

Building an effective organisation



'The Nest' in the newly refurbished DFID HQ, Abercrombie House, East Kilbride. Tom Andrews.

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Building an effective organisation



“Development came of age as an issue in 2005. The Department is coming of age as a Government Department. We have everything to gain by taking out our experience, our analysis, our knowledge, our expertise – your experience, your analysis, your knowledge, your expertise – because we have a great deal to contribute. But the foundation of this is an effective organisation.”

Hilary Benn, talking to DFID staff, December 2005

Highlights of DFID’s work to build an effective organisation

- **Delivering efficiency.** We aim to make £420 million of efficiency gains over the PSA period 2005-08.
- **Managing risk.** DFID’s work requires us to combine innovation, appropriate risk taking and the effective management of risk. We have systems in place to identify, mitigate and manage risks.
- **Improving corporate systems.** Catalyst is our programme of business change which aims to streamline DFID’s operations. During 2005, new systems were introduced to improve knowledge sharing and information management, as well as streamlined procedures for programme management.
- **Evaluation** is central to evidence based policy development. The UK is leading a joint study of General Budget Support on behalf of the OECD Development Assistance Committee which will be published in May 2006.
- **Human resources.** DFID’s most important resource is the skills of the people who work for it. We aim to make DFID more effective by improving the professional skills of staff, while maintaining progress to meet our Home Civil Service head count targets.

- 7.1** DFID's remit and operations have grown substantially since it was created in 1997, greatly increasing our capacity to deal with the challenges and risks to achieving the Millennium Development Goals. Through the International Development Act in 2002, we have a strong legal foundation for reducing poverty. The Spending Review Settlement in 2004 ensured a significant increase in financial resources, to £4.5 billion in 2005/06 and £5.3 billion in 2007/08. This will contribute significantly towards reaching the UN target of an ODA/GNI ratio of 0.7%. The Government has set a clear timetable for reaching this target by 2013.
- 7.2** The International Development (Reporting and Transparency) Bill – sponsored by Tom Clarke MP – which passed Committee stage in February 2005, will put reporting on progress towards the UN 0.7% target on the statute book for the first time if it is passed into legislation. The Bill aims to increase transparency in international development so that the level, poverty focus, and coherence of the Government's international development policy and expenditure – and our contribution towards the reaching the MDGs – may be monitored. The Bill is due to go to Report Stage in the House of Commons on 12 May 2005 and is supported by the Government.
- 7.3** In order to ensure that the planned increases in resources are used well, DFID continually strives to improve its effectiveness both organisationally and in our programmes. We have delivery planning systems built around our PSA objectives and targets, a strong risk management systems, and regular performance reporting and evaluation. Looking ahead, the **'Next Three Years'** launched in mid-2004 by the Management Board, sets out the opportunities and challenges we face and how we can best approach them through: increasing global financing; broadening international and domestic commitment to the actions necessary to achieving the MDGs; becoming more flexible and responsive in dealing with changing priorities; and building a stronger culture of delivery and performance across DFID.
- 7.4** The **efficiency programme** also plays an important part, as we aim to make £420 million of efficiency gains over the 2005–08 period, through allocating funds more effectively, increasing the quality of our project management and through the benefits of the Catalyst business transformation programme.

Box 7a: Money how we allocate it, how we judge our effectiveness and that of others and how we ensure it is properly used

How we allocate our funds

DFID conducts an annual review of how and where we will spend our resources. We review progress against our PSA targets, establish delivery plans for the coming 3 years and set budgets which are in line with these. To guide this process, DFID models possible distribution of funding among low income countries. The model takes into account factors such as progress towards the MDGs, population size, income per head, country policy environment, economic vulnerability and levels of aid provided by other donors. See Annex 1 for a detailed analysis of Departmental expenditure.

How we judge effectiveness

Our PSA 2005-08 commits DFID to delivering at least 90% of its bilateral programme to low-income countries, and to achieving a sustained increase in the index of DFID's bilateral projects evaluated as successful.

All DFID projects and programmes have specific and measurable development objectives. In addition to ongoing project management activities, those above £1 million in cost are subject to annual monitoring and performance assessment, using DFID's Portfolio Reporting and Information System for Management (PRISM). We also produce Project Completion Reports and run an extensive programme of evaluation to learn and disseminate lessons.

During 2004, DFID established a framework for assessing **multilateral effectiveness**. Around 40% of DFID's budget goes through multilateral agencies, and we need to be satisfied that we are making the best possible use of resources. The framework was applied to 23 organisations and looked at their systems for ensuing effective internal performance, country level results and partnerships. DFID is also one of eight members of a Multilateral Organisations Performance Assessment Network (MOPAN) of donors that assesses multilateral effectiveness at the country level. The information gathered is now being used to inform institutional strategy objectives and track improving performance.

In order to reach the **MDGs**, it is also important to improve the effectiveness of the overall multilateral development system. We are therefore supporting the recent UN initiative to review its development funds and programmes, as well as the establishment of a Peace Building Commission.

How we ensure our funds are properly used

The **Blue Book** is DFID's guide to mandatory procedures. It sets out the requirements for each of our business areas, the reasons why the rules exist, the risks we face if we do not comply with the rules and where to find further guidance. Application of DFID's project cycle management, auditing, monitoring and evaluation procedures is the key to ensuring the proper use of funds. For example, a **fiduciary risk** assessment, including an evaluation of the risk of corruption, is mandatory for all Poverty Reduction Budget Support programmes. In 2005, additional guidance was introduced for country offices to provide clarity on when to perform and update fiduciary risk assessments and how to share lessons on managing the risk of corruption.

DFID's Accounting Officer (the Permanent Secretary) is accountable to Parliament for the regularity and propriety of DFID expenditure. DFID's **Internal Audit Department** (IAD) reviews all activities to give an independent opinion, assurance and advice to the Accounting Officer on matters of internal control, risk management and corporate governance.

The **National Audit Office** (NAO), on behalf of Parliament, audits DFID's financial statements, accounts and reports and carries out value for money studies on aspects of the Department's work. Both NAO and IAD have access to all DFID's documents, systems and people.

DFID operates zero tolerance towards **fraud**. Allegations or suspicions of fraud against DFID funds are reported to the Head of Internal Audit Department, and investigated by the Department's fraud response team.

Organisation and Structure

- 7.5** Through 2005/06, DFID has retained the **Rt Hon Hilary Benn MP** and **Gareth Thomas MP** as the Secretary of State and Parliamentary Under Secretary of State respectively. The Secretary of State represents DFID at the Cabinet.



The Rt Hon. Hilary Benn MP, Secretary of State for International Development



Gareth Thomas MP, Parliamentary Under Secretary of State for International Development

- 7.6** The International Development Committee (IDC) is one of seventeen Departmental Select Committees. Its remit is to examine the expenditure, administration and policy of the Department for International Development. The IDC was created when DFID came into existence in 1997 and its members conduct inquiries, investigations and scrutinise the work of DFID on behalf of Parliament. IDC oral and written evidence sessions in 2005/06 included: ‘Afghanistan and Reconstruction’; ‘EU Development Cooperation and External Relations Policy’; the ‘WTO Hong Kong Ministerial’; ‘Making Poverty History – The Promises of Gleneagles’; and ‘The Autumn meetings of the IMF, the World Bank and the UN World Summit 2005’. IDC reports in 2005/06 included Darfur and HIV/AIDS and the Committee is currently conducting an inquiry into ‘Conflict and development: peace building and post-conflict reconstruction’. For more information on the work of the IDC see www.parliament.uk/indcom.
- 7.7** Within the Department, the **Management Board** is collectively responsible to Ministers for the delivery of DFID’s PSA, for providing strategic direction to the management of DFID’s operations, staff and finances, and for ensuring the implementation of policies set by the Secretary of State. Staff are encouraged to attend Board meetings as observers, either in person or via video conference. The Board’s role is to:
- communicate the vision, role, direction and priorities of DFID to staff and other stakeholders;
 - ensure DFID’s financial resources and staff are allocated and managed effectively;
 - monitor and improve DFID’s performance; and
 - protect and enhance DFID’s reputation as a highly effective international development organisation.
- 7.8** **Four Standing Committees** support the Board, providing a forum for discussing and analysing policy issues, and advising on decisions. They are:
- The Development Committee: this provides oversight and direction on policy and cross-cutting country issues; promotes synergy across corporate, regional and multilateral work; and promotes organisational learning on issues that have implications for the way that we work;



DFID's Management Board. From left to right: Mark Lowcock (Director-General, Finance and Corporate Performance), Masood Ahmed (Director-General, Policy and International), Nemat Shafik (Director-General, Regional Programmes), Suma Chakrabarti (Permanent Secretary), Helen Ghosh (Non-Executive Director) and Bill Griffiths (Non-Executive Director)

- The Audit Committee: this helps to ensure a financially sound and efficient organisation; and advises the Accounting Officer (who is the Permanent Secretary) on the adequacy of risk, internal control and governance issues in DFID;
- The Human Resources Committee: this reviews DFID's human resource policies and practice; and revises these as necessary; and
- The Senior Civil Service (SCS) Committee: this leads and manages SCS posts and staffing in support of DFID's PSA objectives.

7.9 DFID is structured in **nine divisions**. There are three regional divisions: (1) Africa, (2) Asia, and (3) Europe, Middle East and the Americas. There are three divisions in the policy and international area: (4) United Nations, Conflict and Humanitarian, (5) Europe, Trade and International Financial Institutions, and (6) Policy. There are also three divisions providing corporate services and support (7) Human Resources, (8) Finance and Corporate Performance and (9) Communications and Knowledge Sharing. During 2005, a special unit was also formed to focus on development issues arising from the UK Presidency of the G8 and EU. See Annex 9 for an organisational chart.

7.10 Heads of Profession provide vision and intellectual leadership on issues relating to their professional disciplines. They help strengthen the knowledge and skills of DFID's ten professional groups (Economics, Education, Environment, Governance, Health, Infrastructure, Livelihoods, Private Sector Development, Social Development and Statistics) to ensure the availability of the right technical skills to deliver the PSA targets.

Box 7b: DFID in the development community

In January 2005, the Development Assistant Committee (DAC) visited the UK to undertake a peer review. The DAC is the principal body through which the Organisation for Economic Cooperation and Development (OECD) is working to improve how aid works. It deals with issues related to co-operation with developing countries, and is the main forum for the bilateral donors to work together to coordinate policy and increase their development effectiveness.

Peer reviews of each member of the DAC are held every three or four years and they examine how each individual member applies DAC policy guidance; how the programme is managed, including cooperation with other donors; the coherence of each member's development and other objectives; and trends in the volume and allocation of resources. They also provide a good opportunity for lesson learning and the final presentation before the DAC represents a powerful tool for influencing. The latest DAC peer review of UK development assistance will be presented in Paris in May 2006.

Collaborative working with other UK Government Departments

7.11 DFID works closely with other Government Departments and shares a number of targets in both the 2003–06 and 2005–08 PSA targets. The Secretary of State is jointly accountable for the following with other Ministers:

- **conflict prevention:** new joint target with the FCO and the MOD (previously a sub-target);
- **trade:** joint target with the FCO and the DTI;
- **effectiveness of the international system:** joint target with HMT; and
- **debt relief:** joint sub-target with HMT.

Departments collaborate on a day-to-day basis to ensure the delivery of the targets, and jointly monitor and report progress against them.

7.12 DFID and the FCO have made progress against the **Action Plan for Collaborative Working**, which sets out joint working priorities from 2006 to 2008. The Plan focuses on human resource issues; finance and procurement, including shared services in the UK and overseas; estates issues, particularly co-location overseas; security; IT systems; country-level collaboration; and the joint planning and delivery of shared PSA targets.

7.13 The **Global** and **African Conflict Prevention Pools** are a joint mechanism involving DFID, the Foreign and Commonwealth Office and Ministry of Defence, leading a wider UK Government effort to improve the effectiveness of UK and international support for conflict prevention (adopted as a 2005–08 PSA target). Work on post-conflict issues is led by the Post Conflict Reconstruction Unit, also a joint collaboration across the three Departments. This multi-disciplinary team aims to improve the UK's capacity to contribute to a country's recovery in the period immediately after a conflict. Further details can be found in Chapter 5, box 5k.

Box 7c: DFID in Whitehall

- In 2005, DFID was ranked at the top end of Whitehall practice in a Treasury survey covering financial management and delivery planning; and produced unqualified resource accounts faster each year since the move to resource accounting.
- DFID's systems were also reviewed in 2005 as part of the Whitehall wide survey of financial management. This review commended our historic strengths in this area, our strategic planning and control systems and our plans for the future. The review confirmed the importance of further investment in our underpinning financial information systems, and in 2005 we signed a contract for a comprehensive new financial, procurement and project reporting system which will roll out from early 2007.

Annual Public Appointment Plan

7.14 DFID is responsible for 21 appointments to the:

- Commonwealth Scholarship Commission in the UK;
- Crown Agents Holding and Realisation Board; and
- Overseas Service Pensions Scheme Advisory Board (formally disbanded on 28 February 2006).

7.15 Only the Commonwealth Scholarship Commission is currently active. The Crown Agents Holding and Realisation Board have recruited no new members or made any re-appointments during 2005, nor do they have any plans to do so in the future.

Efficiency and business change

7.16 In line with other UK departments, DFID has a comprehensive efficiency programme, through which we are committed to delivering £420 million of sustainable efficiencies over the period 2005/06 to 2007/08. These will be achieved through more effective spending and improvements to the management of projects, as well as through more streamlined processes and systems as a result of the Catalyst programme.

7.17 The efficiency programme is broken down into a number of targets:

- increasing the percentage of our country programmes spent on programmatic support;
- increasing the value for money from programme procurement;
- improving bilateral project performance;
- increasing DFID's contributions to low income countries through EC aid;
- increasing the amount of support we give to the International Development Association; and
- reducing our administration costs, and headcount, and relocating further posts to East Kilbride.

7.18 Delivery began at the start of this financial year, and provisional figures at the end of 2005/06 show £163.8 million of savings. As a result of the Lyons Review and as part of the efficiency programme, DFID set a target of **relocating** 85 posts from London to East Kilbride. By the end of 2005/06, 88 posts had been relocated and therefore DFID had exceeded the target. Benefits of this will include reducing the office space needed in London, and the creation of a wider range of jobs in East Kilbride. **Workforce** numbers increased at the start of the efficiency programme, primarily because of a Cabinet Office definitional change which included more staff in the figures. However active management of headcount has brought a reduction of 81 in the last twelve month period, which means that we have exceeded our annual milestone target. See Annex 8 for full details of our efficiency programme.

7.19 Catalyst is our programme of business transformation, which aims to streamline DFID's operations through the introduction of new corporate systems. During 2005, two major changes were introduced – the **Blue Book** (see Internal Control) and **Quest** – and preparations for the implementation of the **ARIES** system have continued.

7.20 **Quest** is a programme to improve DFID's capability to share knowledge and manage information through the introduction of a new electronic documents and records management system; new tools to help collaborative working; and the upgrading of some IT systems, including our email software. Implementation began across DFID in July 2005 and was completed by the end of March 2006. The transfer has been a major undertaking, both logistically and in terms of changing staff behaviour. It has meant that staff have all needed to adapt to a new way of managing information, and a significant emphasis has been placed on staff training and guidance.

7.21 **ARIES** will replace DFID's financial management, procurement and reporting systems with a single integrated system. The project took an important step towards implementation in 2005 with the conclusion of the tendering process, identification of our preferred supplier and signing of the contract. 2006 will see the development and testing of the detailed design, in order to be ready for implementation in 2007. DFID's management of this programme was commended in the recent Financial Management Review undertaken by the Treasury, and the project has also scored well in the Office of Government Commerce Gateway Review process.

Measuring and enhancing DFID's effectiveness

Monitoring and reporting performance

- 7.22** In line with other Government Departments, DFID reports twice yearly on progress against our PSAs. This is done through the Autumn Performance Report in December and the Departmental Report in May, which use a system of traffic lights to show how the Department is performing. Reports are available from DFID's public enquiry point: 0845 3004100, enquiry@dfid.gov.uk or our website www.dfid.gov.uk.
- 7.23** To monitor our PSA targets we use international data sources which are supplemented by national data from countries where more up to date information is available, and where we can verify that this information is comparable in quality and in terms of definitions. More detailed information on data issues, including the methods DFID uses to deal with its limitations, can be found in Annex 7.
- 7.24** DFID also monitors and reports on performance at all levels of the organisation through other means. Quarterly Management Board Reports track performance data, expenditure, human resources issues, risk management and project and programme performance. Country and Regional Assistance Plans and Institutional Strategy Papers include indicators to measure progress which are reviewed regularly. The performance of projects and programmes is reviewed and scored annually, and recorded in DFID's Portfolio Reporting Information System for Management (PRISM) from which analysis across the portfolio can be made.

Evaluation

- 7.25** Evaluation is central to the process of evidence based policy development. DFID's Evaluation Department (EvD) aims to produce high quality, timely and influential evaluations that are relevant to current policy issues and seek to establish what works and why. This allows us to assess the effectiveness of our development programmes, informs policy decisions and improves accountability to Parliament, the public and partners in developing countries.
- 7.26** In 2005 EvD refocused its work towards DFID's strategic priorities and has undertaken major thematic evaluations in areas such as aid effectiveness, HIV and AIDS and gender. The UK is also leading a joint study of General Budget Support (GBS) on behalf of the OECD/DAC, which will report its findings in May 2006. A 3-year rolling schedule of country programme evaluations is also now in place, looking particularly at larger programmes in Africa and Asia. EvD has also worked with internal audit and others to develop a new quality assurance function to scrutinise the evidence base for assessing projects and programmes, and to embed our approach to performance improvement.
- 7.27** At the same time, we have continued our emphasis on working collaboratively through participation in the DAC, EU and Nordic Plus networks. This has included the GBS study, as well as work on multilateral effectiveness and quality standards for evaluation. We continue to collaborate with the World Bank on impact evaluation and, through the Trust Fund we have set up with them, have delivered a series of challenging and rigorous studies such as the impact evaluation of maternal and child health in Bangladesh.

7.28 EvD retains a high degree of independence in order to provide the highest value to DFID’s learning and accountability. It has instituted a follow-up process to the publication of reports, to ensure the application of lessons learned and their impact on policy making. The division has not only built up capacity to deliver its programmes, but also provides advice and guidance on managing reviews and evaluations to other parts of DFID. This has included advice on post conflict police reform in our Conflict, Humanitarian and Security Affairs Department and on best practice in evaluation to UK delegations in multilateral agencies such as FAO and the Asian Development Bank.

Box 7d: Evaluations and reviews completed in 2005/06

- General budget support (7 country studies and synthesis)
- Gender equality and women’s empowerment (6 studies and synthesis)
- Gender thematic studies*
- Technical cooperation in Africa
- Country programmes: Bangladesh, Ghana, Malawi, Rwanda, Lesotho
- Conflict in Northern Uganda
- Project completion review
- Quality assurance review*
- Humanitarian and reconstruction assistance to Afghanistan
- DFID/World Bank impact evaluation
- Renewable natural resources research strategy
- China state-owned enterprise restructuring
- World Bank support to maternal and child health outcomes (Bangladesh)
- Gender audit methodology (Malawi)
- Citizens’ accountability and public expenditure/portfolio review*
- Progress towards harmonisation*
- HIV and AIDS evaluation design
- Environmental screening review

* Internal DFID publications










Public Service Agreement Objective VI – Improve the impact and effectiveness of DFID’s bilateral programme

Target 6 – The 90:10 target and portfolio quality

Value for Money

- 7.29** In line with all Government Departments, DFID has a Value for Money objective within its PSA. Two sub-targets are used to assess progress against this objective: the first is to increase the proportion of DFID’s bilateral programme (excluding humanitarian assistance) going to low income countries (LICs) from 78% to 90% by 2005/06 (for the 2003–06 PSA), and to maintain a proportion of at least 90% (for the 2005–08 PSA). In 2004/05 (the latest period for which data are available), the proportion was 84% and we are on course to reach 91% in 2005/06.
- 7.30** Secondly, we are seeking a sustained increase in the proportion of bilateral projects and programmes that completely or largely achieve their purpose, or are likely to do so, based on an assessment of the performance of all those that are worth £1 million or more. Annual scoring on a five-point scale is carried out, and a score of 1 or 2 indicates that the purpose of the project is likely to be completely or largely achieved. These projects and programmes are considered ‘successful’ in measuring against the PSA target, however it should be noted that projects scoring 3 will also have partly achieved their objectives and should not be considered to have failed completely.
- 7.31** The methodology used for the 2005–08 PSA is slightly different to that used for the 2003–06 PSA: we are now including the scores from reviews of projects that have been completed as well as those that are operational, and are calculating on the basis of a two-year rather than a one-year rolling average. We are also requiring the first review of operational projects to take place after one rather than two years, which should help encourage better management. These alterations will increase the number of projects and programmes included within our portfolio, and help to reduce the volatility of scores that was an element of the 2003–06 PSA methodology. Some fluctuation is still inevitable however, as the PSA assessment is based on commitment value, not the number of projects, and so individual high-value projects can have a substantial impact on the outturn through their success or failure, or movement into and out of the portfolio.
- 7.32** Under the 2003–06 PSA methodology, the final outturn as of the end of March 2006 shows a total of 399 DFID projects and programmes scored, with a combined commitment value of £3690 million. Of these, 260, or 66% by number and 64% by value, have been evaluated as achieving most or all of their aims and objectives. Annex 3 shows the full outturn data including a breakdown by risk category. Under the 2005–08 methodology 891 projects with a combined commitment value of £6781 million are included and 602 of these, or 69% by number and 66% by value have been scored as successful. Table 7a gives the breakdown by risk category. Full out turn data can be seen in Annex 4.

Table 7a: Progress towards 2005-08 PSA Target 6

 Target 6 Ensure that the proportion of DFID's bilateral programme going to low income countries is at least 90%, and achieve a sustained increase in the index of DFID's bilateral projects evaluated as successful		Current Position	Anticipated Progress by 2008
Indicator	Progress		
1 ensure that the proportion of DFID's bilateral programme going to low-income countries is at least 90%	On course The latest out turn is 91 %		
2 increase in the index of DFID's bilateral projects evaluated as successful.	This index assesses the performance of projects and programmes of £1m or more that have been in operation for at least 2 years, including those that have now been completed.		
<i>Indicator (i):</i> increase in the index of DFID's high-risk bilateral projects evaluated as successful.	Too early to say The latest out turn is 41 %		
<i>Indicator (ii):</i> increase in the index of DFID's medium-risk bilateral projects evaluated as successful.	Too early to say The latest out turn is 68%		
<i>Indicator (iii):</i> increase in the index of DFID's low-risk bilateral projects evaluated as successful.	Too early to say The latest out turn is 83 %		

Key: Traffic light assessment**Green:** Means we judge we are on course to meet the target/sub-target.**Amber:** Means we cannot yet be confident about progress towards this target/sub-target. This may be because there is not enough evidence, because performance has not yet changed in either direction or because progress may have been made in some areas but not others.**Red:** Means there has been slippage in progress against this target/sub-target.**Grey:** Means that progress towards this target/sub-target cannot be assessed due to lack of data.

A full report of progress against the 2005-08 PSA is given in Annex 3.

Box 7e: Portfolio quality – analysis of recent project completion reports

DFID recently undertook a synthesis report looking at all Project Completion Reports (PCRs) for the period 2000-2005. Scores from PCRs are included in DFID's 2005-08 PSA figures on 'value for money' but were not included in our 2003-06 PSA figures.

The findings show that overall 68% of all DFID's projects/ programmes were rated as having 'completely' or 'largely' achieved their objectives, with an improvement from 65% to 71% on this measure between 2000/01 and 2004/5. The relationship between performance and risk rating was as seen in the PSA, with low risk projects achieving the highest performance scores followed by medium and then high risk projects.

The synthesis report also revealed that projects in the Humanitarian sector appear most likely to completely or largely achieve their goals while governance and social sector projects/ programmes appear less likely to achieve their goals.

Risk and control

- 7.33** The Permanent Secretary is responsible for ensuring the implementation of a **system of internal control** that supports the achievement of DFID's objectives, while safeguarding public funds and departmental assets. The system includes measures to identify risks and to put in place rules and procedures to manage these. Our systems are reviewed and assessed by the department's internal auditors; and by the NAO and HM Treasury.
- 7.34** The **Internal Audit Department** provides the Permanent Secretary, in his role as Accounting Officer, and DFID managers with an independent and objective opinion of risk management, internal control and governance. Internal Audit Department carries out a programme of assignments throughout DFID's worldwide network of offices covering all aspects of our operations.
- 7.35** Divisional Directors provide an annual **statement of assurance**, which covers compliance with management and control systems. Directors' statements are informed by regular monitoring of departmental systems on management of performance. Together with the Head of Internal Audit's Annual Report, they contribute to DFID's **statement of internal control** which is signed by the Accounting Officer and submitted to Parliament with the Annual Accounts.
- 7.36** DFID launched an **anti-fraud and corruption initiative** in 2004 and set up a Fraud Response Unit (reporting to the Head of Internal Audit). Since its launch, there has been a steady stream of reported fraud allegations and suspicions. While it is too early to provide clear trend analysis, benchmarking with organisations such as the World Bank shows that DFID's approach to fraud and corruption stands up well against those in similar organisations.
- 7.37** DFID also works closely with the **NAO**, who audit our accounts and produce reports for the Public Accounts Committee on the economy, effectiveness and efficiency with which public money is spent. The NAO have undertaken significant studies during 2005/06 on DFID's efficiency programme and

our work with civil society and multilateral agencies. For more details on the work of the NAO see www.nao.org.uk.

- 7.38** Security risks continue to be a concern in many countries and staff security systems are operating throughout DFID. Security measures are continually reviewed and improvements implemented to our operations both in the UK and overseas. We have comprehensive business continuity plans in place for our UK offices in London and East Kilbride, as well as for all offices in high-risk countries and for most other overseas offices.

Box 7f: Some practical examples of DFID's management of risk

Recognising a risk is only one part of risk management – the other is the response when the risk materialises. For example when a palace coup in **Nepal** was identified as a high risk an analysis of the implications for our objectives and programmes was undertaken. This led to the development of mitigation measures, such as working jointly with other donors and agencies; coordination with other Government Departments within Nepal and in the UK; contingency planning, particularly identifying how programmes need to be reshaped under different scenarios; and implementing the programme through a number of different aid instruments. So when the place coup did occur in January 2005, the continuity of our work was successfully maintained.

At the divisional level, we aim for a balanced risk portfolio. For example, in **Africa** we take high-risk opportunities where the potential gains are correspondingly great, such as in Sierra Leone and the Democratic Republic of Congo, as well as running medium and low-risk country programmes that provide an appropriate degree of stability, as in Mozambique.

Responding to **natural disasters** has played a large part in DFID's work during 2005/06. Alongside our efforts to support an effective humanitarian response, we have taken a more proactive approach and developed a new policy and implementation plan on disaster risk reduction. The policy aims to reduce the burden of disasters on the poor and most vulnerable through: promoting more effective integration of risk reduction into development and humanitarian policy and planning, reducing the vulnerability of the poor through building capacity, and supporting an improved international system and stronger institutions at the national and regional level.

Financial Resources

- 7.39** DFID, along with all other Government Departments, is subject to a Treasury-led Spending Review which typically takes place every two years. This sets all Government Departments' spending plans and allocates resources for both programme and administration over the following three years, as well as identifying the targets for which Departments will be responsible.
- 7.40** The **2004 Spending Review** (SR04) runs from 2005/06 to 2007/08, during which the DFID budget will grow by an average of 9.2% a year in real terms, from £4.5 billion in 2005/06 to £5.3 billion in 2007/08. This follows the 8.1% real terms increase to the DFID budget agreed in the 2002 Spending Review and the earlier 6.2% real terms increase in that of 2000.

- 7.41** The total level of **UK official development assistance (ODA)**, which includes both DFID spending and spending on development outside DFID's budget (for example debt relief), is scheduled to rise to nearly £6.5 billion a year by 2007/08. DFID's original projection was that the ODA/GNI ratio would reach 0.39% in 2005, 0.42% in 2006/7 and 0.47% in 2007/08. The ratio for 2005 reached 0.48%, well in excess of this year's target of 0.39%. This increase reflects both the implementation of the plans set out by the Government in its 2004 Spending Round to increase spending on development assistance and a significant short term increase due to the Paris Club debt deal agreed with Nigeria which will also be reflected in the 2006 figures.
- 7.42** As set out in Budget 2006, the debt deal agreed through the Paris Club saw Nigeria's debt reduced by US\$30 billion, freeing up at least an additional US\$1 billion a year for Nigeria to spend on poverty reduction. The UK alone wrote down £4.5 billion of debt, and in exchange the Export Credit Guarantee Department received into its balance sheet a payment of £1.7 billion, providing debt relief to Nigeria of £2.8 billion. The debt was written off in two tranches in 2005 and 2006. Because of the way the deal is structured, instead of being spread over several years, the ODA figures will score all the debt relief in 2005 and 2006. This will result in a short term increase in the figures as reported by the OECD/DAC that does not reflect the underlying trend path of ODA, or the fact that the benefit to Nigeria is spread over several years. The Government will consider whether there is a more appropriate way to report Nigerian debt relief over several years to enable more accurate monitoring of trends in ODA to meet the targets committed to in 2005.
- 7.43** In the longer term, the UK has committed to achieve the UN target of 0.7% by 2013. Currently planned increases will keep the UK's ratio ahead of the current OECD/DAC average (0.25%) as well as on course to fulfil the target pledged by EU Member States in 2005 to reach 0.56% of GNI by 2010 (see Chapter 5, paragraph 5.13).
- 7.44** DFID allocates resources within the organisation through an annual **resource allocation round** which links resources to delivery plans and PSA objectives. Firm budgets are set at the beginning of the financial year and planning totals are agreed for the remainder of the current Spending Review period. Planning totals are reviewed annually, and budgets are changed to respond to changes in the external environment and performance by our partners. Annex 1 provides full details of DFID's actual and planned expenditure from 1999/2000 to 2007/08.
- 7.45** **Humanitarian response funds** are used to provide assistance quickly in emergency situations. DFID also sets aside a **contingency reserve** each year, which is used to fund in-year activities that could not be foreseen when budgets were allocated. This is often used for further humanitarian assistance, but is also available to support other DFID programmes where there are short-term financial pressures. This year about £33 million of the reserve went to immediate humanitarian relief efforts and support for victims of the Pakistan earthquake. This money is separate from the UK's commitment of £70 million for reconstruction and rehabilitation, to be spent over the next 3 years, which was announced during the Parliamentary Under Secretary of State's visit to Pakistan in November 2005.
- 7.46** Approximately 40% of annual **programme spend** is distributed through multilateral agencies. In line with DFID's commitments to achieve improvements in efficiency, we have undertaken to increase

DFID's support for the World Bank's concessional lending arm, the International Development Association (IDA). We have committed to a £1.4 billion contribution to the 14th replenishment (IDA14), linked to the introduction of a full results-based system linked to country-owned poverty reduction strategies targets and objectives.

7.47 The other main component of our multilateral programme is the UK's share of European Community (EC) development expenditure. This is disbursed through two main channels: the European Development Fund, and the External Relations heading of the general EC budget. In 2005/06 the UK's share of the EC's development and pre-accession programmes is expected to total some £860 million, around 19% of DFID's budget. We are working to influence the EU in order to focus resources on countries that are in danger of failing to meet the MDGs (See Chapter 5, paragraph 5.17). Significant contributions are also made to Regional Development Banks and UN Agencies.

7.48 DFID's capital spending is determined by our Departmental Investment Strategy, which was updated in the 2004 Spending Review. The main components of our asset base comprise:

- shareholdings in international financial institutions, valued at £2.0 billion (as at 31 December 2005);
- 100% ownership of CDC Group plc – DFID's investment was valued at £755 million (as at 31 March 2005);
- a minority ownership interest in Actis – shareholding was valued at £1.67 million on acquisition in July 2005; and
- tangible and intangible fixed assets, mostly office buildings and IT systems, with a net book value of £68 million (as at 31 December 2005).

7.49 In 2005/06, our **gross capital expenditure** is expected to be approximately £49 million. Most of this has been used to build up the capital of International Financial Institutions, in particular investment in the European Bank for Reconstruction and Development (£16.5 million). We have also improved administration cost efficiency by updating and integrating our IT systems and have upgraded security at a number of overseas posts.

7.50 In line with the efficiency review, administrative expenditure is falling from £239 million in 2005/06 to £235 million in 2006/07 and £232 million in 2007/08. This will create savings in 2007/08 prices of £10 million in 2006/07 and £20 million by 2007/08.

Human Resources

Human Resource Management

- 7.51** DFID has agreed target reductions in staffing numbers, in the context of our efficiency programme, which will result in a Home Civil Service headcount of 1610 by March 2008; and a Staff Appointed in Country headcount of 950 by March 2008. The Department has also agreed interim targets for March 2006 and March 2007. Within these totals, allocations for each Division within the Department have been agreed by the Management Board. Human Resources Division (HRD) coordinates and validates Divisional information and provides quarterly monitoring reports to the Management Board. The Department has exceeded its interim targets for March 2006.
- 7.52** HRD is currently working with all parts of the organisation to prepare a strategic workforce plan that will include both short term management of headcount and a longer term review of staffing needs to meet Departmental objectives over the next 5 to 10 years.

Table 7b: DFID headcount targets over the 2005-08 PSA period

	March 2005 (Actuals)	March 2006 (Actuals)	March 2007 (Targets)	March 2008 (Targets)
Home Civil Service	1883	1820	1715	1610
Staff Appointed in Country	989	932	964	950

- 7.53** In November 2005 DFID published its People Strategy acknowledging that the most important resources we have to achieve our PSA targets are the skills, experience and knowledge of our staff. More than ever we need to make sure that we are recruiting, deploying and developing all our staff in such a way that they can lead DFID's contribution to improving the lives of poor people. The strategy sets out four high-level goals:
- demonstrating excellence in the leadership and management of people;
 - supporting all DFID staff in their continual professional development and performance improvement;
 - providing all DFID staff with a healthy, safe workplace, in which diversity is a recognised asset; and
 - using efficient and effective people processes to support DFID business delivery.



Suma Chakrabarti, Permanent Secretary, with DFID staff in Cambodia

Anna Morgan

7.54 HRD has set out to improve radically the way DFID invests in its people. Line managers throughout DFID will take more ownership for people management, with HRD taking on the role of strategic partner and adviser on organisational change. We have appointed our first HR business partner to work with Africa Division. HRD will continue to deliver its existing core HR services but the processes underlying these services will be improved.

Table 7c: Numbers of DFID staff by location and gender¹

Appointee Type	Female	Male	Total
Home Civil Service in London office	406	422	828
Home Civil Service in East Kilbride office	318	247	565
Staff appointed in UK on fixed term contracts for development projects	1	1	2
DFID staff in UK	725	670	1395
Home Civil Service in overseas offices	168	275	443
SAIC in overseas offices	463	469	932
Staff appointed overseas on fixed term contracts for development projects	5	4	9
DFID staff overseas	636	748	1384
Totals	1361	1418	2779²

1 Figures taken from HR database at end March 2006. With the exception of SAIC numbers (which are a permitted exclusion) the figures in the above table follow prescribed definitions from the Office for National Statistics (ONS), to whom we are obliged to report our staffing returns.

2 The DfID total of 2779 is comprised of 1847 non-SAIC staff and 932 SAIC staff.

Table 7d: Permanent UK-based staff appointments filled in 2005/06 (as at end March 2006)

Grade	Total	Female	Ethnic Minorities (where ethnicity is known)
Senior Civil Service	2	1	0
Band A1	5	2	0
Band A2	28	16	2
Band A3	9	4	1
Band B1 (D)	13	5	1
Band B1	1	0	0
Band B2	3	2	0
Band C1	1	1	0
Band C2	0	0	0
Total	62	31	2
% of total	100	50	2

Diversity

Box 7g: Progress against the DFID Diversity Action Plan

Progress against the DFID Diversity Action plan includes:

- establishing a staff network for women and ethnic minority staff, as well as a forum on disability issues;
- ensuring diversity and equality are fully integrated within our People Strategy and Management Skills strategy;
- developing a pilot Disability Equality Training course;
- improving the ethnicity declaration rate to above 85%;
- launching a 'Crossing Thresholds' mentoring scheme to help develop further women in the middle/senior grades; and
- undertaking an evaluation of flexible working practices across the organisation, including potential barriers to staff taking advantage of these.

Table 7e: Diversity monitoring (as at end March 2006)

Grade	% Female	% Male	% White (where ethnicity is known)	% Ethnic minority (where ethnicity is known)	% Disabled
Senior Civil Service	30	70	88	12	4
A1	31	69	91	9	0
A2	48	52	89	11	1
A3	49	51	86	14	3
B1 (D)	54	46	86	14	6
B1	43	57	87	13	1
B2	53	47	86	14	2
C1	69	31	85	15	6
C2	48	52	79	21	10
Total	49	51	87	13	2

7.55 In 2005 we developed our Diversity Delivery Plan, which outlines how we will achieve the necessary changes to our SCS profile, using Cabinet Office guidance. The following progress has been made against our SCS diversity targets:

- 26.6% of SCS posts are filled by women, rising from 16.4% in October 2003 (2008 target: 37%);
- 31.6% of SCS pay band 2 posts are filled by women, rising from 18.2% in October 2003 (2008 target: 35%);

- 11.4% of SCS posts are filled by ethnic minority staff, rising from 9.6% at October 2003 (2008 target: 12.4%); and
- 2.5% of SCS posts are filled by staff with a disability, rising from 1.4% at October 2003 (2008 target: 3.5%).

7.56 DFID is committed to ensuring our recruitment and promotion procedures are free from bias or discrimination, and that all selection is undertaken purely on merit as stipulated in our **equal opportunities policy**. As such, we monitor and analyse the diversity outcomes of these selection processes by gender, ethnicity, disability, age and working pattern. We are currently seeking the Disability Two-Ticks accreditation, which demonstrates a commitment to disability equality and offers a guaranteed interview to all disabled applicants who meet the minimum criteria for a post.

7.57 DFID republished its race equality scheme in 2005. We are developing a generic equality impact assessment tool, which will allow us to assess the impact of particular policies or practices on our ability to achieve equality and promote good relations between different groups. In 2006, we will also develop a generic equality scheme, covering our commitment to equality in service provision across all strands of diversity and not just race.

7.58 We continue to support the development of under-represented groups, both within DFID and from society at large. For example, we support the Windsor Fellowship (a scheme for Black and Asian graduates), the Summer Development Scheme (for potential ethnic minority Fast Stream candidates) and the Summer Placement Scheme (for disabled Fast Stream candidates). Internally, we offer an Ethnic Minority Bursary Scheme, a Crossing Thresholds mentoring programme for senior women and as well as supporting staff on the Cabinet Office Disability Bursary Scheme, we are considering the options for an internal programme of positive action for our disabled staff.

7.59 The Technical Development Scheme came into operation in 2005, replacing the Associate Professional Officer Scheme. Through this we recruit staff to join our in-house advisory group in disciplines such as Governance, Conflict, Education and Health.



Box 7h: DFID as an employer

- DFID holds **Investors in People** (iIP) accreditation. iIP is the national standard that sets a level of good practice for improving an organisation's performance through its people. It is a practical tool for the continuous improvement of both the organisation and its people. DFID will be re-assessed independently against the iIP standard in 2006/07.
- DFID is the most **popular** Government Department in terms of recruitment and the preference of fast stream entrants
- DFID comes out with a **sickness rate** of approximately half the Whitehall average at 4.8 working days lost per staff year. We are committed to managing sickness absence effectively and to putting in place the recommendations of the Cabinet Office strategy '*Managing Sickness Absence in the Public Sector*' which was published in 2005.

Learning and Development

7.60 DFID has approved a new Learning and Development Strategy. We are accelerating the shift away from classroom training to more workplace based learning and development such as coaching, mentoring and structured reading.

7.61 During the last year DFID has continued to deliver a range of learning programmes, covering: management for first time managers (internationally accredited by the Institute of Leadership and Management); influencing skills; and leadership for middle managers, including performance coaching methods. The latter is a pilot that allows participants to learn alongside their line managers, to ensure that their learning and development is sustainable and tailored to the needs of the role.

Recruitment

7.62 We have made 15 permitted exceptions to the fair and open competition requirements of the Civil Service Commissioner's Recruitment Code during 2005. Five of these were appointments of up to twelve months. A further three were extensions to appointments of less than twelve months and seven were secondments from outside the Civil Service.

Secondments and Loans

7.63 As at end March 2006, 53 members of DFID staff were on secondment to other organisations, including to other Government Departments, international agencies, the private sector and non governmental organisations. 66 staff are currently on secondment to DFID.

7.64 In 2005 we agreed a three-year framework with the French Government for an exchange of staff. We are planning to do the same in 2006 with Germany and Norway. We have also worked with the private sector, NGOs and the National Health Service. A new five-year phase of DFID secondments to the European Commission has been agreed.

Healthy and safe work places

- 7.65** DFID is developing a contingency plan in response to the ongoing threat of avian flu and a possible flu pandemic. This will cover the protection of staff, evacuation of overseas offices and the implications for DFID operations of a pandemic in the UK. Preparations for maintaining business continuity in the face of a pandemic are ongoing.
- 7.66** DFID has an ongoing policy of support in place to provide Highly Active Anti-Retroviral Treatment for staff and qualifying dependants in all of our overseas offices.
- 7.67** Welfare and counselling services (WCS) provide DFID with a confidential information, advice, support and counselling service for all DFID staff in the UK and overseas. The number of staff in contact with WCS in the first six months of 2005 was 132 home staff, which equates to a projected figure of 17% over the year, the same as 2004. There have been 146 overseas cases, of which most were medical referrals.
- 7.68** Use of the Employee Assistance Programme, set up to provide a 24-hour counselling service for all UK-based staff and families in country offices was 6% in 2005. The usage for SAIC staff was 3%.
- 7.69** DFID's performance on sickness and ill-health retirement in 2005 showed progress towards the targets set for 2006. Ill health retirements in DFID were 0.107 per 1000 staff from a baseline of 0.386 in 1999/2000 (the 2005 target was: 0.372 per 1000).

Human resources management

- 7.70** HRD has this year taken forward a transformation initiative that aims to improve its own efficiency and effectiveness, as well as people management across DFID. This aims to change our HR and people management from a largely transactional and resource-intensive system, to become in line with best HR practice. It is being taken forward formally, through a long-term project ending in March 2008 and runs according to Prince 2 methodology, as well as by regularly taking opportunities to improve HRD's day to day operations. We have also implemented new automated systems, covering overtime claims and absence management and have simplified DFID's performance management system.
- 7.71** By March 2006 DFID will have a new core behavioural competency framework which will support the Professional Skills for Government programme.

Table 7f: Staff salaries for DFID staff in post in UK and overseas offices (as at end March 2006)

Grade	Salary Range		Female	Male	Total
Senior Civil Service	£54,788	£198,196	25	59	84
Band A1	£46,105	£61,801	66	150	216
Band A2	£35,545	£51,008	209	230	439
Band A3	£26,994	£35,906	68	72	140
Band B1 (D)	£22,203	£33,820	49	41	90
Band B1	£21,121	£29,570	118	154	272
Band B2	£16,794	£24,289	154	134	288
Band C1	£13,651	£20,067	186	84	270
Band C2	£10,947	£16,897	23	25	48
Totals			898	949	1867

Overseas pensions

- 7.72** DFID's Overseas Pensions Department (OPD) is responsible for the administration and payment of pensions and related benefits to former expatriate colonial civil and public servants and their dependants (including those derived from service in a civil or military capacity in former British India and the Sudan public service). 45,135 pensions and supplements were paid to 11,851 service pensioners and 9,304 dependants during 2004/05. Over 230,000 individual payments were made with a total value of almost £117 million.
- 7.73** OPD once again exceeded all the targets set for 2004/05 in its Service Level Agreement (SLA). It has also done so cumulatively since the SLA started in 1994. Table 7g summarises our performance against those standards in 2004/05.
- 7.74** OPD received a total of thirty complaints during 2004/05, of which three contained valid criticisms about our service. A customer service questionnaire is sent to every new pensioner six months after their first payment. In 2004/05, 499 questionnaires were issued, of which 288 (58%) were returned. 97% of respondents rated our performance as "very good" or "good".

Table 7g: Performance against pension service standards (2004/05)

Standards	Target %	Achieved %
Accuracy of initial calculation of new and revised awards	95.00	97.50
Accuracy of initial payment calculation	97.50	99.95
Number of new awards put into payment within two weeks	97.50	98.97
Timeliness of payments by due date	99.00	100.00
Response to enquiries within two weeks of receipt	99.00	99.97
Initial response to complaints within two weeks and a more detailed reply, if one is needed, within five weeks	95.00	100.00

Procurement

- 7.75** DFID issued a total of 2871 contracts in 2004/05, at a total value of £208 million, and our procurement agents bought goods worth a further £58 million on behalf of DFID. All business over £100,000 is let through global competition. 2005 saw the trend continue of fewer centrally-let contracts, each of a higher value, as increased numbers of lower value contracts were let directly by our overseas offices. The figure for 2005/06 will be available in May 2006.
- 7.76** We firmly believe that we are most likely to achieve our objectives through collaboration between DFID, partners and consultants, in a spirit of constructive dialogue and joint problem solving, and are keen to work with consultants who share our core values and culture. We have consultancy contracts with a wide range of large companies, individuals, universities, and NGOs, offering an impressive blend of technical knowledge and development experience; and in a wide range of sectors, such as on reviews of food security in small-scale farming and urban poverty reduction in Angola. Appropriate procurement strategies are devised to meet various requirements and all consultancy work is monitored, with fees only paid in respect of satisfactory work.
- 7.77** We continue to streamline our procurement procedures, and achieved negotiated savings of £4.3 million on procurement in the first 6 months of 2005/06, including a 30% saving on a large-scale IT procurement.
- 7.78** DFID is a member of the NORDIC plus procurement group. During 2005 this group developed a joint procurement policy, and organised workshops in Zambia, Vietnam and Bangladesh to sensitise Government officers and donors to harmonised procurement approaches. Further workshops will take place in 2006.

Infrastructure

- 7.79** DFID is continuing to make good progress towards the targets set out in the framework for sustainable development on the government estate. We have published seven delivery plans and a Biodiversity action plan, and have developed a sustainable procurement strategy. We already meet the targets for water usage and renewable energy. Both HQ offices use 100% green electricity; energy and water consumption is carefully monitored; and the Building Management Systems will minimise consumption and identify opportunities for further improvement. Both offices use waste contractors that re-cycle at least 85% of all office waste. The design for refurbishing the East Kilbride office earned an “Excellent” rating and the London office a “very good” BREEAM rating (Building Research Establishment Environmental Assessment Methodology). The offices also include a number of environmentally-friendly features including high efficiency boilers, natural ventilation for office areas, and movement sensors instead of light switches.
- 7.80** Both sites have implemented Environment Management Systems (EMS), and we plan to apply the principles of the EMS to our main overseas offices. Meanwhile, we encourage staff to adopt best environmental practice, and raise awareness through the intranet, local office publicity and participation in such events as the Bike Week and World Environment Day.