

# Foreign Affairs Committee

## Oral evidence: FCO-DFID merger, HC 525

Tuesday 7 July 2020

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Members present: Tom Tugendhat (Chair); Alicia Kearns; Stewart Malcolm McDonald; Bob Seely; Henry Smith; Royston Smith.

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### Witnesses

**I:** Tim Durrant, Associate Director, Institute for Government; and Lord Macpherson of Earl's Court CBE, former Permanent Secretary, HM Treasury.

### Examination of witnesses

Witnesses: Tim Durrant and Lord Macpherson.

Q1 **Chair:** Welcome to this afternoon's session of the Foreign Affairs Committee. Lord Macpherson and Tim Durrant, I apologise to both of you for keeping you waiting. May I ask if you would very briefly say one line about yourselves?

**Lord Macpherson:** I was permanent secretary of the Treasury from 2005 to 2016.

**Tim Durrant:** I am an associate director at the Institute for Government, and I have looked at machinery of government changes in the past.

Q2 **Chair:** We are going to go through a series of questions. May I ask you to keep your answers as brief as is reasonable? If you agree with your fellow speaker, do not feel the need to repeat. If you disagree, of course feel the need to challenge. That is very welcome.

We are looking at the merger of the Foreign Office and the Department for International Development. Lord Macpherson, do you agree with the rationale that the Government have set out, and the timing?

**Lord Macpherson:** In broad terms, I can see a case for bringing the Foreign Office and Development together. In a world of finite resources, a



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more integrated approach to how we approach our overseas effort has attractions. Equally, there are risks, particularly if you, by temperament, want to prioritise overseas development.

The only other point I would make is that, if this is to happen, it is rather important that there is a genuine attempt to get cross-party consensus, otherwise the moment there is a Labour Government—as was the case in 1974 and 1997—you will see the policy being reversed.

Q3 **Chair:** Tim, do you have anything to add?

**Tim Durrant:** The timing is the interesting question. We know that these changes take a number of years to bed in. It is often two-plus years until a new organisation or a new Department is fully up and running. In that time, there will be an inevitable distraction from the day job of the new FCDO. Obviously, over the next 18 to 24 months there will be a lot going on. There is always a lot going on internationally, but, as the Prime Minister said in his statement on the merger, the UK has the G7 presidency next year and is hosting COP 26. Those are two big, international high-profile events and the UK is in charge of making them a success, and its foreign affairs Ministry is going to be involved in a very comprehensive and complex rearrangement. That is inevitably going to distract from those international priorities.

Q4 **Chair:** The spending of ODA money is, of course, not simply done by DFID. Indeed, BEIS, the MOD and various others have had a role in it. Lord Macpherson, what is the Treasury's approach to managing ODA spend? Oversight of that is now going to be extremely important.

**Lord Macpherson:** The first thing is that overseas aid is subject to an input target set out in law. The issue is that 0.7% of national income has to be spent on overseas aid. It is fair to say that, as resource availability became more constrained following the financial crisis, the Treasury took a greater interest in which areas of expenditure could be labelled as overseas aid. Quite a lot of effort went into spreading the overseas aid budget around.

Whether the expenditure by other Departments is as effective in development goals alone, I rather doubt. That has been reflected in reviews, in particular by aid-supporting organisations. There is a bit of a trade-off. The Treasury's main focus in recent years has been trying to get control of public spending and bearing down on pressures. It is obviously interested, from a taxpayer's perspective, in the value for money you get from aid spending. The Treasury has an interest in aid spending being effective.

The problem with input targets is that in the end everybody just obsesses about how you can get to 0.7% while minimising the cost to the taxpayer.

Q5 **Chair:** Do you think, therefore, that this offers an opportunity to have better co-ordination and not just better oversight?



**Lord Macpherson:** I do. I think that is the case for action. In a world where money is hard to come by, we spend money on defence, on the intelligence agencies, on diplomacy, on overseas aid and various health projects, on conflict prevention and so on. The more that decisions can be integrated on those issues, the better.

I know this is not an efficiency-driven exercise, and the Government have made it clear that it is not about public expenditure savings; nevertheless, partly because the DFID budget grew so rapidly in the decade before last, things like DFID offices tended to open up alongside high commissions and, although in successive spending reviews both the Foreign Office and DFID signed up to greater co-ordination, I am not sure that it really took place on the ground. Talking to ambassadors and high commissioners, when there was a difference of view between the Foreign Office and the Development Department, the ambassador was not in a position to knock heads together. To me, that is the case for this change.

**Tim Durrant:** On the point about other Departments spending overseas development assistance, one of the challenges that DFID has had, whether that is attributable to Secretaries of State or not, is how it can export its expertise to other Departments. About 25% of the aid budget is spent by a Department that is not DFID or the Foreign Office, so it is a significant amount.

Hopefully, one of the benefits of the merger will be that, in bringing the development facility into one of the biggest and most prestigious Departments in Government, that expertise can be more readily exported to BEIS, DEFRA and the Department of Health, who are responsible for not insignificant expenditure.

As a slight counter to what Lord Macpherson was saying about co-operation on the ground—this is anecdotal—some people I have spoken to have said that through the last few years there has been a big effort to bring the two organisations together overseas. There has been a big process of consolidating estates and ensuring that, where there is a significant DFID programme, it is co-located with the embassy or high commission in the developing country. Some of the officials in those Departments said that it is often easier for officials to work together on the ground in other countries because they are both there as representatives of the UK Government, whereas when they are back here in the UK, in London, it goes back to the departmental silos and fiefdoms that arise in any kind of set-up.

It might be that the merger is already de facto happening on the ground and has been for a little while. It might play out more smoothly overseas than it does back here at home.

Q6 **Stewart Malcolm McDonald:** One of the things that Ministers keep saying, and it was said a few times at our session last week with the Minister, Nigel Adams, is that Covid and the crisis has shown the need for the merger to happen. If I am being honest and set my political view of



the merger to one side, that sounds like the kind of thing you pay expensive consultants to tell you, but nobody can actually tell me why.

Can I ask both of you—please be brief—would you agree that the crisis has shown the need for the merger to take place?

**Lord Macpherson:** No.

**Tim Durrant:** I do not think I have anything to add to that.

Q7 **Stewart Malcolm McDonald:** Can I take it that you are in agreement that it has not shown the need for the merger to take place?

**Lord Macpherson:** There are all sorts of reasons for doing it. I just do not see Covid as being one of them, but I recognise that Governments always have to try to convey a sense of urgency, so jumping on that bandwagon may help the presentation.

**Tim Durrant:** It is worth saying as well that I do not think there is any perfect set-up. Departments always change around, and responsibilities always change around. That is right, and these things should not be set in stone, but I do not see that everything that is now happening is a rationale behind making the change.

Q8 **Stewart Malcolm McDonald:** I agree with you both on that. When the Prime Minister and Ministers talk about how we reprioritise aid spending, how do you think aid spending should be reprioritised?

**Lord Macpherson:** I do not have a personal agenda on overseas aid. There has always been a tendency, particularly in the Conservative party, to regard an excessive focus on poverty alleviation as potentially, if not a waste of money, not the main objective of foreign policy and aid policy. In the past, I have heard people arguing that, for example, when the Japanese give aid to build roads or whatever, they insist that Japanese engineers are employed. I believe that is called tied aid. Aid theologians do not like tied aid.

You could argue, as the Americans do, that you could use a policy to support foreign policy more directly. There are those who argue that DFID has gone slightly native and is the Whitehall branch of Oxfam, and does not really buy into the view that British foreign, defence and aid policy should be in support of British national interests.

Q9 **Stewart Malcolm McDonald:** Tim, I am sure you want to come in. When we talk about aid policy assisting or complementing foreign policy objectives, what is the United Kingdom not achieving abroad right now that it will be able to achieve by abolishing the aid Department and merging it into the FCO?

**Tim Durrant:** I am not an aid, a development or foreign policy person generally, so I am not close to the detail. I agree with Lord Macpherson that some of the policy outcomes might be badged differently, but they reinforce each other. For example, I was looking at the DFID website, and



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their priorities are about global prosperity, supporting peace and things that presumably no UK Government would be opposed to. They are not antithetical to what the rest of our wider foreign policy is trying to do.

I suppose it is a matter of emphasis and relative prioritisation. The argument behind the merger, as the Prime Minister said in his statement when he announced it, is that one individual person or Minister can make trade-offs between aid to Zambia and aid to the Ukraine in a way that has not been the case for the last few years.

**Q10 Stewart Malcolm McDonald:** The Government want to have achieved the merger by September. We are about eight or nine weeks away. Last week, the Minister could not tell us if there would be a separate accounting officer in the Department. The Minister could not give us any information on who was consulted, when they were consulted, how long the consultation went on for, or where you or I could read the results of that consultation.

Do you think that it is being rushed? How long do you think it should take to merge two big spending Departments? In terms of oversight, how should Parliament respond? Should there be a separate Select Committee or a Committee that looks at aid spending? Should it merge with this Committee? What do you think?

**Lord Macpherson:** I know that September seems very close, but I have seen a number of machinery of government changes that pretty much happened overnight. The Prime Minister has decided it during the course of a reshuffle, and as a civil servant you take the merger as a fait accompli and quickly come up with a project plan to put it into effect. Sometimes, you get three or four weeks' notice if you are warned that it is going to happen after a general election. You can use the election campaign to prepare. In one sense, it seems a very short time, but actually by most standards it is quite a lot of time.

What does it actually mean? In practice, it means changing the nameplates on all the relevant Departments; finding a Secretary of State who is going to be responsible for the merged Departments; and finding a permanent secretary. Once you have all those, you set about a genuine project plan to give effect to the merger. There are several different models you can go for. You could go for full integration. You could go for a federal structure. When I was working in the Treasury in the 1990s, the overseas development administration under Lynda Chalker was quite detached from the Foreign Office, although formally part of it. There are a number of different ways of doing it, but, whichever way you choose, completing the project will probably take anything up to two or three years.

**Tim Durrant:** I think that is right. You can look at some of the biggest changes recently. When Theresa May became Prime Minister, she announced the creation of the Department for Business, Energy and Industrial Strategy, taking the old Business Department and Energy and



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Climate Change and merging them, with some areas going elsewhere. She announced that on one day, and it was up and running the next day. As Lord Macpherson said, it is probably still happening now. There are still people who consider themselves ex-BIS and people who consider themselves ex-DECC working in that Department even four years on.

Scrutiny is obviously a question for Parliament. The Prime Minister and the Foreign Secretary have said that there will be no obligatory redundancies in the new Department. Presumably, there is going to be a similar number of people doing what the two predecessor Departments did. That model would seem to me to make sense for parliamentary scrutiny of the Department. It is going to be doing the same amount of work as DFID and the Foreign Office were doing. If that was previously scrutinised by two Committees, does it make sense to maintain two Committees now? As you said, there might be one with international development as a theme, rather than as a departmental responsibility.

That was the case a few decades ago, before DFID was a stand-alone Department. There was a cross-cutting Commons Select Committee, like the Environmental Audit Committee or Women and Equalities, that looked at the work of Government as a whole on a particular topic. That would allow increased scrutiny of international development spending by other Departments. You could pull in BEIS, Health and so on, who, as we have said, are spending the money too.

**Q11 Henry Smith:** On the rationale for this merger, and the logistics of pulling together two Government Departments, there is quite a lot of precedent in other OECD countries that have done similar things. What do you think we can learn, both positively and negatively, from the experience of very similar countries in the way they have merged foreign affairs and development assistance?

**Tim Durrant:** Australia made that change a few years ago, as did Canada. Many other OECD countries already have that set-up. The other major economies that meet the 0.7% target every year are the Scandinavian ones, and they generally have their aid agency as a sort of Executive agency of their Ministry of Foreign Affairs. It is not unusual.

The key take-away from talking to people in those Governments is the time it takes. I was speaking to some Australian officials the other week. They were saying that now, six years on from their merger, it is still playing through in how their Department of Foreign Affairs and Trade sees itself. It takes time, and that is just a fact of these things.

The other point, which we may come to in later questions, is about the kind of specific expertise and specific attributes of each of the component Departments, and how you maintain the best of the Foreign Office and DFID in the new FCDO. One of the points that the Australians I have spoken to made is that they kept the name—the Department of Foreign Affairs and Trade—and there was no reference to development.



On a symbolic level, people who had previously worked for the Australian Aid Agency felt that on the brass plaques outside their office building there was no recognition of the development work they were doing. Those kinds of symbolic, cultural things have an impact and could affect how long it takes for the new Department to get up and running, and integrate itself.

**Q12** **Bob Seely:** I think Lord Macpherson was talking about the criticism that DFID had gone native. I totally understand. I just about remember some of the aid scandals of the 1990s. Aid needs to be somewhat separate. The idea that you tie aid to favours is morally questionable, but to go in the opposite direction to the extent that DFID went, effectively to see itself as being completely divorced from the taxpayers who were funding it and to see itself as, effectively, an international agency in all but name, was almost corrupting in the opposite sense. Do you agree or disagree with that comment?

**Lord Macpherson:** I think it is a perfectly respectable point of view. DFID is different. In my opinion, it is not as grounded in the civil service side, in the British civil service, as most other Departments. It regards itself as slightly different. The motivation for joining it is quite different.

Be in no doubt: DFID gets more applications for jobs than any other Department. Until the Treasury overtook it, it had the highest morale in staff surveys. It has a lot of very motivated people, drawn from all sorts of countries. It was quite attractive pre-Brexit for an Italian, say, to work for DFID because DFID is at the cutting edge of aid policy and an exciting place to be.

There are lots of very positive things about it. This is a prejudice, and I suspect that I am probably nearer your view than most civil servants: I worry about that degree of semi-detachment. I would like to give you a very brief anecdote that brought it home to me. Up until 1997, the Chancellor of the Exchequer was both the Governor of the IMF and the Governor of the World Bank. As part of the election manifesto in 1997, Clare Short became Secretary of State. At official level, we agreed that we would continue to have a joint office in Washington with one director, who was a Treasury official, who would be an executive director of the World Bank and the IMF.

DFID steadily chipped away at that. When Gordon Brown left the Treasury in 2007, they quickly moved to say that they wanted to appoint their own director. To try to keep people like me happy, they said, "Well, we will continue to have a joint office." Then blow me, about three years later, I happened to go to Washington and discovered that they had set up their own office, separate from the IMF. I personally thought that was inefficient and was designed not to get the synergies of the Treasury, the Bank of England and DFID working together on international economic diplomacy in Washington.



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One reason why I see some attraction to the merger is perhaps to get DFID slightly more on the same playing field as other people trying to promote British national interests abroad.

**Q13 Bob Seely:** I have heard many similar grumbles at a much lower level in various embassies throughout the world, but that is interesting.

Lord Macpherson, DFID and ODA is fundamentally economic. Is that a problem, or is that still providing much needed focus? For example, ODA, the official definition of development, does not cover access to free media. It does not really cover support for civil society. It only covers a small proportion of basic peacekeeping.

One of the frustrations of ODA and the expenditure brackets that we have to fit in is that it does not include the BBC World Service. It does not include UK peacekeeping operations. It would be more credible and more palatable to more people in this country if there was more flexibility in the ODA definition. Do you agree with that, or do you agree that the current definition still serves a purpose?

**Lord Macpherson:** I think it probably serves a purpose. It may not be a purpose that the Government necessarily want to back and support. Certainly as a Treasury official, I found it frustrating. You would often get into theological discussions about what counted as aid. The Department for International Development was very protective of the definition. Let's face it, the Overseas Development Act, which was supported by successive Governments, severely constrains certainly the Treasury's room for manoeuvre when it comes to funding on that front.

It is an internationally agreed definition. It has its merits if you want to prioritise development. The Treasury has to serve the democratically elected Government of the day who have chosen to spend 0.7% of GDP on aid. Occasionally, I find it slightly odd that we are spending £14 billion on that, but we have found it quite difficult to provide twice as much as that for the armed forces. The way the input target began to distort various areas of expenditure I found undesirable.

I am speaking as a former Treasury official. If you are a Treasury official, you want as few constraints as possible in terms of input targets or protections because, in a world where tax revenues are hard to come by, you want the Chancellor and the Cabinet to be able to allocate expenditure as they see fit, as opposed to how some bit of legislation passed 10 years ago or more forces you to act.

**Q14 Alicia Kearns:** Lord Macpherson, you made a point about DFID having the highest levels of applications and contentment among employees. One of my hopes for the merger is that it is going to end the bitterly unfair disparity in the treatment of FCO staff, who are some of the worst paid in Whitehall, and DFID staff, whose pay, when I was at the Foreign Office, was the highest and had the best number of measurable benefits on top. I think that is a positive thing, but it also needs to be reflected in discussions about DFID.



That leads me to a wider point. I am very concerned that a narrative has emerged since the merger was announced that infers that the FCO and its staff are somehow the grubby cousin of a purist DFID. That does an enormous disservice to FCO staff, who are wholeheartedly committed to advancing our security and prosperity. Without the FCO, much aid work would not happen. I have been in rooms negotiating for aid convoys being able to proceed.

How do we change that narrative? It is misleading and it undermines the potential success of the merger.

**Lord Macpherson:** I certainly have some sympathy for your position. As a former Treasury official, let me be clear that we were even worse paid than you were in the Foreign Office, and even worse paid than DFID. But we like that; we enjoyed our hair shirts. I often think a really good PhD subject would be the number of children that Treasury officials have and the number of children FCO officials have, since the Government pay for the school fees of diplomats. Sorry, I digress.

The serious point—I am out of touch with current rates of pay—is that DFID, certainly in the 2000s, paid more than the Foreign Office.

**Alicia Kearns:** By miles.

**Lord Macpherson:** That appeared unfair and, to me, as a Treasury official, it seemed to me the classic thing. Money leaks from programmes into administration costs. If you have a massive budget, it is very easy to spend more on pay. There will be benefits in aligning pay, but, putting my former Treasury official hat back on, all my experience of mergers is that there is levelling up rather than levelling down in pay. If the Treasury succeeds in its long-standing principle that there should be no extra money to pay for the merger, it means that, if everybody has higher pay, there will be fewer people working in the combined Department. In practice, I do not believe that the Treasury will succeed in that objective. I think there will just be pressure for further public spending.

Q15 **Alicia Kearns:** Tim, do you want to respond? Then I might follow up Lord Macpherson's point on money.

**Tim Durrant:** I will be quick. I am also a former Treasury official. I remember one permanent secretary saying that the reason our salaries were lower than others was that we were better at applying our rules than anyone else in Whitehall. He shall remain nameless.

**Lord Macpherson:** That is definitely right.

**Tim Durrant:** You are right, Ms Kearns, that there is clearly a stereotype that DFID people are idealistic and pure, and the Foreign Office have to get dirty. Your original question was about how we counter that narrative. The key thing the Government have to show is that they are



bringing the best out of both Departments. It is hackneyed, but they want the FCDO to be greater than the sum of its parts.

On your point specifically, the average salary in DFID is still quite significantly higher than in the Foreign Office, but that is because of the different grade structures in the two Departments. There are more people at higher grades in DFID as a proportion than there are in the Foreign Office. In grade, yes, DFID's average salary is a little bit higher but there is not the big gap that there used to be.

- Q16 **Alicia Kearns:** If it helps, in 2016 there was a 10-grand pay difference between me and somebody of the exact same grade in DFID. They were also allowed to fly anywhere in the world they wanted every six weeks; and we would fly out their family to join them anywhere in the world they wanted, which is not something that the Foreign Office saw.

Lord Macpherson, on your point about the Treasury reorganisation [*Inaudible*], obviously the Treasury will not be providing any more money for this reorganisation. You suggested that you did not think that was feasible. Do you think it is going to be possible for the merger to be cost-neutral, or will it be hampered if it does not have some investment?

**Lord Macpherson:** I would be astonished if it is cost-neutral. I remember the National Audit Office doing a review of Government reorganisations. They nearly always cost money, partly because of the wage point. There are genuine equal pay issues. When DEFRA was created, there was an issue because there was huge divergence between pay rates in the two Departments.

There will be costs. It may be that those costs can be absorbed in some way, but my guess is that the Foreign Office's budget right now must be under quite a lot of pressure. I would expect a way through to be found in the integrated review, where some of the issues will get dealt with. Longer term, if it was managed really well, there could be some quite interesting efficiency savings, but in the absence of a hard budget constraint I would be surprised if those efficiency savings are secured.

- Q17 **Stewart Malcolm McDonald:** This is not specifically about the current integrated review, which, obviously as neither of you are in government at the minute, you will not be overly familiar with. In very general terms, when Governments have big reviews like SDSR or what we have at the minute, or the mini security review that took place when Gavin Williamson was Secretary of State for Defence and the Government wanted it to be cost-neutral, what is the process for how you arrive at how much money it is going to cost?

Do Ministers go away for blue-sky thinking days in the Tower of London and then come back to the Treasury with all their ideas? Lord Macpherson, were you the blunt instrument of reality when they returned to Whitehall? Did you say, "You can't have any of this," or, "That's too expensive because this is what it would cost"? What is the relationship between the Treasury and Government Departments such as the FCO or



MOD when it comes to big reviews?

**Lord Macpherson:** A lot depends on how serious the Prime Minister of the day is about their fiscal objectives. It is fair to say that, following the 2010 election, David Cameron was as committed to reducing the deficit as the Chancellor, George Osborne. Although, being a Tory Government, they understandably probably wanted to prioritise defence rather more than their predecessors, they were also keen to keep a pretty iron grip on overall levels of spending.

It is down to the Prime Minister and whoever is leading the review on his behalf. Historically, often the Cabinet Secretary has played quite an advanced role in delivering the review because it cuts right across Departments. The Treasury has less influence on defence and security policy than it does over domestic programmes, partly because if you choose to go to war the Treasury cannot very well sit there and say, "You can't go to war because there isn't any money." The Treasury tends to be at its weakest when the Government are pursuing an advanced foreign policy.

The Treasury is at the table. It will try to make the money go further. It takes a huge interest in the equipment programme because that encapsulates long-term risks, mainly because most defence projects overrun. Left to its own devices, the Treasury would probably like to spend a few million on spies rather than hundreds of millions on new regiments, because spies are quite cost-effective.

In the end, it is very much the Prime Minister's call. It would be a very brave Chancellor who told the Prime Minister that he or she cannot have his or her way.

Q18 **Chair:** I want to ask about some of the processes that we have touched on in different ways and how you bring the culture together to maintain the best of each. The first question builds on what Alicia was saying. What would you say are the particular skills of each Department that you wish to preserve?

**Tim Durrant:** They have been alluded to publicly already. DFID has shown over its period of existence, however long that is, that it has a grip on programme management. It is very good at assessing and learning from evaluating its interventions. We know that is a priority for this Government. Michael Gove made the point in his speech the other week that learning from policy decisions should be built into all Government spending. DFID is very good at that.

It is very good at financial control, obviously. We have spoken a bit about the 0.7% target. That creates risks, as Lord Macpherson said, but I was looking at the OECD data on that spending. It is incredible that the UK's spending shot up from 2013-14 and has been at a flat line of 0.7% for the past five years. It really knows how to manage that, and that is quite impressive.



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Obviously, the Foreign Office is a very different beast. It is about diplomacy and understanding local politics, histories and priorities, and feeding that into central Government in Whitehall so that decisions can be made.

Having said that, as I said earlier, in a lot of countries where the two Departments are active, they work together very closely and reinforce each other. These are not two Departments ploughing their own furrow on their own priorities and never talking to each other in whichever country they operate. On the ground, in developing countries, the two are very good at using each other's skills and depending on each other. The question, as I said earlier, is how you reinforce that in the new HQ in London.

**Lord Macpherson:** One of the issues is that the Foreign Office is, in my view, rather good at what it does. It is probably one of the most effective foreign ministries in the world. I would be hard pressed to think of others. The French are pretty good. The Israelis are pretty good. I think we are certainly in the top five. Obviously, DFID is a world leader, so there are a lot of positives. If you can bring them together in the right way, there are opportunities.

Things tend to go wrong with the Foreign Office, in my view, when it starts trying to do too many things that it is not really good at. Successive Governments are always obsessed with promoting trade. Yes, of course there is a role for promoting trade, but in the end what you want from the Foreign Office is understanding diplomacy and how to influence countries, and being a real fount of expertise that can support the Prime Minister and the Foreign Secretary in trying to achieve our diplomatic objectives.

Q19 **Chair:** I want to come back to one of the elements you just mentioned, Mr Durrant—that the budget has stuck at 0.7% very effectively. Is that because at the end of the financial year DFID throws the extra into the World Bank?

**Tim Durrant:** You would have to ask DFID that. I am not sure I am qualified to comment on the intricacies of its spending. As Lord Macpherson says, there are definitely issues with an input target. It creates all sorts of weird incentives in Government generally and within DFID spending, but they have continued to hit it since it became a legal target.

Q20 **Chair:** Do you suggest that maybe it would be better, instead of having an annual target, to have a five-year rolling target?

**Tim Durrant:** That is definitely an interesting idea. Again, I am not a development person, but, as I understand it, the reason it happens on calendar years is that that is how the OECD assesses it, and that is the body that sets the target generally. The UK Government are complying with that international system; they have chosen to.



**Lord Macpherson:** At the risk of disagreeing with Tim, with whom I agree on most things, I do not think it shows much skill to be able to live within a 0.7% budget. It is perfectly within the powers of their finance director to mess about with the money in such a way that they always hit the target.

Q21 **Chair:** You do not think that is hugely complex accounting.

**Lord Macpherson:** I have seen more difficult things in my time.

Q22 **Alicia Kearns:** I want to follow up Tim's point about the expertise that different Departments bring. It made something very clear to me, which is that there is a real issue with the Foreign Office effectively communicating to the British public what it does, why it exists and how much it does to keep us safe and to progress our interests. Project management is not solely in the skillset of DFID. There are an enormous number of Foreign Office officials whose sole job is to do project management. They look after massive budgets and do incredibly effective on-the-ground work.

Is the merger an opportunity for the Foreign Office to better explain to the British people what it does and does not do? UK Aid has been so good at championing itself. I think some of the 0.7% has been used on some very big marketing and advertising campaigns, rather successfully. Is this the time to stop infantilising the British public about what the Foreign Office does and why, and actually recognise that we need to have an adult conversation with the British taxpayer about why the Foreign Office exists and what it does to protect them and keep them safe?

**Tim Durrant:** I completely agree. That is a really important point. We had an interesting discussion at the institute in February when Sophia Gaston, head of the British Foreign Policy Group, talked about exactly that, and how foreign policy can interact with people across the country at large rather than being the preserve of the corridors of Whitehall and SW1. I think there is huge value to that. As you say, an increased Department that is bigger and higher profile presents an opportunity to improve that profile massively.

Q23 **Chair:** We have spoken about some of the various skills of each Department. One of the big questions that the Government will be asking themselves at this point is who the PUS should be. I am not going to name names, for obvious reasons, but various people will be throwing their hats in the ring. What sort of skillset would you be looking for? Lord Macpherson, you have hired a few PUSs in your time.

**Lord Macpherson:** I would want someone who had deep experience and expertise in Britain's overseas efforts. One should not rule out a potential DFID candidate, but historically in a way it is helpful to have a head of the Foreign Office who has been an ambassador and has operated at very senior level either in a country or at the UN.



You may think I am biased and showing the fact that I am one of those discredited former civil servants, but I think the experience you get over a reasonable length of time in Whitehall makes you better equipped to advise a Secretary of State, who almost certainly has not been a Minister for all that long, to be effective. It will probably be an insider, unless Mr Cummings has some friend who might be up for the job. Who knows? I would expect it to be an insider, and in practice I would be quite surprised if it was not someone who comes more from the Foreign Office side than the DFID side.

**Q24 Chair:** Mr Durrant, what are the skills you would be looking for? Would you be looking for major budget experience? After all, the budget will be more than a dozen times the Foreign Office budget.

**Tim Durrant:** That is obviously a key consideration. To go back to where we started, the objectives that the Prime Minister set out for the merger are that the new Department ensures that there is unified decision making at home and that the UK is speaking with one voice abroad. As well as an understanding of what it means to work for HMG overseas, a real understanding of how things work back home will be important, together with networks and connections across Government to ensure that the FCDO delivers for the Government as a whole and avoids accusations of being separate from the rest of the Government.

**Lord Macpherson:** If I was on the interview panel, the question I would want them to present at the beginning is how they would go about making a success of the integration of the two Departments, and what sort of things they would personally be doing to make that work. A lot of it is about leadership, communication and understanding how to deploy resources, what needs to change to make it work and how you bring the many people who work in both organisations along with you, at the same time as being a credible adviser to the Secretary of State. There is a multiplicity of tasks that you have to be up for doing.

**Tim Durrant:** On the timing, Sir Simon McDonald is stepping down in September, so the new Department will come into being just as he leaves. Therefore, there is an interesting question about how involved the new PUS will be in the next couple of months while some of the initial decisions about the set-up are being made, so that when, as Lord Macpherson says, they have to operationalise them, they know the back story.

**Q25 Chair:** We are going to come to a couple of questions about the objectives of the Department. Would you say that the level of experience you are talking about would push you towards somebody who has multilateral or bilateral experience? Would you be looking for somebody who is able to refocus the Department in different ways or who at this stage is acting more as an internal reorganiser?

**Lord Macpherson:** In an ideal world, you want someone who has all those things. There may be someone out there who has spent a bit of



time in a multilateral organisation, has run a serious budget and has been a first-rate diplomat as ambassador to somewhere. It may be that there is someone out there, but in the end it is very rare to have someone who ticks all the boxes.

What you are trying to do is optimise—I was about to use the economic term, a production function, but that would be unintelligible. You would try to find someone who has the best balance of skills, and you want all of them. The good thing about the way the Foreign Office and DFID have developed is that there has been quite a degree of interchange. Somewhat disappointingly, the last permanent secretary of DFID went off to the Home Office very recently; he clearly has Foreign Office expertise, international development expertise and monetary expertise. We will see.

**Q26 Chair:** I am sure Matthew Rycroft will be flattered that you have cited him. The bringing together of two different sets of departmental objectives will require prioritisation. If I can put it very crudely—I appreciate this may get condemnation from Alicia Kearns—the Foreign Office, broadly speaking, maintains relationships, and DFID, broadly, changes status now. I know it is very crude. I see Alicia shaking her head.

What priorities do you think the new Department should focus on? Would you say it is more in-country leadership or Whitehall leadership? Where are you looking for emphasis?

**Tim Durrant:** I was looking at the current objectives of the two Departments in their single departmental plans. The first one that the Foreign Office has is “Protect our people”, meaning both UK citizens overseas and the whole security agenda. I assume that will continue to be a priority of the new organisation. It seems likely to be so.

The objectives of the Department for International Development were withdrawn at some point in the past year, but the first one was “Strengthen global peace, security and governance”, which presumably ideally feeds into protecting our people. They are not a million miles apart already; they have a slightly different focus. I imagine that the FCDO will maintain all of the Foreign Office’s priorities but try to ensure that development work is achieving those explicitly rather than as a sort of by-product. I guess that is what the integrated review is supposed to answer.

**Lord Macpherson:** I hope that the integrated review is going to provide an answer to the question of how the Government want to position their place in the world, how they want the various functions to relate to one another, and how they will prioritise. I hope that could then be reflected in the new Department’s objectives.

To go back to an earlier point, I do not know whether they are going to go for a fully integrated model at this stage, in which case you need very integrated objectives, or whether to some extent there will be an



overseas development administration whose objectives will be set by the Department in Whitehall, but it will have a degree of freedom to get on with delivering them. All of that depends on the precise structure of the new Department.

**Q27 Chair:** Can I ask a slightly techie question on the transparency requirements? At the moment, DFID appears to be the best Whitehall Department on ODA transparency and the Foreign Office is around the middle of the pack. That is clearly going to be important if ODA is to remain accepted by public opinion. How do you maintain that culture of transparency in a Department where, for very understandable reasons, the Foreign Office has a very different culture on secrecy from DFID, quite rightly?

**Lord Macpherson:** It is quite tricky. I underline again that the people who do the marking on transparency tend to be organisations that have an understandable bias in favour of development, so I would not get totally hung up on those attempts to measure Departments.

All that said, there are some things the Foreign Office does that need to be really secret, but there are a whole lot of things where I see no reason why the Department cannot be more transparent. There is a tendency in Whitehall at both official and ministerial level to avoid openness just for an easy life, but, in my view, there is a lot to be said for being open, transparent and getting things out there, not least to increase understanding both in Parliament and in wider society. I hope that on that front the experts in DFID could be a positive influence.

**Tim Durrant:** I agree. As you say, DFID scores most highly for transparency on a particular set of ratings, but when Matthew Rycroft, as permanent secretary, came to the institute, he made the point that it is also the most scrutinised Department in Whitehall, in that it has its own Select Committee; it is subject to the NAO and the PAC, and it has a specific organisation, ICAI—the Independent Commission for Aid Impact—which looks at aid spending and is subject to international scrutiny by the OECD.

Maintaining that level of scrutiny in the new FCDO will be welcome and will help to strengthen openness, at least on the aid spending that the FCDO takes over. There is an interesting question about ICAI and whether or not it continues in its current form, but, hopefully, that function will continue and will be brought to bear on the FCDO.

**Q28 Chair:** There are a lot of us in favour of maintaining not only ICAI but the Committee that oversees it and helps to report to Parliament on it.

There are questions on the key pitfalls to avoid in this merger. Lord Macpherson, having seen some in the past, maybe you could think of one or two of the basic howlers one should be careful of.

**Lord Macpherson:** One of my favourite howlers is the one where to create real integration you make everybody reapply for new jobs. There



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is nothing wrong with that in principle in certain areas, but, if you do it on a very large scale, it creates paralysis for the period during which it goes on.

I think we covered pay. That often goes wrong because there has not been enough thinking about it. The one I saw closest was the merger of the Revenue with Customs, and it didn't half take a lot of time before you got the benefits. I do not think anybody is now proposing to split up Revenue and Customs. It took a long time.

You should not underestimate the cultural differences. In the case of Customs, it was a semi-uniformed service where officers were used to kicking down doors. If Revenue officials behaved in that way in pursuit of, say, inheritance tax, it would get the Revenue a bad name. We alluded to some of the cultural things and whether that begins to alienate some of the people you want to get to work there. I am reasonably optimistic that the new Department will still attract good people to deliver aid. It is a fantastic place to work, and you will probably have a rather more secure job than a temporary contract at Oxfam. Nevertheless, it will require some thought. Equally, there are aspects of the culture of the Foreign Office that you want to preserve.

**Tim Durrant:** The people side of things is the key area to focus on. In civil service people surveys, after a departmental merger there is often a hit in general engagement. A specific example I am aware of, going back to 2016, is the creation of BEIS. The proportion of officials who said they understood the objectives of their organisation halved between 2015 and 2016 from the component Departments of BEIS. The sense of "What are we working towards?" and "Why do I get out of bed in the morning?" can take a hit. Dealing with that and building a kind of narrative internally about what we are here for, what the Department is doing and why it feeds into the UK's overall objectives, will be really important.

It is important that there is a single version of the truth of what the Department is for. The example I would cite is the creation of the Department for Exiting the EU after the referendum, which I think was trying to do too many things for too many people and, therefore, there was confusion in Whitehall about who was responsible at both official and ministerial level. Who was responsible for what? Parliament was not able fully to scrutinise the work of the Department and was not sure whether it was the Prime Minister signing things off, or the Secretary of State or senior officials.

It also confused things for those outside Westminster—for example, businesses that wanted to talk about a particular decision, or EU member states interested in the Government's thinking on a particular Brexit issue. They were not sure. Did they need to go to the Secretary of State for Exiting the EU, the Foreign Secretary or the Prime Minister? If you have a clear division of roles and responsibilities and a message about what the Department does that is uniform within Government and



Westminster and among all the people who engage with the Department, which for the FCDO means a lot of people around the world, it will help to make the process of its creation much smoother.

**Lord Macpherson:** It will require extraordinary persistence. Politicians tend to think that just announcing something and having a nice glossy report is enough. Actually, it will require huge leadership by the Secretary of State and by his or her permanent secretary. They need to demonstrate continuing alignment and relentlessly communicate that alignment, not just over weeks but over months and years.

It is striking that some mergers are still there. Work and pensions were merged quite a long time ago, but it has worked. One of the advantages that the Foreign Office and DFID start with is that they are both effective organisations with relatively high morale. Part of the problem with some of the more failed mergers around DETR in the late '90s, or pretty much every year when the Department for Business changes its name, is that morale was pretty low in the first place and clarity about roles was not very developed.

Q29 **Stewart Malcolm McDonald:** We have had a discussion about objectives. To go back to where I started, given the scale of the challenge and the backdrop against which the merger will take place—a global pandemic, the United Kingdom set to leave the European Union, possibly on no-deal terms, the permanent secretary of the FCO and the Cabinet Secretary leaving and, it seems, no trail of proper consultation with the two Departments, external actors and others—it strikes me that all of this is out of kilter and that the opportunities for calamity and chaos are huge.

We learned from yesterday's session of the International Development Committee that the Cabinet was not even properly consulted. It was just announced to the Cabinet it was happening on the timescale it is happening. I agree with you, Lord Macpherson, when you say that it will require a lot from the Secretary of State and the new permanent secretary, whoever it is. Should this whole thing have been announced in the way it has been before the integrated review is completed, given all the other challenges facing the Foreign Office and machinery of government? This has not been handled very well, has it?

**Lord Macpherson:** I start from the position that I am a reorganisation sceptic. Most reorganisations are pretty unsuccessful. In the 1980s to 2010 period, 25 Departments were created, including 13 that no longer exist. Generally, these reorganisations fail, but, as I said earlier—

Q30 **Stewart Malcolm McDonald:** Can I interrupt you briefly, Lord Macpherson? Apologies. What would a failure and a success look like in this example?

**Lord Macpherson:** In my view, a success would be whether, when there is a change of Government—because eventually there will be, as there always is—they continue with the structure. If every time there is a



change of Government you rearrange the deckchairs, that is not an efficient way of governing. It is very striking that over the 30-year period I just mentioned, when we created 25 Departments, the US created only two new Departments. I am not saying that the US is a paragon of good governance, but it shows that there are different ways of doing things.

To come back to your other point, it is important to align personnel with departmental change. In one sense, Sir Simon McDonald leaving makes that easier because there is a vacancy; there is a vacancy at DFID and it is an obvious time to do it. On the other hand, there is a huge advantage in having someone who can do some of the merging and then leave. Equally, the Cabinet Secretary and head of the civil service historically has always been a critical agent of change in reorganisations. Losing the Cabinet Secretary at the same time looks slightly careless, but I suspect it is deliberate.

**Q31 Stewart Malcolm McDonald:** What do you mean by that?

**Lord Macpherson:** I have not spoken to either of those officials. I know they have resigned and very pleasant letters have been exchanged, but reading the background briefing, some of which has been quite triumphalist, with references to shitlists and the like, it looks to me as if they have not resigned.

**Q32 Stewart Malcolm McDonald:** We have outlined the changes that are happening, and how the bandwidth of Government is stretched enormously with the pandemic and Brexit. Should the merger be put on pause, and be done differently and at a different time, with proper and real consultation, when there is not so much vital and important stuff—life and death stuff— that requires the attention of Government?

**Lord Macpherson:** It has been announced. Having announced it, I think you have to do it. If you do not do it, you just look even more hopeless and incompetent. Should they have put it off? I do not know. I have not worked in government for four years. Seen from here in Earl's Court, it looks like the Government are quite busy and have lots of things they need to do, so it is not necessarily the right time to be taking forward major institutional change. On the other hand, they may legitimately take the view that to deal with the challenges the country faces we cannot wait and we have to go ahead with the merger. No doubt that would be their argument. Who knows? They may be right.

**Tim Durrant:** There will never be a perfect time to do it. These are difficult change programmes and they will take a lot of work, as Lord Macpherson said. There will always be something else going on. That is the nature of government, isn't it? There is always another problem. If you wait for the perfect time, it will never come.

On the point about announcements and scrutiny, the fact that the Prime Minister stood up in the House of Commons and announced it, and took questions on it and is taking time to do it, is quite welcome. It does not



always happen. As I said, Theresa May created three Departments overnight when she became Prime Minister. It was also the case under both Tony Blair and Gordon Brown; they often announced changes to Departments in reshuffles. It is by no means the perfect process, but having this discussion and taking the time to do it is a step forward on many of the recent changes to Government structures we have seen.

**Q33 Stewart Malcolm McDonald:** Obviously, the Government cannot choose the circumstances in which they make changes. I appreciate that they did not choose the coronavirus pandemic, but they set the course on how they make changes. Tim, I am sure that if you were in No. 10, you would have advised the Prime Minister to consult the Cabinet, for example.

**Tim Durrant:** But it is the Prime Minister's prerogative to make these changes. That is how our system works. Lord Macpherson mentioned the US. I think that to set up a new Department there requires, if not constitutional changes, at least the equivalent of primary legislation. Here, there is no statutory basis for most of our Departments and it is entirely in the Prime Minister's gift. He can consult whoever he wants, but it is his decision.

**Q34 Stewart Malcolm McDonald:** You mentioned the statement he made when he stood up in the House. His exact words were "a long period of consultation." Is it obvious to you who that was with, how long the period was and where you can read the key findings, or do you think it has just been some chats?

**Tim Durrant:** All I have seen is your exchange with the Foreign Office Minister and the exchange with the Secretary of State at the International Development Committee the other day. I have not seen published evidence of any of that consultation. With any of these kinds of significant changes, people outside Government who interact with Government will obviously have views, and taking those views on board will be helpful. Equally, people who have stakes in the status quo will be opposed to any change because it is change, rather than because of what it means down the line.

**Q35 Stewart Malcolm McDonald:** That would include DFID staff in East Kilbride in Scotland who feel very nervous about it. They were not consulted. I am putting to you that all of it could have been done better; it could have been done in a much more inclusive way and a way that made more sense. I see it as a distraction from stuff the Government need to get on with.

There was no consultation with the Cabinet. Lord Macpherson, does it not go against the grain of Cabinet government and collective responsibility, when there is no consultation and the Prime Minister acts in a more presidential fashion? We see a lot of that and I am not sure it is all that good. Bob might disagree with me, but there we go.

**Lord Macpherson:** If the Cabinet had some great problem with it, I am sure they could tell the Cabinet Secretary and there could be a



discussion. I do not think Cabinet normally discusses machinery of government changes. As Tim says, this is very much the Prime Minister's prerogative. There are two models for change. You can consult through a review process; I remember Gus O'Donnell leading a review of the merger between Revenue and Customs. That allows all stakeholders to make their arguments as the review reaches its conclusion, but once the Prime Minister has decided, I would not recommend consultation. The challenge then is to do it as efficiently and effectively as possible, ensuring that you manage it well and take into account the interests of all the people who work for you, in particular those in East Kilbride, which is a very fine part of the DFID institution.

**Chair:** The Government have been clear that they will maintain East Kilbride, very strongly.

Q36 **Bob Seely:** I want to ask briefly about ODA and the quality of spending in other Government Departments. When Lord Macpherson was in the Treasury, was he concerned about the quality of aid money being spent, maybe not ODA aid money? BEIS was spending £500-plus million a year on overseas expenditure; the FCO spends a good chunk of money; and half of the cash of the stability unit—I cannot remember whether that is its current name, because it has changed a couple of times—of £1.2 billion was not ODA. Clearly, the hope is that DFID expertise will go into all of those areas, but was he concerned about the very uneven quality of spend?

**Lord Macpherson:** I was concerned because the ramp-up in expenditure to hit the target was considerable. Generally, Governments get into trouble with spending when they try to accelerate it too quickly. I spent much of that period waiting for a scandal to break, where the *Daily Mail* would have an exposé about an appallingly badly aid programme, but it never really materialised. It is much to DFID's credit that there have been many reviews, and generally it always got a clean bill of health.

You are right about the other Departments. It is incumbent on both the Treasury and Parliament to challenge the effectiveness of that spend. It may be that the merger provides an opportunity to reinforce in effect the audit of aid spending.

Q37 **Bob Seely:** How would you do that survey? If you were still in your current role, or had the Foreign Office permanent secretaryship, how would you export the genuine expertise in DFID to other Government Departments?

**Lord Macpherson:** It is slightly out of fashion, but it was very popular in the Blair-Brown era. You need a cross-departmental programme where all the leads of the relevant areas of expenditure get together and there is a serious performance framework so that you can pass judgment internally, even before people like the NAO get involved or the relevant [*Inaudible*]. I would encourage the new regime to think about governance.



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Sometimes, you need to hard-wire cross-departmental co-operation and leadership.

To come back to your point, if I were permanent secretary of the new Department, I would be making a bid that one of my roles would be to take overall responsibility for the whole programme, which would give me step-in rights in relation to other Departments.

Q38 **Bob Seely:** That is a fascinating answer. I am sorry my phone rang halfway through it.

We spend 7% on ODA and probably another 0.1%, 0.5% or 0.8% on non-ODA overseas expenditure. Is it true to say that our overseas expenditure is significantly above 0.7% if you include ODA and non-ODA expenditure?

**Lord Macpherson:** Yes, it is. It undoubtedly is, and it is probably higher still when you include areas of defence and intelligence spending. We spend a fair amount on those areas, but it is against the background that, because we have been spending less on defence as a percentage of GDP over the last 20 to 30 years, there has been a significant transfer of resources from defence to aid.

Q39 **Bob Seely:** Do you agree with that?

**Lord Macpherson:** I am a former official. I was not paid to have views on things like that. It occasionally makes me nervous, if I can put it that way. I worry when it comes to things like the Navy and the Air Force that we are still running these great services, but with not very much resource. At times when the budget was under real pressure post 2010, speaking as an official, I would have quite liked to be able to take an axe to the aid budget, if only for a temporary period, just to give us more room for manoeuvre. As a technocrat, input targets are really annoying.

Q40 **Bob Seely:** That implies that part of you respects and accepts the 0.7%, but, as you say, you are a civil servant and you are there to do rather than to opine. I find it bizarre that in this country we have targets for overseas aid, but not for education, health, defence or police forces. Does that debate ever exist in bits of Whitehall or the Treasury?

**Lord Macpherson:** If you are in the Treasury, you are very much a price taker. You have to go back to the Brandt report in the '70s and the success of NGOs in harnessing opinion. Then there was the determination of Mr Cameron, going back in time, to present a new Conservative party with a friendly face in 2010, so your party adopted this objective.

Q41 **Bob Seely:** You imply that it was as much a rebranding exercise for a political as anything else.

**Lord Macpherson:** You know far more about political parties than I do.



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**Chair:** I think we have taken up enough of your time. I am hugely grateful to you, Mr Durrant and Lord Macpherson, for your time. Thank you very much indeed. On that note, I end this afternoon's session.