HM Treasury

Department for International Development

UK Official Development Assistance:

value for money guidance

May 2018

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Chapter 1

ODA principles

Context: UK Aid Strategy and achieving value for money

1.1 The UK Aid Strategy, published ahead of the 2015 Spending Review, set the new priorities for the UK's aid spending. The wider distribution of Official Development Assistance (ODA) across departments reflects the changing global context and the need to draw on a wider range of expertise to deliver UK priorities on aid.

1.2 The UK Aid Strategy also committed to ensuring the value for money of all spending on ODA, introducing greater transparency and subjecting aid to robust independent review. As taxpayers' money, the government has a duty to spend it well. Value for money also means better results for the world's poorest people. This means stopping poor performing programmes and strengthening coordination of aid spending. The government has made significant progress in this area, and must continue to show how it achieves value for money in aid spending.

1.3 This guidance sets out the broad requirements and guiding principles that should inform departmental decisions and processes for ODA spending, recognising that ODA spend:

- is required to meet the same high standards as all public expenditure
- is published as a UK National Statistic and reported internationally. This involves strict compliance with requirements in respect to eligibility and reporting

1.4 Further detailed advice on ODA programme management, design and delivery, drawing on the experience of the Department for International Development (DFID), can be found in DFID's Smart Rules.

1.5 With all projects, it is important to understand the specific challenges posed by the programme and ensure effective action is taken to deliver it effectively. For ODA programmes this means there must be a robust understanding of the political and social environment in which programmes will operate.

The role of departments and accounting officers

1.6 Managing Public Money[1] sets out the overall framework for public financial management. This guidance is complementary to that guidance, and other guidance mentioned in this document. Accounting officers of departments or public bodies whose money is being spent on aid will need to ensure they fulfil their obligations under Managing Public Money, as they remain personally accountable for ensuring the regularity, propriety and value for money of the use of public funds. They need to be prepared to explain decisions to spend and the outcomes of their projects in Parliament if challenged. For ODA, that is likely to include the International Development Committee, as well as the Public Accounts Committee and their own departmental select committee.

1.7 Departmental accounting officers remain accountable for ensuring that funds spent by their department represent value for money for the Exchequer as a whole. This includes funds transferred from other departmental baselines, departmental spend through cross-Whitehall funds and departmental funds spent at the request of another department.

1.8 Departments must also ensure that spending on ODA is within their legal spending authority, meets the Organisation for Economic Co-operation and Development (OECD) eligibility criteria and complies with government aid policy, including the commitment for UK aid spending to be untied.

Legal authority to spend ODA

1.9 Departments are responsible for ensuring that they have the appropriate legal authority for ODA expenditure. For most departments ODA will be spent under the International Development Act 2002,[2] which requires spend on development assistance to be for the purpose of the sustainable development of countries or the welfare of people overseas, and is likely to contribute to poverty reduction. However, other legal authorities can be used to deliver ODA programmes as appropriate. Departmental ODA spending will also need to be covered by the Estimates ambit.

ODA eligibility

1.10 The OECD Development Assistance Committee (DAC) sets the overall framework for spending on ODA and oversees the countries, institutions and activities that qualify as ODA.

1.11 Official Development Assistance is defined by the OECD as those flows to countries and territories on the DAC List of ODA Recipients[3] and to multilateral development institutions[4] which are:

- provided by official agencies, including state and local governments, or by their executive agencies

[1] Available here: https://www.gov.uk/government/publications/managing-public-money

[2] Available here: http://www.legislation.gov.uk/ukpga/2002/1/contents

[3] Available here: http://www.oecd.org/dac/stats/documentupload/DAC_List_ODA_Recipients2014to2017_flows_En.pdf

[4] Available here: http://www.oecd.org/dac/stats/annex2.htm

- each transaction of which:
  - is administered with the promotion of the economic development and welfare of developing countries as its main objective
  - is concessional in character and conveys a grant element of at least 25% (calculated at a rate of discount of 10%)

1.12 The OECD DAC has produced detailed directives to help donors understand what can be reported as ODA. Departments are responsible for ensuring that ODA spend meets the OECD's criteria. In the first instance, departments should consult the OECD's short guide Is it ODA?[5] or the full ODA reporting directives[6], seeking guidance from their central ODA contact or DFID statisticians where necessary.

[5] Available here: http://www.oecd.org/dac/stats/What-is-ODA.pdf

[6] Available here: http://www.oecd.org/dac/stats/documentupload/DCD-DAC(2013)15-FINAL-ENG.pdf

Chapter 2
Governance and approvals

Governance and internal control

2.1 Where departments have significant ODA spend, it is recommended that they have a nominated Minister responsible for ODA, if appropriate, and clear internal delegation arrangements. This should include an agreed materiality threshold (or internal delegated limit) for Ministerial approval that is appropriate for the size and risk of the department's ODA expenditure.

2.2 Additionally, all departments will have clear governance structures for oversight at both Ministerial and official level, with representatives from other departments, where necessary.

2.3 Ministers will continue to maintain oversight of UK spend on ODA at a cross-departmental level. Cross-government ODA spend is also discussed at the Senior Officials ODA Group, set up in 2016. This forum is an opportunity to discuss ODA issues and share expertise. Departments with significant ODA expenditure are expected to support these meetings. A working group of senior commercial officers in ODA-spending departments has also been established under the auspices of the Government Commercial Function and chaired by DFID. Its purpose is to share best practice to strengthen the delivery of UK aid across government.

2.4 As set out in the UK Aid Strategy, and in line with best practice, there must be clear lines of accountability for all ODA programmes. All ODA projects and programmes must have a named Senior Responsible Owner (SRO), who is accountable for the development, delivery and closure of the programme. The SRO is also responsible for ensuring the programme complies with central spending controls, value for money standards and project reporting requirements.

2.5 The Cabinet Office provides guidance to departments on best practice standards to promote effective grant making in central government grant schemes (Government Grants Minimum Standards)[1]. All ODA grants provided by departments will need to comply with this guidance.

Central spending controls

Treasury approval

2.6 As set out in Managing Public Money, the Treasury, on behalf of Parliament, operates a delegated authority framework for public expenditure. This allows

[1] Available here: https://www.gov.uk/government/publications/grants-standards

departments to enter into commitments and spend up to a pre-defined limit (delegated authority limit) without formal Treasury sign-off. However, novel, contentious and repercussive expenditure require Treasury approval regardless of value.

2.7 In the first instance departments should refer to their delegated authority letter, which sets out the specific arrangements for Treasury approval of new projects and programmes, policy announcements and programme extensions. As a general rule, departments should seek HM Treasury approval for novel or complex ODA programmes, regardless of value. Requests for approval should be backed up by a value-for-money business case, following guidance set out in the Green Book. Departments should consult with Treasury spending teams to discuss whether specific spending proposals fall into this category.

2.8 As with all other areas of spend, ODA spending proposals should undergo a thorough process of internal scrutiny and challenge before Treasury approval is sought and cases above delegated limits must also be approved by the relevant departmental Minister. The Treasury normally asks for assurance that the relevant accounting officer is content with the proposal before giving approval.

2.9 ODA spend is also subject to Cabinet Office spending controls,[2] which cover common categories of spend such as communications, consultancy, digital and commercial contracts, and sit alongside Treasury spending controls.

Cross-government funds

2.10 A new Ministerial committee for the cross-Government Funds was announced as part of recommendations from the National Security Capability Review. This committee will be chaired by the Minister for the Cabinet Office, supported by an official board chaired by the National Security Adviser. These governance structures are responsible for ensuring that CSSF and PF programmes are delivering against NSC and UK Aid Strategy objectives. They will consider portfolio performance and risk in their decision-making. They are responsible for the prioritisation of funding and the final approval of annual allocations. Programmes (covering cross-Whitehall activity in a thematic area or in a geographic area) funded by the CSSF and PF need to be endorsed by cross-Government Director level Regional Boards, in the case of the CSSF, or by the Prosperity Fund Portfolio Board.

2.11 Government departments continue to hold the financial accountability for programming and need to seek approval (including Ministerial) for interventions which are being managed on their baseline through the appropriate departmental governance mechanisms. Departments are responsible for implementing their projects in accordance with their own procedures as well as following CSSF guidance, including using common CSSF programme documentation

[2] Available here: https://www.gov.uk/government/publications/cabinet-office-controls/cabinet-office-controls-guidance-version-40

Chapter 3

Programme design and delivery

Principles of programme development

3.1 Departments should consider strategic fit and overall coherence with existing projects, including those delivered by other government departments. As part of the early scoping process, departments should explore opportunities for collaboration and synergy with other UK ODA spend and existing programmes in the same geographic area or with related objectives. Departments should also continue to develop the capability to share high quality management information about the location and purpose of spend, complying with International Aid Transparency Initiative standards in order to meet transparency commitments in the UK Aid Strategy.

3.2 Programme development should follow the principles set out in the Treasury's Green Book guidance.[1] A business case, proportionate to the size and risk of the project should be produced, following the five case model.[2] As with all government expenditure, particular attention should be paid to the risks to delivery of specific programmes and mitigating actions reflected in the business case as appropriate. The business case must be underpinned by rigorous evidence and draw on lessons learned from past project completion reviews and evaluations. It should include an appropriate options appraisal and risk assessment, along with the proposed strategy for managing risks throughout the programme lifecycle. The business case should reflect the Government Commercial Operating Standards and also set out delivery plans, monitoring and evaluation arrangements, and expected results, with a clear account of what success looks like.

3.3 All new overseas ODA spending proposals must be context sensitive with consideration given to the local political, economic and operational environment in which the programme is expected to operate and how it benefits local populations. Safeguards are a vital part of all development and humanitarian programmes. It is essential that robust safeguarding procedures and checks are built into the programme from the outset, and that we are confident that our partners and their collaborators are taking a similarly robust approach.

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[1] Available here: https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent

[2] DFID, using the Green Book as its base document, has developed the Smart Rules for Better Programme Delivery which set out how DFID designs and manages ODA programmes and may be of use to other Departments. It is available here: https://www.gov.uk/government/publications/dfid-smart-rules-better-programme-delivery

3.4 In challenging environments (including conflict and humanitarian environments) where safeguarding risks may be particularly elevated, risk assessments need to be particularly rigorous, and project monitoring should regularly reassess these risks.

3.5 It is essential that all partners that come into contact with vulnerable people or environments have appropriate safeguarding policies that ensure these groups are protected from harm. At a minimum, the SRO should consider whether the organisation has appropriate policies and procedures in place to expressly prohibit sexual exploitation and abuse and to receive and address reports of such acts. This might include policies on:

- whistleblowing
- safeguarding
- risk management
- codes of conduct for staff
- Modern Slavery – the risk of using slave labour somewhere in the delivery chain is present in almost all sectors from infrastructure to agriculture and textiles. Forced labour is frequently associated with some degree of informality. It is important to consider whether the programme funding or activities could create conditions that lead to the use of modern slavery in any part of the delivery chain.

3.6 There is a cross-departmental safeguarding working group and departments can contact DFID's Safeguarding Unit if they need specific advice.

3.7 Where applicable, the SRO must ensure that a business case, review or extension for a security and justice programme considers the Overseas Security and Justice Assistance Guidance,[3] records the outcome of the assessment in the strategic case of the business case, and is approved at the appropriate level.

3.8 The business case should also set out the legal basis for the proposed expenditure. If spending under IDA 2002, the strategic case should demonstrate that meaningful yet proportionate regard has been given to the contribution the assistance is likely to make to reducing gender inequality (development) or to gender related differences (humanitarian projects) in accordance with the gender elements of the IDA 2002.

Delivery channels

3.9 There are a wide range of options for delivering ODA projects. These include strategic partnerships (such as financial aid, multilateral financing, funding to non-government organisations) along with grants and contracts with third party delivery partners.

3.10 In the business case, departments should consider the full range of options taking account of factors such as the department's in-house expertise,

3 Available here: https://www.gov.uk/government/publications/overseas-security-and-justice-assistance-osja-guidance

experience and cost. For example, consideration should be given to whether any organisation may be able to exploit economies of scale.

3.11 The business case must set out clearly why the chosen delivery method represents best value for money.

Box 3.A: Delivery questions to consider throughout the programme cycle

1. Does the programme deliver the 2015 UK Aid Strategy?
2. Does the programme suit the local context and is it flexibly responding and adapting to changes, opportunities and citizen feedback?
3. Is there sufficient understanding of the Theory of Change (see DFID Smart Rules) and evidence? Where there isn't, is evidence and learning being shared and developed incrementally?
4. Is the programme delivering UK strategic objectives and does it continue to be good value for money? How will impact and value for money be evaluated?
5. Are delivery risks, including the risk of fraud, understood and clearly articulated? Are they consistent with the risk appetite within which the programme is operating and are there arrangements in place to mitigate these appropriately through the life of the project? Is it clear when to escalate issues to senior managers or ministers?
6. Have the plans of other organisations, Departments or teams working in this area changed and is there space for further more effective collaboration?
7. What arrangements are in place to measure and learn from success or otherwise? Are beneficiaries engaged in monitoring and evaluation and learning processes? Is the programme flexible enough to adapt, including to learning?
8. Are roles and responsibilities clear and does the programme team have the right skills to provide leadership and management throughout the life of the programme?
9. Is the timeframe realistic? Does it take account of lead in times and experience of previous projects?
10. Have clear conditions been set for project partners? Is progress being tracked on recommendations from annual reviews, ethics, due diligence and performance improvement measures?

Adapted from DFID Smart Rules (2016)

Chapter 4

Contracting and procurement

Compliance with procurement laws and directives

4.1 All public sector procurement is subject to internationally agreed directives and domestic legislation, details of which can be found in the Cabinet Office's Public Procurement Policy Guidance.[1] Departments must ensure that the tendering process complies with EU procurement law and competitive tendering rules as set out in the UK Public Contracts Regulations 2015 and any subsequent revisions. This includes advertising all procurements with a value above the EU thresholds2 in the Official Journal of the European Union (OJEU) and ensuring tenders are competed for in line with the EU Public Procurement Directives. It is worth noting that the regulations only apply to the buying organisations (contracting authority). If the project involves the distribution of funding, the recipient will need to adhere to the appropriate regulation in the domestic environment.

4.2 The focus of the regulations is on ensuring an open and fair competition between bidders. Processes should be fully compliant with these standards as set by Cabinet Office. Value for money must be the key driver for all public procurement and this will normally be achieved through competition. At the same time, public procurement must ensure the highest standards of ethical behaviour and safeguarding by the supplier and its partners. This is achieved through the application of appropriate Codes of Conduct, the Terms and Conditions of the funding agreement and rigorous due diligence before award.

4.3 For all programmes with elements of third party delivery, departments should consult their Procurement and Commercial team at an early stage of the programme design process.

Understanding and developing the market

4.4 Departments should consider the Cabinet Office's Commercial Operating Standards,[3] which includes information on developing markets. Before going to market, departments should attempt to identify all potential suppliers to improve competition. To achieve this, departments could undertake market intelligence and early engagement to develop an understanding of alternative suppliers and inform contingency planning and re-competition strategies. Proposals should be fully developed before tenders are invited.

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[1] Available here: https://www.gov.uk/guidance/public-sector-procurement-policy#history

[2] £118k for central government Departments, £181k for other contracting authorities, and £4.5m for works.

[3] Available here: https://www.gov.uk/government/publications/commercial-operating-standards-for-government

Departments should also consider the scope for leveraging existing government relationships with suppliers to drive better value for money, through the use of best-practice models such as Strategic Relationship Management

4.5 Departments should also consider opportunities to develop the market, for instance considering the capacity of local organisations, forming coalitions or stimulating market entry. This early engagement is important for developing a realistic picture of the feasibility of further investment and making informed choices between different types of partnerships.

Competitive tendering

4.6 Developing a strong terms of reference is critical to effective commercial contracting. These will normally set out what is required of the supplier (i.e. outputs), the timeframe for delivery, inputs, and accountability or risk transfer arrangements.

4.7 Before issuing the tender documentation, departments should establish the criteria by which the resulting bids or proposals will be evaluated. Clear key performance indicators and key outputs should be agreed during the contract award phase and tracked throughout.

4.8 Where markets are limited early approaches are essential to ensure that all avenues aimed to identify potential suppliers and maximise competition are fully explored. This can include market research, benchmarking including across government, publication of prior information notices, and hosting of early market engagement events.

4.9 Departments are encouraged to contact DFID's Procurement and Commercial Department when running individual competitions, particularly where these are novel or complex, to draw on DFID's experience of managing procurements in challenging environments.

Procurement procedures and framework agreements

4.10 The regulations provide options on the type of procurement procedure that can be used. These are predominantly the open procedure, the restricted procedure, competition with negotiation, or call off from pre-existing framework agreements which allows contracting authorities an opportunity to commence their contacts in shorter timescales.

4.11 All DFID frameworks awarded from 2016 onwards are designed to enable access by other government departments. Likewise procurement frameworks being set up across other government departments are being designed now so that multiple government departments can access them for their projects.

4.12 Framework agreements do not require a guarantee of spend or volume to providers. Goods and services are called down as and when required, allowing DFID or other government departments flexibility to select the optimal route to market for contracts.

4.13 A framework agreement will include the general scope of services, the standard terms and conditions, and a pricing mechanism (such as fee rates for specific categories of service), which will apply to the call–down contracts subsequently awarded under the framework.

Contract management

4.14 Building and maintaining strong relationships and dialogue with suppliers is a crucial aspect of contract management. To support this, roles and responsibilities should be clearly defined from the outset, with regular, structured and informal communication. There should be continuity of key people both within the supplier and department where possible.

4.15 ODA commercial arrangements increasingly involve complex delivery chains and require robust due diligence for the life of the programme. It is vital that suppliers and partners apply clear policies and procedures for assurance checking. Any issues identified within programmes should be prioritised for timely resolution and should always be highlighted to the Senior Responsible Owner (SRO).

Supplier management

4.16 ODA suppliers and partners are required to be fully open and transparent about their spending and supply chains and to ensure value for money and ethical behaviour throughout their supply chains, including with respect to safeguarding. Departments should consider the appropriate application and monitoring of Codes of Conduct to set out clear expectations of suppliers and ensure their compliance. DFID's Supply Partner Code of Conduct is part of the department's standard contract Terms and Conditions, providing a legally binding framework to drive value for money and ethical behaviour along the supply chain. Departments are encouraged to draw on it.

4.17 Government departments should continue to coordinate to ensure that supplier and partner relationships are managed holistically, beyond individual programmes. This could include incorporation of ODA-specific contracts and suppliers in DFID's Strategic Relationship Management programme to improve performance across a whole-of-government portfolio, where this is considered appropriate by the departments concerned.

Chapter 5

Monitoring and evaluation

Programme monitoring

5.1 Monitoring is essential to effective programme management and implementation. It helps to track whether the programme is delivering as planned, and to identify any emerging problems early. This should include the management of commercial contract performance as required. Monitoring might also include structured quality assurance of existing protocols, spot checks and/or field visits to engage with key stakeholders and beneficiaries, potentially using third party monitoring to ensure impartiality and transparency.

5.2 The tools and methods employed to monitor a programme will vary depending on the nature of the activity. Normally, results frameworks should be developed at the programme design stage and results should be monitored throughout the project lifecycle.

5.3 A robust results framework will set out a clear results chain (that is, not only tracking the programme inputs and activities, but identifying the direct outputs of these activities, the higher level outcomes they should achieve, and the longer term impact the programme will contribute towards). Each part of the results chain should be measured using clearly defined indicators, with baselines, milestones and realistic targets. Results can be qualitative, quantified or monetised. They should be clearly defined and observable, with a timeframe for monitoring and assessment.

5.4 All projects should have regular and appropriate assessment, including a post-completion review, which records performance over the life of the whole programme. DFID assess their programmes annually, but more or less frequent assessments may be appropriate for different programmes. The review should be evidence based and set out key lessons, including supplier performance, departmental management and degree to which the project met its intended aims.

Programme evaluation

5.5 Policies, programmes and projects should be subject to comprehensive but proportionate evaluation, where practicable to do so. Evaluation is undertaken both for accountability and for learning.

5.6 Evaluation is an important aspect of effective programme delivery and should be incorporated during programme design alongside monitoring right from the start. Evaluation provides valuable information on the efficiency, effectiveness, impact and sustainability of interventions which can be used to inform future projects and programmes and help shape the delivery of live programmes. It also offers assurance that funds are used for agreed purposes, their value for money and cost effectiveness.

5.7 Projects should be evaluated against objectives and deliverables set out in the business case. Ideally projects should be reviewed at appropriate intervals throughout the project, but evaluation can be designed as a one-off exercise during the life of the programme or once it has concluded.

5.8 Adaptive programming and strong monitoring and evaluation at design stage allows managers to take decisions during the life of the programme. The course of the programme can therefore be changed based on what works and what does not work, and potentially close underperforming programmes or scale up where there is a high return on investment.

5.9 Policy and programming should be based on high quality reliable and robust evidence and high quality evaluation evidence is vital to this. The Green Book and the Magenta Book are central government guidance on appraisal and evaluation that set out best practice for departments to follow. Quality assurance and control should be implemented throughout the life of the evaluation. It is the responsibility of the evaluation commissioner to ensure the necessary ethics and data protection considerations have been made.

Chapter 6

Financial management and reporting

ODA reporting requirements

In-year reporting

6.1 DFID is responsible for collating data and reporting spend on ODA to the OECD DAC. The Treasury and DFID work closely to manage the legally binding target in-year. To enable the government to monitor progress against the commitment, departments are required to provide accurate and timely data on outturn and forecast expenditure. This is collated by DFID on a monthly basis via a commissioning template and returns should be consistent with the data supplied to the Treasury. As part of the return, departments must provide an assessment of confidence in the deliverability of forecasts and clearly flag any eligibility or delivery risks.

6.2 Departments should also report on ODA at a high level through board reports and ensure that the board are sighted on the department's in-year spending position.

OECD reporting

6.3 To meet the OECD reporting timetable DFID is required to report UK ODA statistics twice a year for the previous calendar year: by mid-March for preliminary ODA statistics and by mid-July for detailed final ODA statistics. The timing also determines the publications of the UK's National Statistics on ODA, which occur typically in April (for provisional ODA statistics) and October when DFID publishes final ODA statistics in Statistics on International Development.

6.4 DFID commissions departments to make their ODA returns in time to meet the OECD timetable. Departments should ensure that their systems are set up to meet the reporting timelines and requirements. The information supplied to DFID should be as accurate as possible (i.e. data should comply with the OECD international standards[1] for measuring ODA and the agreed classifications of ODA).

Transparency

6.5 Aid transparency serves the national interest in helping to make UK aid more visible to UK taxpayers and beneficiaries, supporting aid coordination and effectiveness, and removing opportunities for waste or misuse of money. The

[1] See OECD Statistical reporting directives at: http://www.oecd.org/dac/stats/documentupload/DCD-DAC(2013)15-FINAL-ENG.pdf

Aid Strategy committed for all departments to score as 'good' or 'very good' in the Aid Transparency Index by 2020. There are clear indicators,[2] against which departments are scored, with a score of 60% considered 'good' and 80% for 'very good'. To meet the requirements, departments need to publish those details about their organisation and projects in the International Aid Transparency Initiative's (IATI) standard formats.

6.6 To help with transparency of ODA spend, the inclusion of high level ODA spend in departmental annual reports is encouraged. To facilitate this and to reduce burdens on departments, any information in annual reports should be consistent with the template provided and be proportionate to size of ODA spending within the department.

Parliamentary scrutiny

6.7 The International Development (Official Development Assistance Target) Act 2015 requires the Secretary of State for International Development to make arrangements for the independent evaluation of the extent to which ODA provided by the UK represents value for money. The government established the Independent Commission for Aid Impact (ICAI) as one of the principal means of independently scrutinising all UK ODA spend. ICAI supports Parliament in holding the government to account by examining the impact and value for money of the government's development programmes. It is operationally independent and reports directly to the International Development Select Committee.

6.8 ICAI advises on the effectiveness of aid expenditure through targeted recommendations and follow-up work. Further information regarding ICAI's work programme and recent reports can be found here. It is important to engage positively with ICAI to assist its function of scrutinising all UK ODA spend. Departments must also ensure adequate arrangements are in place to evaluate the effectiveness of their use of ODA in line with international quality standards (see section above on programme evaluation).

Financial reporting and budgeting

6.9 The budgeting and financial reporting of ODA within Departments should follow the Consolidated Budgeting Guidance (CBG) and the Financial Reporting Manual (FReM).[3] It is also important for there to be alignment between government financial reporting to Parliament. This aims to reduce differences between the scope and the definitions of expenditure for the purposes of Treasury budgetary controls, Supply Estimates and financial reporting to those absolutely necessary for the proper management of spending and presentation of data. It is worth noting that ODA eligibility and reporting to the OECD is a separate process to government financial reporting.

2 Available here: http://ati.publishwhatyoufund.org/approach/indicators/

3 Consolidated Budgeting Guidance is available here: https://www.gov.uk/government/collections/consolidated-budgeting-guidance, Financial Reporting Manual is available here: https://www.gov.uk/government/collections/government-financial-reporting-manual-frem

Financial management

Advance payments

6.10 It is critical that payments are not made in advance of need, i.e. before the funding is needed to enable the programme to proceed. However, in some specific circumstances (for example when delivering through small and medium-sized enterprises (SME) or civil society organisations) advance payments can be considered. All advance payments are considered contentious and require Treasury approval. As part of any formal request departments must provide a clear value for money case, detailing the fiduciary safeguards in place. See Managing Public Money Annex 4.8 for further detail on exceptions to the general restriction on payments in advance of need.

Grants in kind and gifts

6.11 The budgeting and accounting treatment for grants in kind should be consistent with the Consolidated Budgeting Guidance (CBG) and the Financial Reporting Manual (FReM).

6.12 Grants differ from gifts. A gift is when goods are voluntarily donated with no preconditions and without the expectation of any return (or delivery of policy objectives). Gifts do not score as ODA and are subject to the Parliamentary approval procedure in Managing Public Money (Annex 4.13) and the financial reporting requirements of donated assets.

6.13 Capital grants in kind are not subject to this formal notification procedure, since they are funded through the normal Parliamentary Supply process. However, where agreements have been made with the PAC or a department's select committee, separate notifications might be required. The Treasury should be consulted about the appropriate form of notification for all capital grants in kind.

6.14 If goods with no further economic use are transferred at the end of a project, the transfer is considered a gift, unless the goods will be used to further a policy objective. When making a gift, departments should agree appropriate conditions of transfer to ensure the goods will be used for development purposes, the recipient has adequate controls to maintain and operate the goods effectively and any local requirements (including taxes) on transfer are met.

6.15 Assets not gifted in this way should be returned to the department, or sold at market value with the income treated as negative ODA (since the full value of the assets will have been scored for ODA at the start of the project).

Financial instruments

6.16 When using financial instruments (such as loans or promissory notes) early engagement with Treasury spending teams and your auditors is critical to ensure the correct budgeting, estimates and financial reporting treatment. A promissory note is a written undertaking to pay money on demand, up to a specified limit, to a named recipient. A promissory note can be used as part of funding arrangements with International Development Banks and Funds and requires director level sign off. The promissory note scores as ODA when it is issued. For example, promissory notes provide flexibility in the system that we need to ensure UK aid can be used when humanitarian emergencies hit.

Programming and cash management

6.17 ODA spending is reported to the OECD in cash terms on a calendar year basis. This reporting has no material impact on the accounting and financial treatment of ODA within departments' budgets, which is undertaken on an accruals basis.

6.18 To ensure value for money, departments are encouraged to maintain a good pipeline of programmes in the calendar year and should actively monitor their payment schedule to support delivery of spend in line with Managing Public Money guidelines.

Annex A
List of useful guidance

A.1 Managing public money (sets out the overriding rules governing the use of public funds, including the responsibilities of departments and accounting officers with respect to regularity, propriety, feasibility and value for money)

A.2 HM Treasury's Green Book (guidance on appraisal and evaluation)

A.3 Smart rules for better programme delivery (detailed advice developed by DFID on ODA programme management, design and delivery based on Treasury's Green Book – its more generic sections on principles and standards may be helpful to other Departments)

A.4 DFID's programme delivery capability framework (programme capability standards for international development designed by DFID and covering competences and typical role profiles)

A.5 OECD DAC resources:

- DAC list of ODA recipients (list of ODA-eligible countries)
- DAC list of ODA-eligible international organisations (list of institutions to which core, i.e. unearmarked, funding is reported as ODA)
- Is it ODA? (short guidance on principles of ODA)
- ODA reporting directives (detailed rules on specific activities and types of flows, and how ODA should be reported)

A.6 Overseas Security and Justice Assistance Guidance (guidance on how to ensure overseas security and justice assistance work meets our human rights obligations and values)

A.7 Cabinet Office's Public procurement policy guidance (guidance on internationally agreed directives and domestic legislation to which all public sector procurement is subject)

A.8 Cabinet Office's commercial operating standards (standards which define how all government departments should operate commercially to ensure strong commercial behaviours and getting value for money)

A.9 The Magenta Book (recommended central government guidance on evaluation)

A.10 Aid Transparency Index indicators (criteria against which departments are scored for transparency)

A.11 ICAI website (for further information regarding ICAI's work programme and recent reports)

A.12 Consolidated budgeting guidance (guidance for government departments on the budgeting framework that applies for expenditure control)

A.13 Financial reporting manual (technical accounting guide for the preparation of financial statements)

HM Treasury contacts

This document can be downloaded from www.gov.uk

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