In FCO, there was a more developed security culture and use of influencing skills. FCDO has built on these foundations to design how it operates in these and other areas, adapting where necessary to better suit the needs of the new organisation. The new model is still evolving and teams that made changes early on may need to take stock and make further changes to structures and processes (paragraph 2.17).

12 In other areas, FCDO has taken the opportunity to start from first principles and design new frameworks to fit the objectives and priorities of the new department. This includes developing its Overseas Employment Framework which aims to modernise and simplify allowances. It also recently established a Development Faculty to support development capability across the department. It launched a new capability framework in September 2023 through which it aims to understand, deploy and invest in its capabilities, and in response to staff concerns about lack of clear career pathways and progression (paragraphs 2.19 to 2.21, 2.23, and 4.6).

13 FCDO has increased the accountability and visibility of international development since the merger was announced. Initially, international development was fully integrated in teams throughout the organisation and the merger was viewed by some as a 'takeover' of DFID by FCO. Since then, there have been various organisational changes and the creation of three new posts – a Director General for Humanitarian and Development in March 2022, a cabinet-level Minister for Development in September 2022, and a Second Permanent Under-Secretary responsible for aid spending in July 2023. These have given greater prominence to international development internally and externally. The government published an International Development White Paper in November 2023 which, in line with the government's 2021 Integrated Review and 2023 Integrated Review Refresh, emphasises the importance of development in the UK's international approach. External partner organisations that we spoke to in the development sector recognised that, while the UK's aid budgets may have decreased, the UK had shifted to operating in a different way to leverage influence. However, FCDO's development capability has reduced since the merger. FCDO rates this risk as "severe" and is working to mitigate it (paragraphs 2.12 to 2.14, and 2.22).

14 **FCDO has further to go to achieve longer-term culture change beyond merging teams and IT systems.** The two former departments had strong identities and missions and, at the time of the merger, staff from the former departments felt they subscribed to different cultures and values. FCDO was aware of the importance of creating a new culture, learning from the experience of similar mergers in other countries. By 1 April 2021, FCDO reported that 97% of staff were working in merged teams across 42 directorates and 57 posts, against a target of 95%. As well as merged teams, some of the other enablers of culture change, such as common systems and single country plans, are in place or underway, but specific work on culture change is at an early stage. FCDO set up an organisational design and development team in October 2022, which is undertaking work to understand current cultures and to articulate the desired culture for the future (paragraphs 2.11, 2.16 and 2.25, and Figure 7).

Understanding the impact on staff

15 **The merger has been difficult and disruptive for many staff, although the impact varied across the organisation.** Former DFID staff were more significantly affected by the decision to close DFID's London HQ building and the requirement for higher security clearances. Corporate functions such as HR, finance, procurement and internal audit had to merge FCO and DFID teams, at the same time as aligning policies and processes and continuing to provide services. Some overseas posts had greater integration challenges, depending on the size of the former FCO and DFID teams in place and the extent to which they had already started to work collaboratively, while others, such as some posts in Europe and North America were less affected. A stocktake exercise conducted by FCDO in late 2022 found that core business functions (HR, IT and corporate services) were holding staff back, and there was a perceived lack of leadership, vision and objectives, and of a strategic approach to career progression. However, we have also seen examples of where the merger has opened up opportunities for staff to apply for new roles and to learn new skills. FCDO has experienced higher staff turnover in the years following the merger compared to that of FCO, although DFID had higher turnover before the merger. There was a six-percentage point fall in FCDO's staff engagement score from 67% in 2020 (survey conducted in October-November 2020) to 61% in 2022, although in 2023 the score increased again to 66%, above the civil service median of 64% (paragraphs 2.21 and 3.2 to 3.7, and Figures 8 and 9).

Costs of the merger

16 FCDO does not have an overview of the full costs of the merger. FCDO disclosed merger-related costs of £4.9 million and £27.6 million in the performance report sections of its 2020-21 and 2021-22 Annual Report and Accounts, respectively, but chose not to disclose merger costs in the performance report section of its 2022-23 Annual Report and Accounts, although the Integration Portfolio continued throughout 2022-23. In response to our request for cost data, FCDO identified £6.9 million merger costs in 2022-23, but also provided a higher figure of £5 million for 2020-21 and a lower figure of £12.8 million for 2021-22 after deducting the costs of the Hera programme (to deliver a single HR and finance system) and the Aid Management Platform (AMP) programme. In response to external scrutiny from IPA, FCDO changed its approach to tracking merger-related costs and started including actual programme costs in 2022-23, as well as the costs of managing the programmes. FCDO decided not to track the indirect costs of the merger, considering it would be too complex and resource intensive. FCDO has therefore spent a minimum of £24.7 million on the merger in 2020-21 to 2022-23, not including the full costs of the Hera and AMP programmes or any indirect costs. FCDO stopped tracking the costs of the merger in March 2023. FCDO completed all programmes within the Integration Portfolio by April 2023 and now considers any further costs to be part of ongoing departmental improvement work (paragraphs 3.8 to 3.10 and Figure 10).

Achieving the benefits of the merger and sharing lessons learned

17 FCDO has not systematically tracked benefits from the merger, including cost savings, organisational improvements, or efficiencies. FCDO has only a partial view of possible benefits from individual programmes, such as the potential for increased efficiency as a result of teams being able to work and communicate on the same IT platform. FCDO outlined a benefits realisation plan in the draft Transformation Portfolio business case but did not formalise or implement it. FCDO subsequently established a more developed benefits realisation model to monitor benefits flowing from individual programmes in the Integration Portfolio, but then did not systematically collect data to measure these benefits, so does not know if they all materialised. It has decided not to monitor any future benefits through this model so it cannot assess whether the immediate benefits of the portfolio outweigh the costs. In addition, these programmes aim to facilitate greater integration across the organisation and are enablers for benefits that may be achieved in years to come (paragraphs 4.2, 4.5 and 4.7 to 4.8).

18 **There are examples from across FCDO of where a more integrated approach is achieving benefits.** For example, in June 2023 the then Foreign Secretary outlined how the merger has allowed FCDO to utilise its diplomatic leverage to engage with other potential donor countries on development issues, which did not happen previously. FCDO stated that the merger had strengthened the UK's response to the war in Ukraine and other global crises. We also found evidence of benefits in our case studies, where a more integrated approach had led to a better response and likely improved outcomes. Examples of this include the joint humanitarian and political response to the Ebola crisis in Uganda, and the support for delivery of vaccines across the world. Our overseas case studies also highlighted that the merger made it easier to present a joined-up UK government position, to deploy both development and diplomatic levers in a coordinated way, and influence externally (paragraphs 4.3 and 4.4, and Figure 11).

19 **The Cabinet Office provided some input to the FCDO merger at the outset, and updated its guidance for future machinery of government (MoG) changes in 2023 based on lessons learned from organisational changes across government.** IPA, situated in the Cabinet Office, has provided FCDO with assurance on programme delivery since the Transformation Portfolio joined the Government Major Projects Portfolio. Separately, the Cabinet Office is responsible for advising the Prime Minister on MoG issues. The Cabinet Office MoG team was involved at the early stages of the merger, for example, it was present on some governance boards. It considers that each MoG change is unique and aims to provide additional expertise and assurance on aspects of implementation, as required, through cross-government functional teams (such as HR, Estates and Digital), alongside the capturing and sharing of good practice. The Cabinet Office revised its 2015 guidance for future MoG changes in February 2023 to reflect the findings of a lessons learned exercise conducted in June to December 2020 with several departments that had undertaken planning for actual or potential MoG changes, including FCDO. The Cabinet Office told us that it circulated the updated guidance to departments in February 2023, but it has not published it (paragraphs 1.6, 1.11, 2.4, and 4.14).

Conclusion

20 The decision to merge FCO and DFID in 2020 was predicated on the view that combining diplomacy and development would improve outcomes and safeguard British interests and values overseas. While efficiency savings were not the primary goal, the Cabinet Office and FCDO anticipated some savings through merging corporate functions, integrating IT systems and streamlining office accommodation. A series of international crises, together with the implementation of large cuts in aid spending and changing ministerial priorities, have placed significant demands on the organisation, and FCDO has made sensible decisions to prioritise its efforts. It has made substantial progress with integrating structures and aligning HR and finance policies, helping to remove the practical barriers to people being able to work together effectively. However, more than three years on, there is still work to do to resolve remaining issues and ensure these basics are delivered. It will also take time for wider cultural change and new ways of working to settle and become fully embedded.

21 FCDO did not clearly articulate or measure the range of anticipated benefits of the merger, and its approach to tracking the costs of the merger was incomplete and changed over time. The estimated direct costs of the merger are small compared to the overall expenditure of the department, but the indirect costs in terms of disruption, diverted effort and the impact on staff morale should not be under-estimated. These factors should be considered against the potential benefits ahead of any major change. There is also more the centre of government could do to learn lessons from departments' experiences and to better support departments going through major organisational change. With unclear objectives, and the absence of mechanisms to track full costs and identify benefits, there is insufficient evidence to conclude on the value for money of this merger. Our assessment has also necessarily focused more on internal activity to deliver the merger, and it may be too early to fully assess the impact on organisational effectiveness and outcomes. However, we have seen evidence of where a more integrated approach has improved the organisation's ability to respond to international crises and events, which has led to a better result. FCDO must now move to a phase of consolidation and develop a clear view of the organisation it wants to be, to ensure that it can achieve the long-term benefits of a fully integrated organisation.

Recommendations

22 Our recommendations focus on what FCDO needs to do to fully embed the merger.

a **FCDO should complete its work to align allowances as a matter of urgency, and should also prioritise work to resolve remaining issues with the basics of HR, IT and corporate services provision**.

b **FCDO should continue work to clarify opportunities for career progression within the department and support staff to navigate them.** Staff still lack clarity around career progression and capability requirements in the merged organisation. FCDO has developed a new capability framework and should prioritise work to implement this and identify where it has gaps, and the opportunities available for staff.

c **FCDO should accelerate its work on culture change.** Now that the core elements of integration have been mostly delivered, FCDO should focus on working with teams in the UK and overseas to build cultures that align with FCDO's strategy and to create the conditions for a fully integrated organisation.

d **FCDO should implement a revised internal communications and engagement strategy setting out its plan to deliver future organisational improvement, incorporating where appropriate the remaining elements of integration.** This will help to address the uncertainty and remaining concerns which are affecting staff morale.

e **FCDO should formally review what was de-prioritised from the Transformation Portfolio when creating the Integration Portfolio, to ensure that nothing has been missed, and build it into future activity.** FCDO should:

- ensure that the lessons learned, and feedback from staff and stakeholders to identify enablers and blockers to progress, are captured and used to inform future activity as appropriate;
- use learning to date to test, refine and fully embed new processes and ways of working; and
- ensure that workstreams for future activity have clear ownership and monitoring arrangements and are implemented. This should be the responsibility of the Organisation Improvement Directorate.

23 We have also identified areas where the Cabinet Office can strengthen the support it provides to government bodies undergoing machinery of government (MoG) changes:

f **The Cabinet Office should ensure there is proper consideration of the costs and benefits of major MoG changes and provide longer-term support and guidance to departments facing significant organisational change.** Once the decision has been taken to implement a MoG change, the Cabinet Office should:

- provide guidance on a consistent method of tracking costs, including some measure of indirect costs, and require departments to identify and track the costs of MoG changes;
- ensure that departments can monitor benefits by assessing progress against a baseline assessment taken at the start of delivery using quantitative and qualitative metrics; and
- proactively offer support to departments tailored to the specific challenges of each MoG change, to help departments make realistic plans.

g **The Cabinet Office should routinely gather and disseminate lessons learned from organisational changes across government.** It should engage with all departments who have undergone MoG changes to obtain lessons learned and use this to review, update and publish its guidance on MoG changes at least every two years.