

# International Development Committee inquiry – the effectiveness of UK aid spending

## National Audit Office submission – 29 April 2020

In early 2020, the International Development Committee launched its inquiry into the role of UK aid and the work of the Department for International Development (DFID). The National Audit Office (NAO) was due to give oral evidence to this inquiry on 17 March 2020, but was not able to because of the COVID 19 pandemic.

This written submission responds to the questions we understand IDC would have put to the NAO at that session.

## An introduction to the National Audit Office's work on international development

The NAO scrutinises public spending for Parliament. The majority of our work can be categorised under two headings – financial audit and value for money audit. The Comptroller and Auditor General (C&AG) leads the NAO and is an officer of the House of Commons. He and the staff of the NAO are independent of government.

The C&AG certifies the accounts of all government departments and many other public sector bodies. He also has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively and with economy (i.e. have secured value for money).

Since 2015, our value for money work has covered Official Development Assistance (ODA) expenditure by DFID and by other government departments, DFID's response to crises (such as the earthquake in Nepal), its investment through CDC, its St Helena airport project, and its International Citizen Service programme. Our most recent report – *Improving the lives of women and girls overseas* – was published in April 2020.

Our value for money reports are generally used to support an evidence session of the Committee of Public Accounts. Alongside this we also look to support the work of other select committees, including the International Development Committee. For example, our report *Managing the Official Development Assistance target – a report on progress* (July 2017) was prepared specifically for the International Development Committee.

We have drawn on our back catalogue (the Annex to this note lists relevant reports) and broader work for this briefing. The material was current at time of publication but may not take full account of developments since.

## Results of external scrutiny of UK aid spending

### Is UK aid spending – administered by DFID and through other government departments – leading to transformative change that is helping developing nations and their people pull themselves out of poverty?

Our value for money work focused on spending on overseas aid by the Department for International Development and government more widely has highlighted evidence of individual programmes securing impact, for example, in our report *The effectiveness of Official Development Assistance expenditure* (July 2019). In our report on the Department for International Development's *Investment through CDC* we identified that CDC was achieving the financial and non-financial targets it had been set by DFID. And our 2020 report on DFID's work to improve the lives of women and girls found that programmes were performing well.

Our work over the years has also identified some difficulties with assessing programme performance, such as impact, and value for money.

- Departments work in rapidly changing and dangerous environments with unpredictable and sensitive political and social backdrops.
- Departments may not have put in place targets at the beginning of a programme's life which help it to consider its effectiveness. For example, departments might establish targets on inputs, activity, and outputs for programmes but not for impact. This may reflect the nature of the programme.
- Departments sometimes faced practical difficulties in accessing good-quality information needed to assess performance and the complexity of the environment in which they operated. For example, information might not be readily available from locations that present a high security risk; or from implementing partners that work with different systems and to different standards.

Alongside consideration of the performance of individual programmes, our work in 2017 identified that government had placed insufficient emphasis on demonstrating that ODA expenditure, taken as a whole and considered across those departments and agencies responsible for it, was effective. We found that government needed to do more to assess performance against the UK aid strategy (*UK aid: tackling global challenges in the national interest* published by HM Treasury and DFID in November 2015 alongside the Spending Review) so that it was better placed to know whether it was meeting the four objectives it set out. In 2019, departments agreed a framework which set out, for each of the four objectives in the UK Aid Strategy, 'indicators of success' as well as illustrations of the performance achieved. At the time we reported, the framework did not bring these measures together with expenditure, a necessary step to support the assessment of value for money. The government accepted the Committee of Public Accounts' recommendation, in

2019, that HM Treasury should develop its framework for monitoring progress against the Aid Strategy to incorporate value for money.

Our April 2020 report on DFID's work to improve the lives of women and girls found that DFID has in place a well-researched and ambitious strategy for its work on this issue. We also found that DFID's individual programme interventions to improve gender equality are performing well and it is widely respected internationally for its broad range of influencing activity in this area. We concluded that DFID had in place some of the management arrangements we would expect for it to be confident about delivery (such as twice-yearly consideration of progress across all of the elements of its strategy). But we also found there were gaps (such as the absence of a long-term plan for implementation and weaknesses in its understanding of costs for this area of its spending). Overall, we concluded that DFID needed to build on the positive steps it had recently taken to improve its oversight and understanding of performance so that it has a good understanding of whether it is on track to secure value for money in this area.

**In your opinion, does the 0.7% target prioritise spending over results?**

The fact that ODA is a spending target does not preclude government focusing on the results and impact it secures from its spending – or, taking results and expenditure together, the value for money of interventions. For example, departments can, and do, attach different types of targets to their programmes ranging from a focus on outputs to outcomes. We define value for money as the optimal use of resources to achieve the intended outcomes. By optimal we mean the most desirable possible, while considering expressed or implied restrictions or constraints. In practice, our focus is very much about assessing what a department has achieved against what it had planned (we would also comment on the ambition of a department's objectives and targets if the evidence suggested it might achieve more with its spending). In doing so, we will take account of complexities in, for example, the political and security context in which a department is implementing a particular programme.

Our work has identified a number of challenges to successful delivery, which in turn can have an impact on the effectiveness of programming. Our work has shown that these issues can manifest themselves in departments when they receive new or substantially increased ODA budgets. For example, a department needs a strong pipeline of programmes to fund from its ODA budget as choice is likely to improve overall value for money. We also saw a potential risk to value for money that came from 'backloading' expenditure towards the end of the reporting period. For example, in our 2017 report we found that five of the 11 bodies we looked at spent more than half their 2016 calendar year ODA budget in the last quarter of the calendar year.

Our 2017 report also identified potential issues around departments' use of promissory notes. Promissory notes can enable multilateral organisations to enter into commitments with those organisations that will implement programmes on their behalf. However, this can mean that the year in which the money is actually used for beneficial purposes is not necessarily the same as the

year in which the money counted as ODA. At the time we reported, the value of uncashed promissory notes issued to multilateral organisations had increased. In March 2014, uncashed promissory notes totalled £4.3 billion. At the end of December 2016, they totalled £8.7 billion. This means that, at that time, the UK had substantial and increasing amounts of ODA expenditure which qualified as having been spent under the ODA rules but which may not have been spent by the recipient body or reach a beneficiary for some time.

In our June 2019 report *The effectiveness of Official Development Assistance expenditure*, we identified that HM Treasury did not, as part of its approach to allocating ODA budgets to departments, consider the relative value for money of expenditure on an ODA-eligible activity against expenditure on a non-ODA eligible activity. HM Treasury considered that, because of the legislative requirement to meet the ODA target, the position was “fiscally neutral” – that the amount of expenditure required to meet the target was fixed and the choice was therefore to which departments the ODA budget is allocated.

As with any ring-fenced expenditure, the fact that it has to meet set criteria to count towards the ODA target limits the options for how departments might spend their budgets, creating risks to value for money, as illustrated below.

- Chevening Scholarships are available to the citizens of 160 countries, not all of which are eligible for ODA expenditure (such as Australia and Japan).<sup>1</sup> The Foreign & Commonwealth Office (FCO) told us it could see value in funding more scholars in non-eligible countries, but it did not do so because of the need to meet the ODA target.
- The Eastern Route Programme is a Conflict, Security and Stability Fund (CSSF) programme, based in Turkey, run by the FCO and the Home Office. It is intended to address the objectives in the UK National Security Council’s strategies for Turkey and for irregular migration. With 98% of the programme funded through an ODA-eligible budget, we were told that activities which might help address the Strategy’s objectives might not be considered because they did not meet ODA criteria. However, more generally, the CSSF uses a mix of ODA and non-ODA budgets, providing greater flexibility in terms of the types of programmes and projects it can support.

---

<sup>1</sup> Funded by the Foreign & Commonwealth Office and partner organisations, Chevening offers two types of award – Chevening Scholarships and Chevening Fellowships. The recipients of which are selected by British embassies and high commissions.

## **UK aid**

### **Is ODA spending administered outside of DFID adequately targeted towards poverty reduction?**

#### **Do you feel that the increasing proportion of ODA administered by departments other than DFID has created new opportunities to tackle poverty?**

As a general principle, we would want to see a rationale for any change in spending responsibility, supported by clear assessment of the expected costs and intended benefits from such a redistribution. We would also want to see an assessment of whether the planned benefit had been, or was on track to be, achieved.

The 2015 UK Aid Strategy was clear that departments other than DFID would be increasingly responsible for ODA expenditure. Government made this decision as it wanted to draw on skills across government when spending ODA to respond to the changes in emphasis it had identified in the challenges it faced (such as mass migration and the impact of global warming). However, we found that government did not set out in detail the benefits it expected to achieve from this approach. Nor has DFID or HM Treasury, which was responsible for the 2015 Aid Strategy, assessed whether government's intentions have been delivered in practice.

We have identified a number of risks to value for money which are created from the wider allocation of ODA budgets. For departments other than DFID, the changed approach to allocating ODA creates an opportunity to access new funds at a time when many feel their core funding is under great pressure. Depending on each department's experience of managing ODA expenditure and the relative significance of ODA to its overall budget, departments could feel incentivised to propose spending without challenging its value for money as rigorously as other types of spending or even in the knowledge that it would be more effective to spend it on other, non-ODA eligible activity. There is a risk departments might also be tempted to seek the ODA funds without a full understanding of whether they have the capability to carry out the work.

Having made the decision that departments other than the DFID should be responsible for an increasing proportion of spending which contributes to the ODA target, it is important that, in the first instance, budgets are allocated after consideration of the ability of the departments to spend it effectively. HM Treasury is responsible for allocating ODA budget to departments.

In our report *Managing the Official Development Assistance target – a report on progress* (July 2017) we reported that HM Treasury, as part of the Spending Review 2015, took an evidence-based approach to allocating ODA budgets. For example, it asked departments to look at their existing expenditure to see what might be eligible as ODA. and to bid for new activities that might be funded through ODA. HM Treasury collected evidence from departments on their planned ODA expenditure – details of the programmes planned, their objectives, and ODA eligibility. However, it did not request information on each department's capacity and capability to manage

the increased expenditure, either as part of initial bids or in subsequent requests for more details on departments' spending plans.

## **The future of international development spending**

**In recent months, there has been speculation that the Government is exploring options to fold DFID into the Foreign Office. What are the potential benefits of merging development with foreign affairs; and what are the risks and potential challenges?**

In our work on HM Government's operations overseas we have sometimes highlighted the difficulties the different departments have in working together in an integrated and coherent way though we have also seen good examples of effective joint working between them. At the same time, it has been clear from discussions with a wide range of overseas stakeholders that DFID has a very strong brand and reputation.

In the NAO's work across the years on departmental reorganisations we have highlighted a number of issues which might be relevant here. We have noted that over recent decades the UK has carried out far more reorganisations than countries such as the United States, and that reorganisations can be disruptive and costly. We have also found that the benefits intended are often poorly defined, making it difficult to subsequently judge whether the changes represented value for money. In our recommendations to government on this topic we have emphasised that reorganisations need to be carefully planned and managed, with full project management disciplines being applied. More specifically we have recommended that:

- A statement should be presented to Parliament, quantifying expected costs, demonstrating how benefits justify these costs and showing how both will be measured and controlled.
- Intended benefits should be stated in specific measurable terms that enable their later achievement (or otherwise) to be demonstrated.
- Good project management systems should be in place as early as possible, ideally when a reorganisation is first being considered.
- The planned and actual costs of reorganisations should be separately identified within financial accounting systems so costs can be managed and subsequently reported.

## Management of UK aid spending

### Oversight of UK aid spending

#### **Is UK aid spending, as currently administered, sufficiently joined up so that it aligns with the UK aid strategy?**

In our report *Managing the Official Development Assistance target – a report on progress* (July 2017) we identified four separate parts of government that need to work well individually and collectively to make sure that the UK meets the ODA target each year.

- The Department for International Development.
- HM Treasury.
- Other government departments.
- Cross-government funds.

We found that responsibilities and accountabilities for meeting the target were not aligned. For example, while in practice the Secretary of State for International Development has a duty to make sure the target has been met, HM Treasury is responsible for allocating budgets for ODA to departments. Those departments are in turn responsible for making sure that they spend the money properly, in line with *Managing Public Money*<sup>2</sup>. As a consequence, the department ultimately accountable for meeting the target – DFID – does not control some of the expenditure that contributes to meeting that target. In addition, it is not clear which part or parts of government are responsible for making sure the UK Aid Strategy is implemented, or for measuring progress in its implementation. And no single part of government has responsibility for monitoring the overall effectiveness and coherence of ODA expenditure.

In June 2019, we concluded that government has placed insufficient emphasis on demonstrating the effectiveness of ODA expenditure taken as a whole and on progress against the UK Aid Strategy. During 2019, departments agreed a framework which set out, for each of the four objectives in the UK Aid Strategy, ‘indicators of success’ as well as illustrations of the performance achieved. But the framework did not, at the time we reported, bring these measures together with expenditure, which is necessary to support an assessment of value for money.

The same year the Committee of Public Accounts recommended that, amongst other things, HM Treasury should allocate a significant proportion of ODA on the basis of joint bids to make sure it is effectively overseeing the effectiveness of ODA spending. Government has accepted this recommendation.

---

<sup>2</sup> HM Treasury’s *Managing Public Money* sets out principles and guidance for departments and other central government bodies as to how they should manage public resources. Available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/835558/Managing\\_Public\\_Money\\_MPM\\_with\\_annexes\\_2019.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/835558/Managing_Public_Money_MPM_with_annexes_2019.pdf).

**Is there scope for a greater role for a central agency, such as the Cabinet Office, to help ensure greater coherence of ODA spending across Whitehall?**

Earlier in this submission we identified a number of issues which pointed to the fragmentation of responsibilities for ODA expenditure across government. But we do not consider that this necessarily points to the need for a different central body to have oversight on top of the roles that HM Treasury and DFID can already perform. Departments working individually and in concert could, in practice, achieve the integration and co-ordination needed.

For example, DFID has used its experience to provide some support to other government departments following an increase in their ODA allocations by the 2015 Spending Review. This included advising departments on managing programmes overseas and on the eligibility of expenditure to contribute to the ODA target. And it has commissioned work to support the improvements in the transparency of aid spending set out in the UK Aid Strategy. HM Treasury established a Senior Officials Group to support the management and delivery of the ODA target, and along with DFID it issued guidance to all departments and cross-government funds to support their approach to managing ODA expenditure.

# Annex

## National Audit Office value for money work on the Department for International Development and UK government spending on international development (2014 – 2020)

- [Improving the lives of women and girls overseas](#) (April 2020)
- [The effectiveness of Official Development Assistance expenditure](#) (June 2019)
- [International Citizen Service](#) (November 2018)
- [Managing the Official Development Assistance target – a report on progress](#) (July 2017)
- [Investigation into the Department for International Development's approach to tackling fraud](#) (February 2017)
- [Investing through CDC](#) (November 2016)
- [Realising the benefits of the St Helena Airport project](#) (June 2016)
- [Responding to crises](#) (January 2016)
- [Managing the Official Development Assistance target](#) (January 2015)
- [Oversight of the Private Infrastructure Development Group](#) (July 2014)