

Explanatory Note: Statistics on International Development – Interim method to capture FCDO’s ODA eligible Administrative Costs

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1. Summary:

- Following the merger of the Foreign and Commonwealth Office (FCO) and Department for International Development (DFID), the Foreign, Commonwealth and Development Office (FCDO) has developed a new methodology to calculate the amount of its administrative costs that can be reported as Official Development Assistance (ODA) – referred to in this paper as ‘ODA eligible administration costs’.
- ODA eligible administrative costs reflect costs of the FCDO’s core activities and operational delivery that meet the directives¹ set by the OECD Development Assistance Committee (DAC) around the ODA eligibility and reporting of administration costs (see Annex A).
- They capture the costs incurred by the FCDO network directly in a developing country, centrally, or from another country where services are provided to a developing country. For example, salaries for UK or local staff working on a range of education programmes which has been primarily designed to benefit ODA eligible countries. These costs are separate from the administrative costs already included as part of delivering specific FCDO projects and programmes².
- As a newly merged department, several elements of this methodology still use reporting accounting systems and policies from the two legacy departments. A new finance system is being designed which will calculate the ODA eligible amount of administrative costs. Until this is fully implemented, the methodology

¹ The DAC is a forum for consultation among 29 donor countries and the European Commission. The DAC sets the definitions and classifications for reporting on official financing for development internationally, including Official Development Assistance (ODA). These are disseminated via the [DAC directives](#).

² For example, travel costs associated with a particular ODA programme would be reported in the SID as a “Project-type intervention”. This is in line with the OECD DAC directives.

described in this paper will be used as an interim method. The finalised method is expected to be very similar in nature but may have minor amendments.

- This interim methodology has been thoroughly reviewed and assessed as fit for purpose with reference to the OECD Development Assistance Committee (DAC) Directives and the National Statistics requirements.

2. Background:

- Before the creation of FCDO, former DFID was able to treat all of its administration costs as ODA as it was a separate aid agency (Annex A, directive 79.i). Former FCO was classed as a multi-purpose agency³ by the OECD DAC so captured the ODA eligible administrative costs based upon coefficients which reflected ODA eligible activity provided by its UK based directorates and overseas posts (for example, the UK embassy in Nairobi, Kenya).
- The FCDO is a multi-purpose agency; it delivers aid programmes but also carries out work which is not ODA eligible, for example providing consular assistance to UK citizens.
- Like the former FCO, it is therefore not possible to report all of FCDO's administrative costs as ODA under the OECD DAC directives. Consequently, a methodology is required to capture the ODA eligible administrative costs in a way which balances the accuracy of the administrative costs FCDO reports as ODA against the reporting burden, the ease in which the methodology can be understood and applied consistently during data collection.

3. Introduction:

- The ODA Statistics Team has produced an interim model, building on the approach previously employed by the former FCO⁴. This method will be used for reporting 2021 UK ODA in 2022. This note sets out the interim method and why it has been assessed as fit for purpose in line with OECD DAC directives.
- As this new methodology has been developed to meet the needs of the new department, and FCDO did not exist before September 2020, we will not be providing a back series.

4. Methodology for FCDO:

The interim methodology applies ODA coefficients (see key definition box below) to total administrative costs incurred by each overseas country post and UK directorate

³Multi-purpose agency is one that carries out both ODA and non-ODA activities

⁴The former-FCO methodology has a published explanatory note:

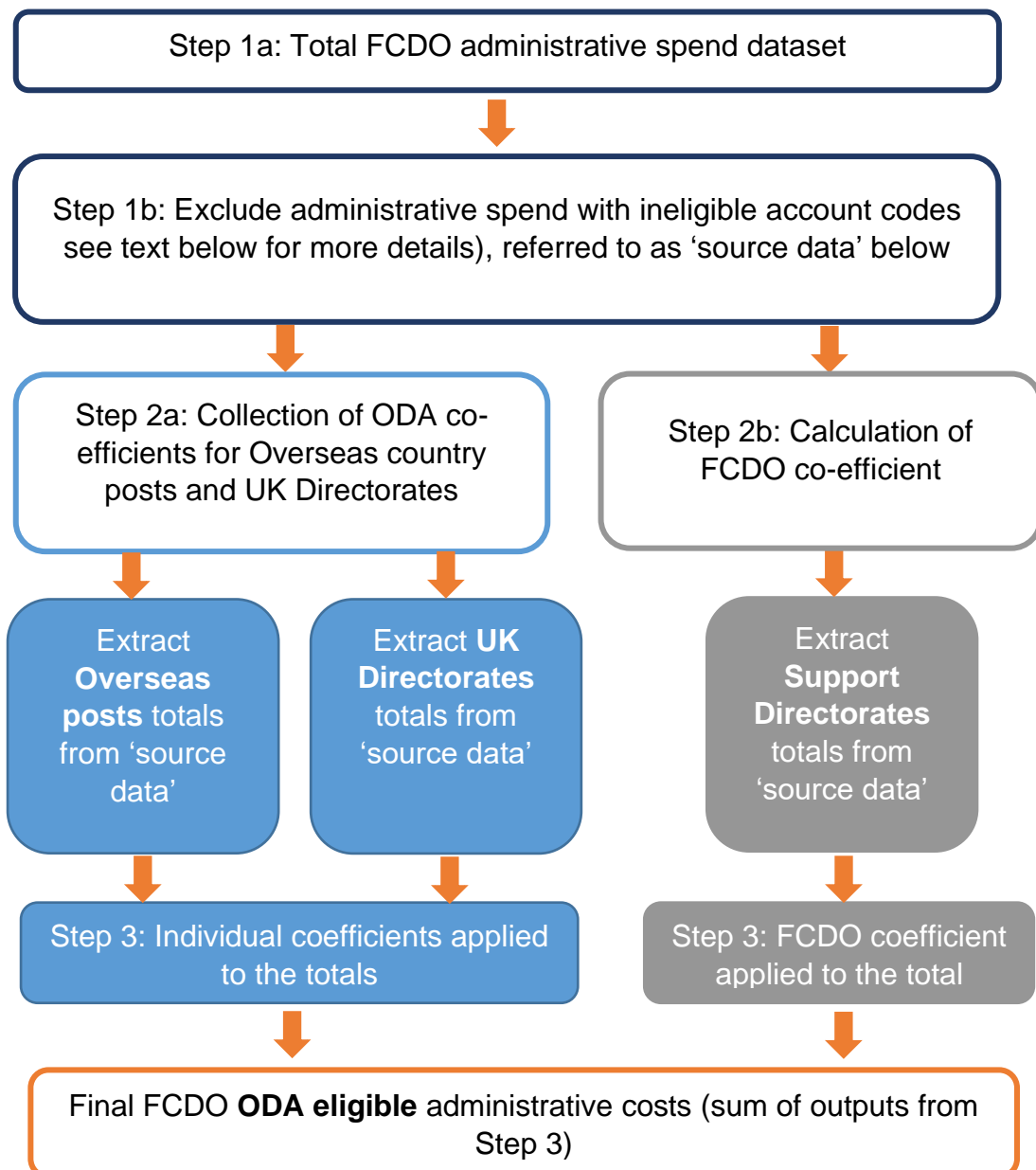
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760178/Methodology-FCO-Frontline-Diplomatic-Activity.pdf

in FCDO's structure. The calculation of this methodology is completed in Microsoft Excel – this will be known as the “model” throughout this paper.

Key Definition: ODA coefficients

An ODA coefficient reflects the proportion of a post/UK directorates' activity that is ODA-eligible. As per the DAC definition⁴, this means activities that are - *administered with the promotion of the economic development and welfare of developing countries as its main objective*

Figure 1: Main steps to calculate FCDO's ODA eligible administrative costs



⁵ <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/What-is-ODA.pdf>

Step 1. FCDO administrative costs data

- a
 - data from former FCO and former DFID systems are mapped across to the FCDO structure to create a total FCDO administrative dataset
 - This data includes overseas platform expenditure⁶ for all Other Government Departments (OGDs) apart from Conflict, Stability and Security Fund⁷ (who report these costs via their own ODA reporting).
- b
 - Before being fed into the model any costs which are not themselves ODA eligible are removed. These costs are identified by a variable known as an “account code”.

Step 2. Collection of ODA coefficients

- The interim methodology splits FCDO into three groups – overseas country posts, UK-based directorates (policy and regional) and cross-cutting support directorates.

a. Overseas country posts and UK-Based Directorates

- For the first two groups, each overseas country post⁸ and UK-based directorate calculated an ODA coefficient based on the proportion of the outcomes in their business plans that constitute ODA eligible activities.
- To minimise the risk of different interpretations of the ODA rules between country postings/directorates, guidance was provided (i.e. highlighting non-eligible activities such as Consular work) and drop-in help seminars organised.
- Quality assurance was carried out by ODA eligibility leads on all coefficients received, supported by statisticians in cases where the rationale underlying the calculation was complex.
- The coefficients will be updated each financial year to ensure they continue to reflect the correct split of ODA/non-ODA activities across the organisation.

b. Cross-Cutting Support Directorates

- “Cross-cutting support” directorates have a FCDO-wide coefficient applied to reflect that these directorates support FCDO as a whole to deliver their

⁶ Overseas platform are costs that the FCDO incur to provide office and residential properties overseas to UK Government partners (for example rents, utilities and maintenance). The government partners reimburse the FCDO for those costs

⁷ CSSF programmes implemented by non-FCDO departments are captured in this methodology. Only CSSF programmes implemented by FCDO are excluded.

⁸ ODA co-efficients were produced at the country-level, if there were multiple embassies their ODA eligible activities would be captured in a single ODA co-efficient.

development objectives. Examples of cross-cutting directorates are Human Resources and Finance.

- This coefficient is calculated by using a weighted average of the ODA coefficients received from country posts and UK policy directorates (such as Health). The weighting uses overseas country post/ directorate total administrative costs as an indicator for the number of staff in each area. The rationale for this is that a larger directorate/ country post would need greater support from the “cross-cutting support” directorates⁹.

Step 3. Applying the ODA coefficients to the FCDO administrative costs data

- The model applies the coefficients to their respective overseas country post or directorate administrative cost totals.
- It then takes the three broad groups (Overseas, UK-based directorates and support) and sums their totals together to obtain the total ODA eligible administrative costs

5. Headline figures

- The estimated ODA eligible administrative costs for FCDO in 2021 is £638 million which is broadly similar compared to the amount reported in 2020 - £632 million (on the methodologies used by the two legacy departments).
- The small increase in the amount of ODA eligible administrative costs is in part driven by corrections made to the original FCO model which was known to have underestimated its ODA eligible costs i.e. the old model removed some ineligible costs twice, which the new model no longer does.
- ODA eligible administrative costs accounted for 7.7 per cent of total FCDO ODA in 2021, this is an increase from 5.9 per cent in 2020.

Table 1: FCDO ODA eligible administrative costs: 2020 - 2021

	FCDO 2021^a	FCDO 2020^b	<i>DFID 2020</i>	<i>FCO 2020</i>
Total (£ millions)	638	632	<i>328</i>	<i>304</i>
As a proportion of total FCDO ODA	7.7%	5.9%	<i>3.3%</i>	<i>49.3%</i>

a. Calculated on the new interim method

b. Calculated on the former DFID and former FCO methods

⁹ For example, Country Y has an ODA co-efficient of 0% and Country X has a co-efficient of 40%. If country Y is larger in terms of administrative costs, then the 0% will have a larger effect on the overall FCDO co-efficient.

6. Current limitations and future developments:

This is an interim method; we will be developing a final methodology to incorporate the new FCDO finance system and to harmonise legacy reporting practices.

- **Refinements from new finance system:** When building the model on the new, shared finance system there is a chance that refinements and further improvements will present themselves.
- There remain some **inconsistencies between former-FCO and former-DFID raw data** which will remain until the implementation of the new, shared finance system. For instance, the treatment of capital expenditure: former-FCO and former-DFID used different but equally valid approaches¹⁰ in line with the DAC directives, but following the merger, the FCDO will move to using a single shared method as the OECD directives highlight that an agency should not use a mixed approach. Another difference is that former DFID administrative data is reported on a cash basis while former FCO is captured on a resource accounting basis¹¹. It is important to note that these differences are the same as pre-merger reporting.
- **OECD DAC survey and possible clarifications:** The DAC Secretariat has conducted a survey on how administrative costs are assessed. It was aimed at understanding the rationale for including administrative costs in ODA, the types of costs and institutions included in ODA reporting, and members' methodologies for calculating related costs. As part of this exercise the OECD DAC might publish some clarifications on the admin related directives. We are actively engaged with this exercise and will communicate any developments with ODA statistics users.

7. Fit for Purpose Assessment:

- This method has been assessed as fit for purpose as it is in line with the DAC directives and effectively balances the need for accuracy and transparency against reporting burden in a pragmatic way. This new interim method builds upon the existing former-FCO ODA administrative costs methodology¹² and the data sources used for former FCO and former DFID spend remains the same

¹⁰ Before the merger former-DFID captured capital at face value at the time the asset was purchased. In contrast, former-FCO captured the depreciation of an asset as ODA. It has been agreed that FCDO will capture capital in line with the depreciation approach. However, for 2021 the amount of capital on former-DFID's baseline will be captured under the previous former-DFID approach. This is because changing the approach needs to be carefully managed to ensure no double counting with historical capital.

¹¹ The primary difference between cash and resource accounting is the timing of when the effect of a transaction is recognised in financial statements. Under resource accounting, the effects of transactions are recognised when they occur. Under cash accounting, are recorded when cash is paid. Former DFID reports on a cash basis while Former FCO reports on a resource basis.

¹²The former-FCO methodology has a published explanatory note:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760178/Methodology-FCO-Frontline-Diplomatic-Activity.pdf

as before the merger. We therefore have a high level of confidence in the source data.

- Alongside this, there has been a thorough quality assurance process carried out on the ODA coefficients that underpin this methodology as set out earlier. FCDO's ODA administrative costs account for 5.5% of total UK ODA in 2021. These quality checks were proportionate to the expenditure associated to the interim ODA coefficient methodology.
- We have engaged with experts across the FCDO and with other donors that have recently merged their Foreign Office and Aid agency to understand how they calculate their eligible administrative costs.
- The team used the Office for Statistics Regulation [guidance](#) – “Guidance for producers when making changes to statistical methods”

OECD DAC directives

The interim method is in line with the OECD DAC directives for the following reasons:

- The methodology uses an institutional and pro-rata allocation (at the Country and Directorate level) in line with directive 78 (see Annex A). While it does involve a necessary approximation in estimating overall costs, an assessment of all the methods tested (see below) shows that it is best able to capture the overall ODA-eligible share of the FCDO's administrative costs, while achieving an effective balance of accuracy, transparency and reporting burden.
- This interim method builds upon the former-FCO approach which was discussed with the OECD DAC in 2016/2017.
- While the interim method is not currently in line with directive 82, it will be for reporting on ODA 2022, see Section 6 above on capital costs.

Other Potential Approaches

We also tested other possible methods:

- The method that the DAC suggests for multi-purpose agencies was tested: *“that portion of the administrative costs of multi-purpose executing agencies represented by their aid disbursements as a proportion of their total gross disbursements”* (Annex A, directive 79). However, this resulted in a large ODA admin figure given the disproportionate amount of ODA programming disbursements vs non-ODA disbursements. The interim method presented in this paper is more accurate as it looks at individual overseas country posts and directorates taking into account that overall FCDO disbursements do not always reflect staff effort.
- In line with the previous review, (ex FCO admin review¹⁴, 2017) applying a 50% ceiling (Annex A, directive 79) to the work of each overseas country office was considered but was deemed unsuitable as it creates the risk of underestimating the ODA eligible activity occurring for certain posts and therefore understating the overall ODA eligible administrative costs. Our ODA coefficient instead enables the ascertaining of estimates of ODA activity at a granular level.
- We have not considered reverting to the method that former-FCO used before 2017 – activity level reporting. This involved individual officers across the network recording their activity against the FCO’s Strategic Objectives, and then recording how much of their activity against each objective is ODA eligible. This was onerous and risked incorrect reporting if staff were not fully aware of the full range of ODA activity that their work might cover, or lacked technical understanding of the complex ODA directives.

¹³ The review can be found here:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760178/Methodology-FCO-Frontline-Diplomatic-Activity.pdf

Annex A: Relevant OECD DAC directives:

Box. Extract from the Reporting Directives (paragraphs 77-82 and 436) on administrative costs

II.1 Administrative costs

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.

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.

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.

Allowance should be made, where possible, for offsetting receipts.

80. The costs 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. The cost of receiving developing country dignitaries should be omitted.

81. The salaries component of administrative costs includes either i) pension payments made to retired staff whose salaries, had they remained at work, would have counted as administrative costs, or ii) the current cost (including estimated unfunded costs) of the future pensions to be paid to serving staff.

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. All construction costs are excluded, unless the building concerned is to be donated to a developing country for development purposes.

(...)

In-donor expenditures

Administrative costs

436. The detail of such costs are not sought. In general, administrative costs assigned to type of aid G01 will be recorded as a single transaction under purpose code 91010. However, in some particular cases, donors can record specific interventions under different purpose codes, e.g. an audit of a water project can be recorded under purpose code 140xx and type of aid G01.