

International Development Committee

Oral evidence: DFID's Annual Report 2016-17, HC 486

Tuesday 24 October 2017

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Members present: Stephen Twigg (Chair); Richard Burden; James Duddridge; Mr Nigel Evans; Mrs Pauline Latham; Chris Law; Mr Ivan Lewis; Lloyd Russell-Moyle; Paul Scully; Mr Virendra Sharma; and Henry Smith.

Questions 1 – 66

Witnesses

Nick Dyer, Permanent Secretary, Department for International Development; Joy Hutcheon, Director-General for Finance and Corporate Performance, Department for International Development; and Lindy Cameron, Director-General for Country Programmes, Department for International Development

Examination of witnesses

Nick Dyer, Joy Hutcheon and Lindy Cameron.

Chair: Good morning, everyone. Welcome to our witnesses for this two-part session of the Committee; our first part is addressing DFID's annual report and then at 11.15 we have the Secretary of State.

My plan is that we will take evidence in the first part until 11 o'clock. We will then take a break and resume with the Secretary of State at 11.15. Rather than taking time now with introductions, please feel free to introduce yourself when you first speak.

- Q1 **Mrs Latham:** Given the substantial increase, which is very welcome, in the aid budget how do you think DFID ensures it has the internal staff, resources and capacity to handle this increase? DFID says it strives to deliver more with less. Is there an impact on DFID's staffing capacity and is it placing significant pressure on DFID's staff?



HOUSE OF COMMONS

Joy Hutcheon: Thank you. I am Joy Hutcheon. I am the director-general of finance and corporate performance. This Committee has very helpfully kept the issue of DFID's capacity and staff numbers under review since the Government first committed to increasing our budget to achieve 0.7%. The department has grown substantially since that point; it has increased by about 30% since 2011. That is what has enabled us to maintain and, I would say, improve oversight over our spend. That increase has continued modestly since our budget reached 0.7% in 2013 and then levelled out. We have continued adding to our staffing to intensify our oversight since that point.

That reflects two things: the fact that the environment has got more difficult and we have shifted our work further into fragile states, but also the fact that we keep trying to continually raise the bar on our programme oversight. We have added staff across each of our capabilities, so advisers and policy specialists, programme managers and functional specialists, particularly in finance and commercial, and in IT, as we are trying to ensure that our systems support better and more efficient oversight.

Q2 **Mrs Latham:** In 2010, all departments had to reduce their staffing. Are you saying that you have now gone above what was recommended at that time?

Joy Hutcheon: In 2010, along with other departments, we were required to reduce our administrative spend, and there are various ways that we have managed to achieve that. At the same time, the Treasury gave us a ring-fence of money that we could spend out of the programme for front-line delivery staff. That has meant that, unlike other departments, our staffing has increased quite significantly since 2010.

Q3 **James Duddridge:** The Committee has done a lot of work on procurement, making it more transparent and fair. How have these changes been communicated both internally across HMG, but also externally to new potential contractors?

Joy Hutcheon: We have just concluded a review of our work with suppliers, which was started a year ago. We have worked very closely across HMG on that, both with the government commercial organisation, which seconded somebody into that review, and with the government chief commercial officer. The things that we have done are informing some of the wider things that the government commercial operation is doing across all departments now.

We have worked very closely across the international departments, so that any other departments using the same suppliers as us know what we are doing and we are communicating well. We have had extensive consultation during the review and are now in the process of discussing with suppliers and would-be suppliers the implications of that review. Lord Bates will see our top 30 suppliers on 30 October. At the end of that



week he will be in Birmingham for a session with small suppliers, working with the chamber of commerce and the local enterprise partnership.

Q4 **James Duddridge:** What is a small supplier?

Joy Hutcheon: The Committee has discussed with us the definition of small and medium enterprise before. It is quite a wide definition that is used by the Cabinet Office and across government, so we are required to use the SME definition, but we are in the process of introducing a new procurement system, which will enable us to break down into small suppliers and micro suppliers. We will be able to provide much better—

Q5 **Chair:** My recollection is that some quite big organisations count within the Cabinet Office definition as being small suppliers.

Joy Hutcheon: I know that you are about to ask me the exact detail of the definition, and I am afraid I do not have it with me this morning.

James Duddridge: Perhaps you could let us have that. It is a bit techie. Perhaps I could move on. It would be useful to get an idea.

Joy Hutcheon: It is to do with staff numbers and turnover.

Q6 **James Duddridge:** What penalties are in the contracts for malpractice? Or internally, if something goes wrong, what penalties are set up within the procurement process?

Joy Hutcheon: As part of the supplier review, we have developed a very robust code of conduct for suppliers. So far as we know, it is the only code of conduct across government that is legally enforceable. We built in a set of indicators that suppliers will be required to report to us on within the code of conduct. We will have a compliance team that will check those. If the code of conduct is not complied with, we will have recourse within our contracts with suppliers to take action, and that might be requiring them to put right what we found was wrong or terminating the contract.

Q7 **James Duddridge:** Are the multilateral contracts dealt with in the same way as contracts with companies or are they completely separate?

Joy Hutcheon: They are separate. We started with suppliers. We are reading across now, as much as we can, to our accountable grants with NGOs and we are trying to pull the principles that we are working on into our MOUs with multilaterals, but we have a different set of constraints with multilaterals.

Q8 **Chair:** I have had some concern raised with me that the supplier review might have the inadvertent consequence of main contractors driving down costs via their subcontractors, so it could end up being the smaller organisations again that suffer rather than the larger organisations. Can you respond on that?

Joy Hutcheon: One of the tests we run against everything in the supplier review is how it is going to impact smaller suppliers because one



of our aims is to broaden our supply base. We have a tiered approach to applying the conditions in the code of conduct: it is mandatory for contracts over £1 million and there is a subset of things that are mandatory below that.

We will have much better sight of how contractors are dealing with their subcontractors. They have to notify us of all the subcontractors they deal with and have to come to us if they want to change a subcontractor. We have eliminated exclusivity agreements, so contractors can no longer insist that subcontractors work only for them. We have dealt with the term, which I think was Committee-coined through your evidence, of “bid candy” where a main contractor will put an attractive-looking subcontractor on the bid and then mysteriously drop them. We have eliminated that, because they would need to come to us to make a change to their subcontractors.

Q9 Chris Law: Given the consistent shortcomings of the results agenda, how is DFID planning to improve the current approach to ensure that the focus on results and value for money does not get in the way of the effectiveness of delivering aid to those who really need it?

Joy Hutcheon: We were very interested in the recent ODI work on results and the results agenda. We noted that it agreed with the ICAI review in 2015 of our results agenda and our approach to results. Its conclusion was that it was not whether we intensified our results, but how we did it that mattered. Both of those reports concluded that the results agenda was something that absolutely had to be dealt with.

From our experience over the last few years, it is definitely preferable to be thinking and talking about what we are going to achieve rather than what we are going to spend, because there have been periods in DFID’s life where we have had multiple spend targets and they are quite constraining on what we can do as a department, but they do not have the effect of focusing us on impact and what we are achieving.

We agree with both ODI and ICAI that this is an important thing to do, but it really matters how we do it, to ensure that as we look at results we are actually looking at impact on our long-term objectives, as well as on shorter-term things.

Q10 Chris Law: Would you say that now is a good time to consider commissioning a full external valuation of the results approach?

Joy Hutcheon: The ODI work has gone into it quite forensically. We would have to ask what would be added to the ODI and ICAI work. Both of those reports have made a set of recommendations that we are pursuing, so we are thinking hard. The Cabinet Office has just commissioned the single departmental plans for the remainder of this spending review period, which require us to set out our results framework. We are thinking very hard about how to reflect the results of



the ODI work in that framework, and to make sure that it represents the breadth of what we do and takes account of our longer-term objectives.

We are also looking hard at how to build the capacity of the department to think about results in the context of complicated and uncertain programmes. We are doing a lot of work on adaptive programme management. We are doing that with ODI and USAID, and in a number of programmes around the department where we are showing lesson learning.

We are also doing a lot of work with programme teams on how they articulate their theory of change in a programme. Every programme has to have a theory of change because even, if you are setting out on something that is really complicated and is going to take 10 years, you need to be able to say why you think what you are doing will have the impact or make the change that you want to make. If you are able to articulate your theory of change and be clear where there is evidence for it and where there is not, you will be able to tell whether you are moving along it and it is having the effect that you want. You will also know which bits of the theory of change you need to test as the programme goes along to see if you were right about it.

Q11 Chris Law: I have a couple of things about measurements and safeguards. How does DFID's safeguard measure what can be counted rather than what actually matters? How does DFID safeguard against contractors who managed to game the system through skilful box-ticking?

Joy Hutcheon: On the first one, again, this will be something we address through designing our results framework for the remainder of the SR period, to make sure that we are including the long-term, complex and difficult-to-measure programmes.

On the box-ticking, our new compliance unit will now get a much broader set of returns from suppliers as to how they are operating. Our compliance unit will be going in, testing those, looking at them and looking behind the tick in the box to see what evidence is there.

Q12 Chris Law: Is that done in every case? You examine what has been put forward. You go behind the scenes to see what exactly they are doing and that it is not just about ticking boxes, but they are going further than that.

Joy Hutcheon: When we are procuring, we will be looking at every supplier that we are contracting with. In each programme, the annual review will be looking behind the boxes. When we design a monitoring plan for a programme, teams are asked to look at both the internal information, so the information that the supplier itself generates, but also the external information, which will enable you to validate what the supplier is telling you.

Q13 Chris Law: Does DFID feel that the current portfolio quality index is



HOUSE OF COMMONS

suitable for the kinds of projects that DFID manages? What lessons has DFID learned from failing projects? What measures has DFID taken to identify shortcomings in the planning and project approval stage to reduce the risk of closing down or massively restructuring projects down the line? It is quite a meaty question.

Joy Hutcheon: Yes. Let me start with the first one, and then I may ask you to remind me of what the next two are. The portfolio quality index is reduced to a number in the end, but is generated by the annual review process. Every programme has an annual review every year. Those are rigorous exercises that generally have some external input into them. We keep that process under review to make sure that it is adapting to the types of programmes that we are running. We are reviewing the annual review process at the moment to see whether and how we need to tweak it.

It is also spot checked; about 10% of those annual reviews are spot checked by our quality assurance unit, which is run by our chief economist, who is quasi-independent. He is also a professor at the Blavatnik School of Government in Oxford. He and his team will be looking at those annual reviews to see if the evidence that is generating the portfolio score is a genuine reflection of the programme, what it is trying to achieve and whether it is making progress.

Nick Dyer: I am Nick Dyer, acting Permanent Secretary. My day job is director-general for policy and global programmes. On the executive management committee, which is the three of us plus our other colleague and the non-executive directors, we monitor the projects that are off track every month. We get a list of all the projects that are underperforming according to the scoring that is done through the annual review.

To answer your question about the lessons, one lesson that we quite often identify for projects that are off track is, frankly, overoptimism by the project designers on the speed at which this project is going to take off and at which the impact will happen. That optimism bias is something that we always try to address through our design and the theories of change, but quite often we are finding that projects are off track just because the time is not right.

Q14 **Chris Law:** I have a couple more questions. What steps has DFID taken to ensure its results focus is fit for purpose, given that DFID is unique among government departments due to the nature of its work? How does DFID ensure that it is using the right management, project design and evaluation tools, given the specificity of DFID's work?

Joy Hutcheon: As I have said, we are about to redesign our results framework for the new single departmental plan, which has just been commissioned by the Cabinet Office. As we do that, we will absolutely be looking at the recommendations that have come out of the ODI work and the ICAI review in 2015, to ensure that the high-level results that we are



HOUSE OF COMMONS

setting and we will track in our annual report are going to support the work of the department and reflect the broad range of what we are trying to achieve.

Nick Dyer: In terms of project results, there are two elements to this. First, do we understand how to measure and collect the information that we need to answer the questions that we are trying to generate? There is a process within the organisation of agreeing the key results that we are tracking for the departmental plan, and the methodologies that the whole organisation will use to generate and collect those results so that there is consistency across the organisation.

In terms of monitoring and evaluation, the key challenge that we face, and the development community faces more broadly, is how to inject rigour into your results assessments so that you know that the results you are getting are generalisable and of good quality and good value. There is a question around, in our monitoring and evaluation, how to get the right capability and support to help us do that. We have a monitoring and evaluation call-down contract, where we can draw on specialists, who will help us do the work we need to do to track the results.

Q15 **Chris Law:** Lastly, I want to ask a bit more about how payment by results is working in the WASH programme.

Joy Hutcheon: We may have to write to you about that.

Chris Law: That is fine.

Q16 **Chair:** Thank you very much. Can I move us on to the broader media and political environment within which we all work and ask you to address the question of the department's communications? There is evidence from surveys that support for aid has declined, that there is real public concern about how some UK aid is spent. Can you say what the department is doing to address this and to communicate more effectively the reality of our aid spending on the ground?

Nick Dyer: Let me start and then colleagues can perhaps jump in. Today's press is another example of that exact question. You are right. The support for development may be declining. The recent 2016 Eurobarometer survey suggested that 89% of people support helping people in developing countries, so there is still quite a lot of support for activities in developing countries.

Clearly, we are under a lot of scrutiny. One of the ways that we address that is ensuring that all our work is of the best quality and that we are addressing waste in our organisation. You may come on to that in terms of how we go about doing that. The Secretary of State quite rightly insisted last year that we did a line-by-line review of every single project in our portfolio, to assess whether it fitted our departmental objectives and that it had value for money. There was a consequence in terms of us closing down some of the projects that did not fit those criteria. She,



HOUSE OF COMMONS

quite rightly, is calling on other government departments to do something similar.

Recently, our communications division has put up a new online blog, which gets behind the facts of the stories in the newspapers and rebuts the facts where we regard them as incorrect. This is something that the Committee has encouraged us to do for quite some time and we have a very active response from our communications division.

Joy Hutcheon: I would absolutely recommend “DFID in the News” to you. If you google it, it will take you to the website. If there is a headline story, it will usually say what we believe the facts are behind that story.

The communications function sits within my part of DFID. We recruited a new communications director at the beginning of this year, who came to us from ITN. He has restructured our communications team with a particular emphasis on expanding the digital team. I hope that members will have seen some of the fantastic digital content that is now being generated, particularly the polio content: the Sue and David video was a really good example of that. We are able to track the increasing reach that we are getting through our online content now.

Q17 **Chair:** The new digital content is very, very welcome and a positive development. We would all agree that the approach the Secretary of State has taken in terms of a focus on value for money is absolutely correct. However, is there a danger that, in this environment, the department becomes more risk averse at a time when, rightly, there is a shift towards more fragile countries. Surely, supporting programmes in those countries is by its nature going to be more risky.

Nick Dyer: Operating in risky environments and countries does not necessarily mean you have to design risky projects. You can wrap around those projects an understanding of what is going on in terms of the theories of change, what is happening and how you manage the risks with which you will be faced.

The attention on value for money that has been driven by some of the scrutiny is a good thing. Has our ability to articulate what results we are getting, the cost of those results and whether we are getting good value out of them, and to track and understand the potential risks and losses in our portfolio—where we have tightened up quite significantly—made us more risk averse? It has made us more attuned to the risks and some of the choices that we are making, but that is a good thing.

Q18 **Chair:** In terms of the argument and the debate with the wider public and sections of the media, where do you see the balance lying between what you might call the moral argument around the intrinsic value of aid and some of the more self-interested arguments around our own security and national interest?



HOUSE OF COMMONS

Lindy Cameron: I am Lindy Cameron, the director-general for country programmes. When we look at the public's response to the Aid Match appeals that we regularly use, for example most recently on Burma, we can see that, frankly, it is not a choice: they will respond well to both of those arguments.

Chair: Okay, I will let it lie there.

Q19 **Henry Smith:** As part of the department's commitment to greater transparency and accountability, and to ensure that there is robust research into the programmes that are pursued, how effective, in your assessment, is Dev Tracker in ensuring those projects and programmes are being delivered as effectively as possible in the various countries where they operate?

Joy Hutcheon: Dev Tracker is a transparency tool. It uploads directly from our system all the documents associated with the programme unless we specifically exempt them for security or commercial reasons. We have a very extensive system of oversight within the department, and external oversight by this Committee and the PAC. This broadens that to enable anybody to pull out our documents, from beneficiaries and academics to rival suppliers, and to scrutinise them and ensure that they are robust and rigorous. I would not say that we rely on that, but it adds another layer to the scrutiny that is applied to our work.

Q20 **Henry Smith:** Coming back to the Chair's earlier question about greater public awareness of the work of the department, what sort of opportunities may there be for using Dev Tracker in a much more public-facing way? You talked about this Committee and academics using it as a tool, but what about making it more readily available so that members of the public can scrutinise the work of DFID?

Joy Hutcheon: Our comms director is always thinking about ways in which we can make information about our programmes more readily available. Dev Tracker is quite user-friendly. I will often reach for it if I want to know something about a programme quickly. We could give more thought to how we can extract information from Dev Tracker, or perhaps provide tools for the people accessing Dev Tracker to cut information in ways that give them different snapshots of what we are doing.

Nick Dyer: Dev Tracker appeals to a certain type of person. For people who consume information in short bites, our social media is the way to go. We are trying to improve Dev Tracker in terms of linking the information on the inputs with the results and being led by the results more in terms of how we present the information. It is for people who really want to dig into the programmes, because it requires a bit of effort.

Q21 **Henry Smith:** I have one further question. This may not get the greatest number of retweets, but have you promoted Dev Tracker via your social media platforms?



HOUSE OF COMMONS

Joy Hutcheon: I do not know the answer to that, but I will find out and let you know.

Q22 **Richard Burden:** Nick, a few years ago when you were in a different department and I was last on the Committee, we were both on a challenge group looking at DFID's first review into ICAI. The department conducted a further review of ICAI earlier on this year, and I understand that that is going to be published soon. You will be aware that the predecessor Committee raised some concerns about whether there is an intrinsic conflict of interest there, with DFID reviewing its external independent scrutineer. I know that you responded to the previous Committee about that, but could you say something to the new Committee about whether those concerns are legitimate and, if so, how the department plans to address them?

Nick Dyer: Maybe I will ask Lindy, who was involved in the tailored review this time round.

Lindy Cameron: We took that concern really seriously. I was the director-general leading this on behalf of DFID, but very much separate, therefore, from Joy, who is the person responsible for ICAI within DFID. The review was led by Sally Jones-Evans, one of our non-executive directors, and we pulled in somebody from the National Audit Office and from the Institute for Government to be on the scrutiny panel, to ensure that there was a full range of cross-government and internal and external scrutiny of the findings that were developed by the small team. We have also had extensive engagement with the Cabinet Office, which commissioned that review. The Cabinet Office is where it sits at the moment.

Q23 **Richard Burden:** Did ICAI have anything to say about that?

Lindy Cameron: ICAI was consulted extensively as part of the review, as indeed the Committee was.

Q24 **Richard Burden:** Did it raise any concerns about how far its independence could be compromised by DFID, as the department being scrutinised, being the body that reviewed them?

Lindy Cameron: I do not recall the detail of what ICAI said earlier in the process, to be perfectly honest, but it was an issue we went through and it was comfortable with how the review proceeded.

Nick Dyer: There is always a tricky balance here, because the Cabinet Office process for tailored reviews is one that we could satisfy without any independent voice on the process. Recognising the concerns that were in the first ICAI review and that were expressed by the Committee, we were keen to inject an independent voice in our deliberations, hence the NAO, the Cabinet Office and the lead NED, as we did last time, when it was led by Nick Stern. We are trying to create that balance by injecting some independent voice, but I understand that not everybody will be happy or satisfied with that.



HOUSE OF COMMONS

Q25 **Chair:** Are you able to update us today on what stage we are at on the tailored review?

Lindy Cameron: It is with the Cabinet Office for approval.

Q26 **Chair:** In terms of the issue that Richard has raised, the concerns that we raised in the predecessor Committee are ones that I still hold. You made every effort to add independent elements to it, but it still felt as though you were basically marking your own homework.

Nick Dyer: I appreciate that there are different views on this. We have done as much as we can to satisfy the Cabinet Office process and create some independent voice.

Q27 **Chair:** I phrased that wrongly: it is deciding how your homework should be marked, in the case of ICAI. Maybe that is something that could be considered again for the next tailored review.

Nick Dyer: These tailored reviews come round with regularity so there will be another one coming shortly.

Q28 **James Duddridge:** Why do we not help mark the homework for you? We will take responsibility; you pay for it. That is proper accountability.

Nick Dyer: Your views and voices as part of this process would be very helpful.

Q29 **James Duddridge:** The suggestion was not our thoughts on the process, but that we take over because you should not mark your own homework. You are not capable of doing so. No one is. We are not capable of analysing our performance independently; nor are you.

Nick Dyer: This tailored review is now done. Let us come back and review that when we come to it.

Joy Hutcheon: It is worth remembering that this is not an assessment of ICAI'S performance. This is an assessment of whether there is a case for it continuing to exist as an NDPB, essentially. That is what the Cabinet Office requires us to do.

Q30 **Chair:** James makes a fair point. Because of the unique role ICAI has, in a sense there is as much of a case for us to do it as for you to do it. Next time, we need to look to either what we wanted last time, which was someone external to DFID doing it, or some way in which there could be a greater IDC input than we had this time.

Nick Dyer: This is a really tricky one, because in terms of pure governance the responsibility for this NDPB is with the Secretary of State. The Secretary of State has a key role to play in terms of the governance and the oversight. We will need to have this conversation again when we come to the next tailored review.

Q31 **Richard Burden:** It is obviously too late to do anything about this review, but I am conscious that, for the first one, IDC was represented on



HOUSE OF COMMONS

the challenge group for the review. That was not the case this time. Can we be assured that, in the next review, there will at least be some mechanism for IDC to have an input to the way the review is dealt with?

Lindy Cameron: This review happened during quite a difficult period when the IDC did not exist, during the election, so we tried extensively to consult and gave as many members of the Committee as possible opportunities to be involved, but the timing was not ideal from that perspective.

Q32 Chair: The review team came to Liverpool and saw me during the general election campaign, so there certainly was consultation. That is a little different to the role that Richard is describing from the previous process, where there was direct representation on the challenge group. That is different from us being consulted in the same way that the review team consulted NGOs, academics and others.

Nick Dyer: Last time it worked well with the direct role of the IDC. Lindy highlighted difficulties this time round, but certainly we should come back and look at that for next time.

James Duddridge: Let us review with the Secretary of State in an hour.

Q33 Lloyd Russell-Moyle: Given, of course, that many of DFID's projects are delivered in a fragile context, is meeting the Cabinet Office's minimum standards for financial agreements and fraud reporting enough to ensure fraud prevention?

Joy Hutcheon: That is not everything that we rely on, by any means. We have put a good deal of effort over the last few years into raising awareness of fraud and the risk of fraud around the organisation, and into ensuring that teams are actively looking for and reporting fraud. That has increased our fraud reporting rates quite significantly. The efforts that we made on that were recognised by the NAO earlier this year, when it did a review into how we, and how the Foreign Office and the British Council, deal with fraud.

In order to do that, we have increased our counter-fraud unit staffing about fourfold since 2011. We have invested really significantly in training staff around the network. All our senior responsible owners for each programme are trained in fraud. We have 840 trained SROs. We have trained the whole of the senior Civil Service in finance, including fraud, this year. That was a mandatory training with a test at the end of it, which was required to be passed. We are continually refreshing and updating our processes and guidance. We have just done all that again this year.

Q34 Lloyd Russell-Moyle: That sounds like a good amount of work. Do you know how much that is costing the department and, in terms of recovery, are you able to recover any of those costs?

Joy Hutcheon: Our recovery rate for fraud losses is very high. This year it is running at about 80%. Last year it was 92%. In the previous three



years it has been around the 70 per cents. We are able to achieve that rate of recovery partly because we have a very capable counter-fraud team with forensic capability, which will go out and investigate significant frauds and understand the likely range of loss. I do not have the cost of the internal capacity off the top of my head, but it will be significantly less than the amount of fraud loss that they are recovering.

Q35 Lloyd Russell-Moyle: That is 80% of what?

Joy Hutcheon: This year we are recovering 92% of recorded, verified fraud losses.

Q36 Chair: From what period is that? Is it this year? Is it last year?

Joy Hutcheon: This year to date it is 92%. Last year it was in the 90s.

Q37 Chair: Is it 92% of the previous year's losses or of in-year losses?

Joy Hutcheon: It is in-year.

Q38 Lloyd Russell-Moyle: Is that of the 0.03% that you identified as fraud?

Joy Hutcheon: Yes, that is right.

Q39 Lloyd Russell-Moyle: Is that in cash terms?

Joy Hutcheon: Last year, the gross loss was just over £5 million and the net loss was £244,000.

Q40 Lloyd Russell-Moyle: In terms of co-operation with other European partners—this is kind of a two-pronged question—are we learning about any of the processes that they are going through in terms of fraud reporting? What information sharing do we do with other development partners to identify it when it is at a slightly bigger scale than just with us?

Joy Hutcheon: Lindy may wish to comment on this, but our counter-fraud unit is very active in engaging with other donors. In fact, we are leading quite a lot of activity across the donor community on this. In November, we have a workshop of donors engaged in the Middle East and Syria coming to our office in East Kilbride to share information. We are doing that at the high level. Also, on individual frauds, we will always engage with the other donors involved to share our investigation, and to compare notes on our loss analysis and recovery processes.

Lindy Cameron: The Europeans are one of the partners that we do that with; the US is another critical partner. Particularly on larger-scale issues that we worry may be systemic, our head of internal audit will talk to his equivalents in USAID and the European Commission to make sure that we understand what they are seeing—so check the information—but also what strategies they are pursuing for recovery and what we are all doing to ensure that we are preventing any further losses. That has been quite helpful. Of course, the US takes a slightly different and quite legalistic approach, so we can often get better information out of a problem by



looking at it from different angles. It also helps to reduce the sense of impunity where it is quite clear that you cannot get away with this just by looking at opportunities elsewhere in the sector.

That is quite key at programme level in countries. In somewhere like South Sudan, for example, the country team will have a very active dialogue with regional partners about what we are all seeing in terms of reported losses, but also perception of risk—for example, the diversion risk for humanitarian aid in high-risk environments like those fragile states. We do it at both the internal audit counter-fraud level, but also the programme team level in-country.

Q41 **Lloyd Russell-Moyle:** Do you find that aid partners and contractors are co-operative and compliant with fraud reporting?

Joy Hutcheon: We have just strengthened our terms and conditions again on that with suppliers through the supplier review. Suppliers are now required to report to us any suspicion or report of fraud that comes to them. They are not asked to make a judgment about whether it is material or not. If they hear a rumour, they are required to report that to us.

We are increasingly seeing teams in-country getting all their suppliers together to talk collectively about the fraud risks they are facing in-country, which is a good way of them both exchanging lessons with each other, but also understanding that we want to know about this and be in conversation with them about it. It is not about us chopping their heads off all the time. It is about working with them to help them manage those risks.

Lindy Cameron: That is where it is really important for us to co-operate with other donors. It is really important that we all take a consistent approach to that, and that is something we are having to work on. We set the bar, as Joy describes, very low as to what we expect people to report and, if that is not the same across the board, it does not set the right incentives. We are having live conversations about how to do that. Again, South Sudan is a really good example of small-scale challenges—illegal checkpoints, for example—and how they need to be reported, because that is where we can tackle it.

Q42 **Lloyd Russell-Moyle:** Clearly, you want to encourage people to report small elements and you do not necessarily want to cut them straight off for that, but equally there is a threshold where you may need to withdraw funds. Does DFID have a level or set threshold? What is the threshold that you set for when you decide to withdraw funding for a particular programme?

Joy Hutcheon: The counter-fraud unit will triage all our fraud cases into the ones that it is going to pursue and forensically investigate, and ones that will probably be handled within the team. If a small number of bed nets go missing, we will not do a forensic investigation. We will take



action. We will not just say that it does not matter. The decision about how to respond to the programme and then how to recover losses will always be on a case-by-case basis, depending on the circumstances of the programme and the fraud being reported.

- Q43 Richard Burden:** Back in 2012, about 13% of ODA spend was spent elsewhere, rather than directly by DFID. Now the figure is up to 26%, if you include both other government department spend and what is spent in various cross-departmental mechanisms. What are the implications of the increasing propensity of ODA to be spent through other government departments for DFID's role as the body responsible for the UK Government's policy on aid?

Joy Hutcheon: It is on a number of levels. First of all, there is a big opportunity to get other departments engaged in the Government's objective of eliminating extreme poverty. To have the Department of Health engaged in the issues around epidemics and diseases is a big opportunity.

Second, the immediate impact on us is that we are the department responsible for ensuring that the Government meet 0.7%, so we are the spender of last resort, or the saver of last resort, I should say. We collect information from all around government on what other departments are spending, and then we arrange our spending in December so that we can flex it over the year-end, if we need to, to make sure that we come in bang on 0.7%.

In terms of quality, we all recognise that some departments are on a learning curve for spending ODA, in some of the ways that we have been over recent years. We are, on the one hand, absolutely clear that the aid strategy commits every department to achieving value for money, and then its Ministers and accounting officers are accountable for that, but we want to bring as much support as we can, from our own capability and the lessons that we have learnt over the years, to help departments do that as effectively as they can.

- Q44 Richard Burden:** Could you say a bit more about the mechanisms there, though? I can see that, in terms of quantity, DFID could assess whether or not 0.7% is being met. However, in terms of the central mission that DFID was set up to fulfil of making sure that the focus is always there on poverty reduction, what mechanisms are available across government to make sure that that actually happens?

Joy Hutcheon: There is a group that DFID co-chairs with the Treasury of all spending departments, which looks at the spend across the piece, largely focusing on other departments and this agenda I have outlined of us working with them to ensure that they can achieve value for money. With Treasury, we have developed a set of guidance on value for money in ODA spend, which has been circulated around government.



HOUSE OF COMMONS

We hold structured training sessions on spending ODA and on ODA eligibility. Those are very well attended by other government departments. We have regular advice sessions with departments, and we have loaned significant numbers of staff into other departments to help them build their own capability.

Nick Dyer: Each government department that spends ODA is responsible to account for it, and I think that is absolutely right. There is a line of sight between the policy, the programming and the delivery. Within each of the sectors, there are cross-government governance mechanisms that bring the departments together. In the case of the cross-departmental funds like the CSSF and Prosperity Fund, that is done through the MSC structures. For climate change, there is a long-established international climate governance board across government that meets on a quarterly basis. We are just setting up a similar cross-government governance mechanism for health with the Department of Health, and similarly with BEIS, to look at cross-government research.

We are putting in place these mechanisms, but ultimately it is the responsibility of each individual department as to how it spends its ODA, and also the legal base by which it decides that it wants to spend its ODA. We discussed this in the Committee last year during the annual report. Clearly the legal base we use is the International Development Act, but other government departments will decide which spending power they want to draw from.

Joy Hutcheon: Two other very quick things are worth adding. One is that every department is committed under the aid strategy to improving its transparency. They will be subject to external scrutiny in the way that we are by publishing all our programme documents. The second is of course that ICAI's remit is to scrutinise ODA, not to scrutinise DFID.

Q45 **Richard Burden:** Absolutely, I understand that. One of the concerns has been that, if you look at some other government departments and, indeed, some joint funds like the Prosperity Fund, money is being spent not just on projects that DFID may not have touched, but in places that DFID either has no presence or is withdrawn from. Brazil is an example. Does that suggest a shift in trends is needed there?

Nick Dyer: There is certainly a shift in understanding. One of the successes of development over the last 30 years is that countries are getting richer. As they get richer, what they want out of the UK, and what our offer to them should be, change. The fact that other government departments are supporting some middle-income countries in a way that we would not naturally have done is not necessarily a bad thing. We just need to be clear on what types of funding we are prepared to do in those countries and the terms upon which we provide that support.

The fact that the British Government recognise that the asks from a wide range of countries are not necessarily going to fall to DFID, but may fall



HOUSE OF COMMONS

to other government departments, and that they are therefore responding to those needs and requirements, is an evolution that was coming.

Q46 Richard Burden: One thing that has occupied a lot of discussion between this Committee, the department and others is the issue of the capacity of DFID, with a rapidly increasing aid budget, to spend, assess, monitor and track. Are other government departments facing similar questions? If so, what could be done about that?

Nick Dyer: There is no doubt that other government departments are asking themselves that question, in terms of whether they have the capacity to spend ODA and spend it well. In many cases, they are looking to us to provide advice and, ideally, assistance in order to help them do that. We are very willing and happy to provide access to our systems, guidance, experience and lesson learning, but ultimately the departments that are spending the ODA need to build their own capability to spend it and spend it well. We will support that process by providing them with that guidance and lesson learning.

Q47 Richard Burden: The last question is back to this issue of co-ordination. You have described the various layers of co-ordination that exist across government. Might there be merit in having a clear cross-departmental accountability body for managing ODA spend in all departments across the piece? It could be something like a Cabinet sub-committee. Would that help, so that everybody is clear on where the buck finally stops?

Nick Dyer: The current body that does so is this joint HMT, DFID, ministerial and working group process that oversees the use of ODA. That works reasonably well. There is a clear aid strategy across government. Each individual government department is responsible for demonstrating the progress it is making in its annual report and departmental reporting processes. At the moment, that works reasonably well.

Q48 Chair: The National Audit Office report on this earlier in the year raised the issue of the capacity of other government departments. Has the committee that DFID co-chairs with the Treasury looked at the NAO report and has anything changed as a result of it?

Nick Dyer: There is currently a national security capability review being led by the National Security Adviser, Mark Sedwill, to look at this very question in terms of capability across the national security space including ODA. Not necessarily as a consequence, they recognise that there is a need to ask this question about whether they have sufficient capability. There is a whole series of exercises and processes going on now to ask that question.

Q49 Paul Scully: You have the Development Assistance Committee high-level meeting coming up. What changes to ODA rules are you going to seek at that and in what specific ways? Will any of those changes alter how donors mobilise and allocate their resources, in a way that is not



HOUSE OF COMMONS

currently possible?

Joy Hutcheon: I am sure that the Committee will want to ask the Secretary of State about that later this morning. As she has said, the overall challenge is to ensure that the DAC rules set 40 years ago remain relevant to our changing world. There is a very immediate and specific issue around the impact of Hurricane Irma, but there is also an opportunity to look more broadly at a set of things, to ensure that the rules are up to date and flexible so that ODA is having maximum impact, but also delivering value for money.

Q50 **Paul Scully:** What safeguards are you putting in place to make sure that any expansion of ODA definitions does not compromise the integrity and pure development impact of aid?

Joy Hutcheon: As you know, at the high-level meeting, changes in the DAC are by consensus, so any change will have to be scrutinised, discussed and agreed by all the members.

Q51 **Paul Scully:** Are you taking any particular steps to ensure that the DAC responds to the challenges of situations like Hurricane Irma?

Joy Hutcheon: Absolutely, yes. In discussing with them how the DAC rules should respond to the Hurricane Irma event, there is an immediate question and a longer-term question.

Q52 **Paul Scully:** With that immediate question, would you be making proposals concerning changes to the countries and territories eligible to receive ODA?

Nick Dyer: There are two aspects to this. One is whether we are happy with the way countries transition out of ODA eligibility as they get richer. Hurricane Irma is the reverse; it is what happens when countries reverse, so they have transitioned, but they go backwards. We are having a conversation with the DAC to encourage it to think about, in exceptional circumstances like this, how the DAC can respond, and what would be the triggers for helping it respond. That is an active question we have put on the table with DAC.

We have had multiple conversations with DAC members on this as well. The Chancellor of the Exchequer and the Secretary of State were raising this when we were in the World Bank annual meetings two weeks ago, so there has been a lot of conversation around this.

Q53 **Paul Scully:** I wanted to know how you will ensure that, when you go and you are making firm proposals, you are basing them on objective criteria and carefully considered evidence regarding the countries' vulnerabilities, needs and domestic capacity, in order to improve the overall system over the long term, rather than just the reaction to recent events.

Nick Dyer: That is absolutely right and that is what the DAC would expect. This is about not just a one-off reduction in GDP, which has been



HOUSE OF COMMONS

significant in the case of Hurricane Irma, but the vulnerability indicators that you would want to agree to make small island states eligible for a mechanism that would be triggered in certain circumstances. That is where the technical conversation is going to have to happen. The challenge will be how long it will take to agree those technical criteria. Quite a lot of administrative work is needed to agree that across all 30 members.

Chair: We will return to this issue with the Secretary of State a little later this morning.

Q54 **Chris Law:** I have the joy of all the technical questions this morning, it seems. I turn my attention to promissory notes. Two things jump out at me about the use of promissory notes. One is the scale of uncashed promissory notes, which were £4.3 billion two years ago and are now totalling £8.7 billion. The other is that they count in the year they are issued against ODA targets, but it may be up to two years before they are cashed. How do you cope with this? This must be a bit of an accounting nightmare.

Nick Dyer: It is always good to remind ourselves why we do promissory notes. As you laid out, we are making a promise to spend, which allows that institution to commit resources for long-term predictable activities. In the case of the Global Fund to Fight AIDS, TB and Malaria, that allows it to make commitments to buy HIV/AIDS drugs for people.

Of course, the risk is that, while they need the commitment, they have to design and implement the projects, which takes some time, so they will not need the money. They need the commitment, the promise, but they do not need the money for a number of years. Therefore, they do not actually have to draw down the cash. Promissory notes avoid us having to give out the cash, and we can give out the cash when they need it.

It is quite an efficient system that allows organisations to commit, and us and the Bank of England not to pay out until they need it. We know when the promissory notes are encashed, because we authorise the Bank of England to pay the cash when they ask for the encashment. We have an encashment schedule and we know when it is requested, so we are tracking and know when the particular encashment schedule is being implemented.

Q55 **Chris Law:** Are there time limits on when this money is drawn down? It is quite important, as it could be sitting there for years uncashed, which may cause some issues further down the line, particularly if there have been changes on the ground, whether they be political, a crisis or another factor. What safeguards are put in place to protect against this being left? When about if there are quite urgent changes on the ground that change the entire landscape?

Nick Dyer: We can track the encashment schedule. We know which of the various promissory notes are still uncashed. We are yet to have a situation or circumstance where we have cancelled an encashment, but



HOUSE OF COMMONS

you are right. For instance, in the way the World Bank operates, it takes three years to commit its resources, and takes quite a long time to programme resources and then to implement the projects. That period can be five, six or seven years, so the encashment of the World Bank promises has a very extended timeframe, whereas with the Global Fund to Fight AIDS, TB and Malaria it can be quite quick.

Now, how do we account for the projects and programmes? It is in the same way as we would for cash. For the IDA, the World Bank lending arm, the annual reviews in which we are assessing IDA on a yearly basis capture the World Bank's commitments in IDA 18, IDA 17 and IDA 16, so they capture all the previous commitments that it has made because it takes it so long to implement and deliver the projects.

Q56 **Chris Law:** I am quite satisfied with the accounting side, but does this not generally undermine the credibility of the ODA targets when you have promissory notes sitting there saying, "We have met it for this year, but it might be two or three years before it gets touched"? They build up every year; they have more than doubled in two years. Are we going to see this trend continue?

Nick Dyer: On the net increase in promissory notes this year, actually I thought it went down, but I need to check that.

Q57 **Chris Law:** Just to give you an example, in March 2014, three uncashed promissory notes totalled £4.3 billion; at the end of December last year, they totalled £8.7 billion, so it is more than double.

Nick Dyer: Yes, because we are making new commitments to the IDA 18, which was a big commitment, and some of the other promissory notes that we made in the past were being drawn down, so that will change over time.

This is an efficient mechanism. The accounting treatment of it is dictated by the Treasury, so we follow the accounting standards that the Treasury asks us to follow, which means that we book it at the time that we make the promise. It is a resource payment at the time that we make the commitment. That is just following the Treasury rules.

Q58 **Chris Law:** For my last question, I ask this as a layman. If you have £8.7 billion sitting in the bank for up to three years, do you get interest on it? If so, what happens to it?

Nick Dyer: It is not sitting in the Bank of England. We run our accounts on a resource basis and we tell the Treasury and the Bank of England when cash is needed. They are running a cash account, so they know when money is required, because we tell them. It is not cash that is sitting in any DFID account.

Joy Hutcheon: We could not pay it now if they asked us to and they cannot ask us to, because the encashment schedule is over a number of



HOUSE OF COMMONS

years, so the cash will be given to us each year by the Treasury in the normal way.

Q59 **Chris Law:** Is it held by the Treasury until such a point that promissory notes have to be drawn down?

Joy Hutcheon: It is part of our normal budget.

Chair: We have just shy of 10 minutes so we are going to finish with a nice, straightforward subject, which is Brexit.

Q60 **James Duddridge:** That is the question: Brexit. To put some bones on it, how much money are you spending preparing for Brexit? What are the implications of Brexit for departmental spending?

Nick Dyer: We have 22 people—I would need to check that—who run our European Union department. It is fair to say that the work they were doing changed quite significantly once the referendum happened, and they are spending quite a lot of their time working with the Treasury and working through the implications of Brexit.

We also have a joint department with the Department for International Trade on trade policy, and we have about—again, I would need to check the numbers—20 staff who are spending all their time preparing the trade preference arrangements post Brexit. I do not know how much that costs, but those would be the main people who would be working on it on a day-to-day basis. Plus we have other people in the organisation drawn in on a case-by-case basis in terms of doing preparatory work with the Treasury. That was the first question.

Q61 **James Duddridge:** Talk about the broader implications of Brexit on aid spending. This is an opportunity to give a broad brush of what is happening and what the priorities are.

Nick Dyer: There are a number of elements of the implications of Brexit. The first, as you started off with, is the money. The British Government are putting about £1.3 billion per year through the European Union, through its budget, the voluntary EDF mechanism and various trust funds. No decisions on the future distribution of UK funds will be made until the negotiations have been completed. We currently do not know what is going to happen in terms of that £1.3 billion, or what the timeframe will be in terms of how much and how long we will continue to pay. That will come out of the negotiations. That is one element.

The second element, and the big element where a lot of work has been done, is on the future relationship with Europe. I would expect, if there are shared and joint objectives, we may decide that we want to do some activities with the European Union in the future, but that will come on a case-by-case basis.

The third and most significant opportunity comes through trade. As you are aware, the UK Government have made a commitment to duty-free access for all least-developed countries, plus also to ensure



non-reciprocal duty-free opportunities for the other 25 poorest countries. There is a huge amount of work going on now in the Department for International Trade to ask the question of how we replicate the EPAs that have been agreed with the European Union. The one thing that we can do on exit is give the predictability to our partners that we will continue with that duty-free access, and we can decide after that how we want to change it.

Q62 James Duddridge: I may come back to EPAs, because I am less positive than you about whether we want to replicate them. That is a side issue. Perhaps I could concentrate on the 15% of funding. If a decision is taken by the Government not to have any crossover to EDF funding, so it is a hard cut-off for Commission development spending, with no preparation in advance of the decision, does DFID have the capacity to spend what will be 15% of its budget on new things, given the problems we had in ramping up and finding spendable projects as we built up our commitment to 0.7%?

Nick Dyer: We are very conscious of this as a management committee within DFID. The uncertainty in all this is that we just do not know what the distribution will be, when it will happen and what the legal requirements are. That is a different conversation itself, in terms of whether, under our commitments to the EDF, we are legally obliged to continue. All these things need to be worked through.

In a circumstance where on March 2019 suddenly all the money comes back—and I cannot give you any sense of the probability or likelihood of that; it is just not within my gift or knowledge—the question for the Government becomes: how much of that will be reallocated to DFID and how much will go to other government departments, which is a spending round issue and is subject to engagement with the Treasury, and within DFID whether we have the capability to programme that resource. It is something that we are aware and conscious of, but the only redeeming feature is that we have a year and a half to get ready for it.

Joy Hutcheon: At the time when we were scaling up very rapidly to meet 0.7%, we were stretched in building the capacity to get there. This will be the fifth year that we meet 0.7%. We have now very deliberately got ourselves into a world where we are over-programmed: we have more programmes than we have budget for, and we are making choices through the year and at the end of the year about what not to fund, not scrambling and looking for things to fund. I am confident that, with a reasonable amount of notice, we would be in a position to absorb additional funds the Treasury allocated to us.

Chair: I guess it helps that the economy is not growing as well.

Joy Hutcheon: You might say that, Chair.

James Duddridge: I thought that we were growing at 2%.

Chair: Do you have any more questions?



HOUSE OF COMMONS

James Duddridge: You said that the economy was not growing; I thought that we were growing at 2%.

Chair: I was making a witty aside, rather than a debate.

Q63 **James Duddridge:** I prefer my points factual rather than witty. Going back, you seem to be quite optimistic about the trade opportunities. We hear a lot of pessimism and there is a lot of risk in any change. Could you just go through some of the reasons to be optimistic?

Chair: Be very brief, because we only have two more minutes.

Nick Dyer: There are a number of constraints for developing countries. One is the preferential access that they have, and that is about duties and tariffs, which are actually quite low. The other is about rules of origin: the rules under which you can sell into markets. Currently, we are subject to the decisions of the European Union on that, but post Brexit we will have the freedom to make those decisions ourselves. That is an opportunity.

The reality is that many developing countries have not taken up the preferences that they have had available to them for a number of years, and that goes down to whether they have the supply capacity to respond, which depends on economic development, growth, business environments and investing in the private sector, which is what the Secretary of State is absolutely focused on and wants us to focus on too.

Q64 **Mr Evans:** On the Brexit divorce settlement, is there any part of your budget or activity that may give rise to us having a contractual obligation to pay the EU some money?

Nick Dyer: I am not in a position to answer that question now, because that is subject to legal interpretation by our lawyers and European Union lawyers, and the negotiation that is currently going on led by DExEU.

Q65 **Mr Evans:** Will it be transparent if there is money taken from your department to pay part of the divorce settlement for, let us say, pensions?

Nick Dyer: Again, I am not in a position to answer that. That will be subject to what comes out of the negotiations.

Q66 **Mr Evans:** Would you think it perverse that some money from international development might go to pay fat cat bureaucrats in Brussels as opposed to helping starving people in Africa?

Nick Dyer: Which budget any future pension obligation comes out of is something that the Treasury will let us know in due course, I am sure.

Chair: Thank you, Nigel. Thank you very much for being with us today. We are going to adjourn for 15 minutes now, before the Secretary of State joins us.