

FCO Frontline Diplomatic Activity - Methodology Review 2017

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Summary

The Foreign and Commonwealth Office (FCO) is a main delivery department of HMG Official Development Assistance (ODA), working alongside the Department for International Development (DFID) in several countries. Within the FCO's ODA spending, costs related to diplomatic staff assigned wholly or in part to aid-related duties (Frontline Diplomatic Activity – FDA) are included in line with the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee's (DAC) statistical directives on scoring Administrative costs. It is important that the system used to record these costs is accurate and efficient.

The FCO has led a review of options for better ensuring that all ODA-eligible FCO FDA activity is accurately captured in future, and for reducing the resource burden the current system has placed on individual officers (see [Terms of Reference](#), published on gov.uk). This was supported by DFID. This paper sets out the findings of this review, and the recommendation that the FCO moves to a system of reporting based upon coefficients for overall ODA-eligible activity provided by its home directorates and overseas posts. The methodology for this approach is outlined in this paper.

Introduction

1. FCO spend on ODA falls into five main categories: the FCO's programmatic spend (including Chevening scholarships), subscriptions to international organisations, grants to the British Council and BBC World Service, and the administrative costs (both staffing and platform) of delivering ODA-eligible activities overseas (FDA – see below section). The FCO's FDA does not include the cross-Government Funds, given that these have their own administrative budgets for staff delivering these programmes.

What are Frontline Diplomatic Activity (FDA) costs in ODA?

These are the administrative costs of the FCO's core programme and operational delivery in or in favour of DAC-listed recipient countries that meet the primary ODA purpose. The costs are incurred by the FCO network, directly in the developing country, centrally, or from another country where services are provided to the developing country. These costs are separate from the administrative costs included in delivering specific FCO projects and programmes. The annex provides a more detailed breakdown of the main cost areas.

2. As part of the UK's National Statistics process, DFID annually collates reporting on ODA-eligible activities and costs from government departments to report HMG's total ODA spend to the DAC (annually published on gov.uk¹). FDA is reported in the statistical category of the FCO's administrative costs in these statistics, and has since 2011 been captured by an item-based accounting system that reports ODA-eligible activity for staff members centrally and at overseas posts. Changes in ODA delivery as a result of the 2015 UK Aid Strategy² and ODA modernisation³ meant that it was appropriate to review the methodology to examine whether it remained fit for purpose.
3. This paper sets out in detail the FCO's current approach to scoring ODA-eligible activity, the findings of the review and the proposed approach to scoring in future.

Cost Base for FDA

4. The diagram below describes the three main areas of the FCO's FDA (see annex for a more detailed breakdown of these items), including:
 - **Staff costs of delivering ODA** – the full staffing cost to posts providing ODA-eligible technical expertise or administration;
 - **Estate maintenance costs** – the costs of running operations that support the delivery of ODA-eligible activities in developing countries, but excluding all consular costs;
 - **Other associated spend** – costs borne in relation to operations, such as legal and financial charges.

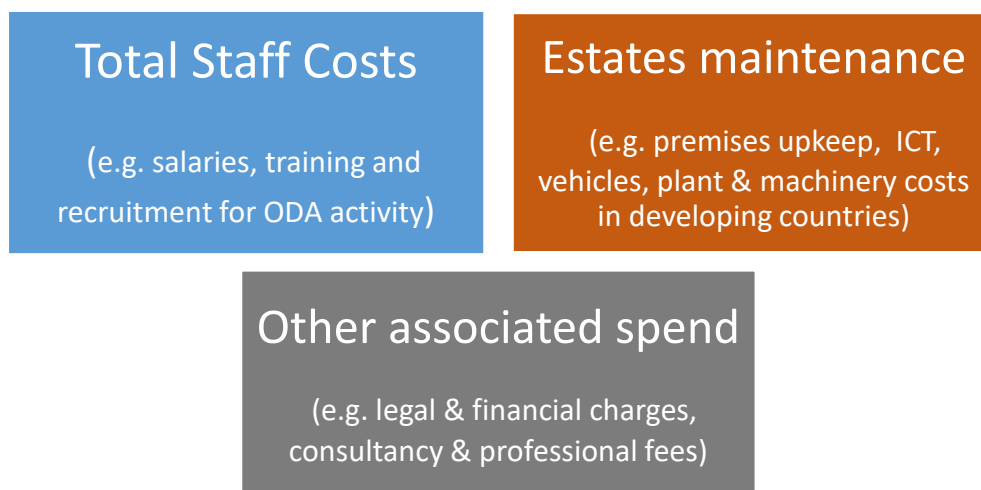


Figure 1: Frontline Diplomatic Activity cost base

5. The DAC statistical directives specify that platform costs of premises, computer equipment or motor vehicles can score as ODA, though individual Departments

¹ [Statistics on International Development 2016](#), published on gov.uk.

² [UK Aid: Tackling Global Challenges in the National Interest](#), published on gov.uk.

³ [DAC High Level Meeting - OECD](#).

are left with a choice in how these costs are captured. Platform costs can either score as ODA upfront as direct capital expenditure, or over the asset's lifespan through any actual or imputed write off for amortisation (see paragraph 82 below). The FCO has historically opted not to score capital asset purchases as ODA upfront, but instead captures the ODA-eligible cost of assets forming the cross-Government platform it hosts overseas (the 'One HMG platform') in resource terms through depreciation.

6. The FCO considers this approach to be the most pragmatic way to capture and report the ODA-eligible elements of One HMG platform costs in an accurate and easily forecastable manner. The depreciation approach leads to steadier ODA scoring across financial years, ensuring that large capital investment decisions do not impact the scope of planned ODA activities across the rest of the FCO allocation. By not scoring capital investments as ODA in the year of purchase, the FCO also avoids the risk of large 'negative-ODA' flows that would arise from subsequent asset sales. No change to this approach is proposed as part of this methodology review.

The relevant parts of the OECD DAC ODA statistics reporting directives relating to administrative costs are repeated here for reference:

Para 77 - Total donor administrative costs are not captured in DAC statistics. The statistical category for administrative costs covers only those administrative expenditures related to development assistance programmes that are *not already included* under other ODA items as an integral part of the costs of delivering or implementing the aid provided. The category may include situation analyses and auditing activities.

Para 78 - Administrative costs should be calculated using the “institutional” approach, i.e. the *total current* budget outlays of institutions responsible for the formulation and implementation of members’ aid programmes, or a *pro rata* allocation in the case of ODA activities financed out of other budgets.

Para 79 - the coverage of administrative costs eligible to be reported as ODA comprises:

- i) The administrative budget of the central aid agency or agencies, and of executing agencies wholly concerned with ODA delivery
- ii) That portion of the administrative costs of multi-purpose executing agencies represented by their aid disbursements as a proportion of their total gross disbursements
- iii) Administrative costs related to the aid programme borne by overseas representatives and diplomatic missions.

Para 80 – the cost of diplomatic staff assigned to wholly aid-related duties in developing countries should be included in full. Where individual officers perform aid-related duties part-time, a ceiling applies of 50 per cent of the total costs incurred in respect of them, unless the actual costs can be ascertained in the form of a charge to the aid budget. The representation costs of delegations to international organisations may be included only if they are financed by an aid agency.

Para 82 – the costs of premises, computer and word-processing equipment and motor vehicles are measured either i) as provided for in the budget of the ministry or agency concerned as a direct cost, or ii) as an actual or imputed write-off for amortisation, but not as a combination of the two. In respect of premises in the donor country, only the costs of maintenance and upkeep of buildings currently used for development activities may be reported as ODA

Current Approach

7. To date, the FCO has used an activity-recording system to reflect the ODA-eligible portion of its staffing costs. Individual officers across the network record their activity against the FCO’s [Strategic Objectives](#), and then record how much of their activity against each objective is ODA eligible.
8. Based on the activity recording process, FDA figures are generated through the FCO’s core activity-based costing model. The model takes the amount of ODA-eligible activity recorded in a DAC-listed country and applies it to the amount of ODA-eligible costs against that beneficiary code to establish the costs incurred in delivering ODA activity in that country. The FCO has kept the FDA methodology

under close review, adjusting costs in line with the amount of ODA activity undertaken by posts, and ensured that non-ODA costs are excluded from the calculation.

9. The data from ODA activity recording is granular, but the process is onerous on staff and risks incorrect reporting if staff are not aware of the full range of ODA activity that their work might cover, or do not have a technical understanding of the complex DAC modern ODA definitions.

Potential Approaches

10. The review considered potential options for calculating a representative ODA-eligible proportion of the FCO's FDA, including maintaining the current approach based on activity recording and the approaches specified in paragraphs 79 (ii) and 80 (see box above). The following criteria were then applied to potential approaches to judge their strengths and weaknesses. These included:

- **Accuracy** – the extent to which costs would accurately reflect the totality of FCO ODA activity.
- **Transparency** – the extent to which the methodology would be easily understood and consistently applied during data collection;
- **Collection burden** – the amount of staff effort and time in the network required to compile the data, and the degree of harmonisation with existing processes.

11. Based on these criteria, an approach based in the FCO's country business planning was judged to be the best option of those considered. This would involve using the business planning process to assess the ODA-eligible percentage of costs for post and home directorates, and monitoring movements on a quarterly basis. While involving a necessary degree of approximation in estimating overall costs, this option was nonetheless identified as the most effective balance of accuracy, transparency and bureaucracy. This option is most likely to capture the overall ODA-eligible share of the FCO's FDA, while minimising the data collection burden on the network and ensuring the most consistent application.

12. The approaches specified in paragraphs 79(ii) and 80 of the OECD DAC ODA Statistics (see box above) were not considered as providing a suitable system. The review team felt that calculating ODA-eligible administrative costs on the basis of FCO ODA as a proportion of its total budget would be misleading. This is because a large share of the FCO's ODA is provided as a grant to arms-length bodies, or as subscriptions to international organisations, for whose administrative costs the FCO is not directly responsible. Moreover, applying a 50% ceiling to the work of each post would in certain cases risk underestimating this activity, given the possibility of ascertaining levels of ODA activity in more detail.

Proposed Approach: Governance and Guidance

13. To reduce bureaucracy and improve the accuracy of the ODA administrative costs the FCO reports, the review recommended that a coefficients-based methodology be adopted. Rather than continuing the system of recording of ODA-eligible activity by individual officers, a business-planning percentage (coefficient) would be applied to the cost of each FCO post in a DAC-listed recipient country and home directorate delivering ODA-eligible objectives. This method would be within the scope of the DAC statistical directives as foreseen by paragraph 78 (see above).
14. As a first step, Directorates provided provisional ODA coefficients to the review team for centralised moderation and assessment. The team then scrutinised these initial coefficients and supporting reasoning provided in each case. Following this, to ensure robust returns integrated into existing business planning processes, individual posts were required to review their coefficients as part of the budget setting process. Posts used this opportunity to amend proposed coefficients, ensuring provisional Directorate returns accurately reflected activity on the ground. Business planning returns received from home Directorates and posts were signed off at the level of Directorate and post leadership. Directorates with no direct involvement with ODA – Finance, HR, Estates – were excluded from the review, as were non-ODA posts.
15. In addition, supporting evidence from each FCO Directorate directly conducting ODA-eligible activity was required, with specific guidance provided on ODA eligibility by the central ODA team in addition to regular training. In line with the DAC Statistical Directives, the costs of Permanent Representatives and Deputy Permanent Representatives to multilateral missions were excluded from consideration.
16. A process of quality assurance was then undertaken by the review team to ensure the supporting evidence complied with the DAC criteria, and to test significant proposed changes. This quality assurance process involved the following steps:
 - 1) **Shortlisting of overseas posts/home directorates for challenge:** The review team considered the totality of returns collectively, looking at average scores across the network. A shortlist of 30-40 posts/home directorates were then identified, for which proposed coefficients appeared anomalous (as either overestimating or underestimating ODA-eligible activities), either on a statistical basis or based on stated priorities in business plans.
 - 2) **Challenging of overseas posts/home directorates:** These posts/home directorates were then contacted by the review team on the basis of their proposed coefficients possibly being inaccurate, and a justification was requested. For control purposes, a number of posts/home directorates for which the review team felt that the proposed coefficient was correct were nonetheless also requested to provide a similar justification. Responses were then collated, with follow-up undertaken on a case-by-case basis.
 - 3) **Correction of coefficients:** As a result of this challenge process, coefficients were then either increased or lowered in line with the feedback and evidence

received. Detailed records of all correspondence have been kept as an audit trail and for the purpose of future regular reviews.

17. Overall, more overseas posts and home directorates increased their coefficient than decreased it. In the review team's judgement this was a fair reflection of its finding that the activity recording process had been under-reporting the scale of posts and home directorates' ODA-eligible activity. Posts were able to provide strong evidence and reasoning when these coefficients were scrutinised centrally.
18. This process will be conducted again on a regular basis throughout the financial year, with coefficients regularly reviewed through the FCO's existing business planning review cycle. This system of regular review will ensure that any shifts in the proportion of posts/home directorates' ODA-eligible activities are captured accurately. Coefficients will be independently checked centrally, and those which are not in line with submitted business plans challenged. Final coefficients will then be communicated back to Directors and teams and budgetary impacts signed off by the Executive Committee of the FCO's Management Board.

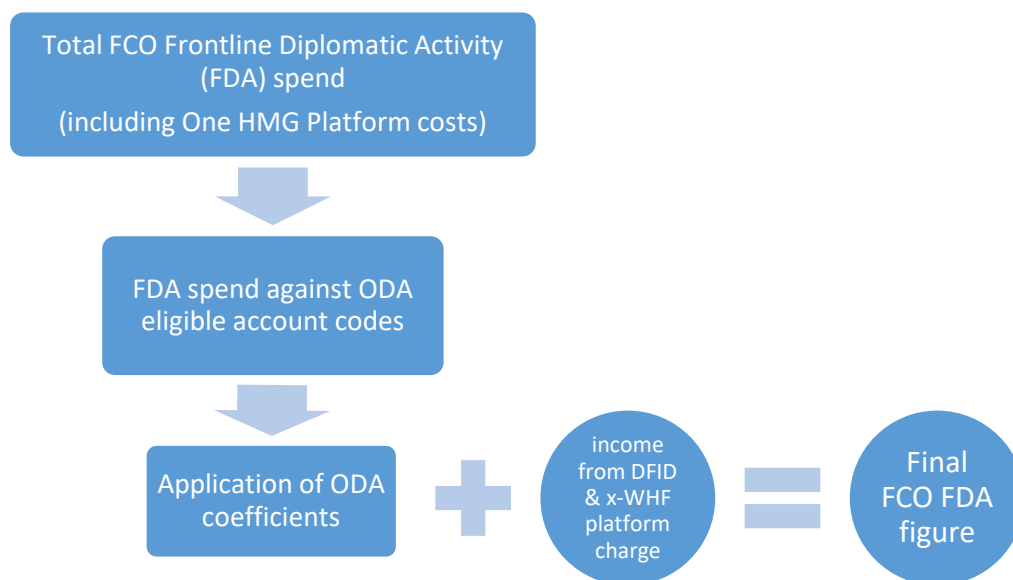


Figure 2: Main calculation steps of FCO FDA

19. The FCO will then calculate the total ODA-eligible proportion of its FDA through the process outlined above, subsequently deducting from this figure income already scored as ODA received from other government departments as part of the FCO's Common Platform Charge (which reflects a proportion of the cost to the FCO as platform provider). In line with paragraph 79 of the DAC statistical directives, allowances are made for offsetting these receipts. This is on the basis that some departments providing this income to the FCO already report these costs against their own ODA targets (e.g. DFID), and to avoid double-counting against HMG's overall ODA target.

Conclusion

20. The review demonstrated that the FCO is under-reporting its ODA-eligible administration costs through the use of activity recording. Currently costs reported do not accurately reflect the aid-related duties the FCO performs. The new system will bring clarity and certainty to individuals, as well as predictability and consistency for the organisation.
21. As set out in this review's Terms of Reference, DFID's Chief Statistician, as the senior responsible officer for the official UK ODA spending statistics, has endorsed this methodology change.
22. In line with the Code of Practice for Statistics which requires statistics to be based on the most appropriate data, and following guidance from DFID and HMT, the FCO has additionally applied the new methodology to the first three quarters of financial year 2017/18 by updating existing FDA ODA data for applicable months of calendar year 2017. This will ensure consistent data for all quarters of financial year 2017/18, while partially addressing historical underreporting.

Annex - FCO ODA-eligible Frontline Delivery Activity costs

Main cost area	Items included	Items excluded (or offset in cost)
Total staff costs	Salaries for UK and local staff (incl. local staff allowances and pensions) Recruitment costs Training costs Travel and subsistence Medical expenses	Non-ODA salary costs (incl. consular) Expenditure by partner military
Estates maintenance and management	Estates and security expenditure Premises depreciation Plant & machinery costs Vehicle costs ICT costs Telecommunication costs Stationery Freight and courier	OGD estates charges (incl. DFID platform costs) All consular capital expenditures
Other associated costs	Legal and financial charges (including gratuities) Consultancy and professional fees	

Notes:

Terminal gratuities are included as part of UK and local staff salaries, as these form part of the cost of employing staff. Different countries have different employment laws, some of which legally oblige employers to pay a terminal gratuity. These payments are necessary to enable the FCO to have a presence overseas and comply with overseas legislation.

Depreciation and impairments are included as these represent the resource cost to the FCO of using its estate and other capital equipment for aid-related duties. Para 82 of the statistical directives state that *“the cost of premises, computer and word-processing equipment and motor vehicles are measured either i) as provided for in the budget of the ministry or agency concerned as a direct cost, or ii) as an actual or imputed write-off for amortisation, but not as a combination of the two”*. The FCO applies option ii, choosing to report depreciation and impairments as administrative costs reportable as ODA.

Payments from DFID and cross-Whitehall funds to the FCO are scored as ODA by DFID/the funds in line with para 79 and 165 of the directives. No other government departments' platform charges are scored to ODA. The FCO therefore only includes income received from DFID and the ODA portion of the income received from the cross-Whitehall funds in its final FDA calculation, ensuring no double count across HMG.

There are three main types of cost which are excluded from FDA: programme, consular and capital:

Programme spend is reported separately from administrative costs and so all programme costs are excluded from the FDA calculation. This also prevents the double counting of cross Whitehall spend through the FCO.

Consular spend is excluded by removing consular account codes (e.g. emergency travel documents), consular beneficiary codes (so even spend against ODA-eligible account codes such as stationary is excluded, because it benefits consular activity), and consular activity recording.

Capital spend is excluded by removing capital account codes. This is because the FCO, in line with para 82 of the statistical directives, scores depreciation, maintenance and impairments as ODA and not the initial capital outlay. This prevents double counting.

In accordance with section II.8, *Peace and security-related activities*, of the DAC statistical directives the admin costs of ODA-eligible activities involving the British military are not reported as ODA, as it is not feasible to clearly isolate additional costs from regular costs. Most administrative costs for aid-related activities involving the partner country military are excluded from ODA, except for those incurred in delivering training, under civilian oversight and with a clear developmental purpose for the benefit of civilians in the limited areas listed in the directives. The FCO ODA Team has delivered training on the types of activities in the peace and security sector which are ODA-eligible and continue to support teams involved in these lines of work.