



Aid for Asylum Hosting: Time to Act

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Summary

Following the recently announced cuts to aid spending—taking official development assistance (ODA) from 0.5 percent of GNI to 0.3 percent—it is time for the government to act, to ensure that asylum and refugee related costs¹ take up a smaller proportion of the ODA budget. Without action, refugee-related costs could exceed a third of total ODA spending.²

At present the FCDO effectively funds any ODA eligible asylum related cost that the Home Office can identify. This has contributed to significant unnecessary expenditure on refugee-related costs, with the [UK now spending](#) over two-and-a-half times more ODA per refugee than any other G7 economy. This approach also generated extremely high levels of unpredictability in the aid budget, with in-year budget

changes larger in percentage terms than, for example, the annual cuts expected of any government department during coalition government austerity.

But with a reduced overall ODA budget, the UK must do more to reduce the impact of refugee spending on aid spending. In a much more fiscally constrained environment, every available pound will be required for vital international work. And the FCDO will not have the budget latitude to absorb significant fluctuations in refugee spending, if—as could be the case—its allocable budget is not much larger than potential refugee hosting costs.

We identify five options for improving the situation that could be adopted at the forthcoming spending review—or sooner. These options would provide additional downward pressure on refugee-related costs, while also increasing the predictability of the UK’s international spend.

TABLE 1 Summary and overall assessment of the effectiveness of policy options

OPTION	INCENTIVES (FOR REDUCING REFUGEE COSTS)	PREDICTABILITY (FOR AID SPEND)	AVOIDING OVERSPEND (RISK FOR HMT)	OVERALL EFFECTIVENESS
Current approach	Low	Low	Medium	Low
Ceiling on total asylum and refugee costs	Medium	High	Low	Medium
Ceiling on per head refugee costs	High	Medium	Medium	Medium-High
Floor on FCDO/international spend	Low	High	Low	Low
Risk-sharing above expected refugee spend	Medium	Medium	Medium	Medium
Re-opening Whitehall ODA allocations if spend above expectations	Low	Medium	Medium	Medium-Low

Each of these options represents an improvement on the status quo and offers a different balance between the three criteria we identify. We recommend that the government urgently select one, and suggest that option 2 is the strongest overall.

Overview of current approach and flaws in management of public money

The first year of refugee hosting costs can be reported as aid, or ODA, although providers are encouraged by the OECD DAC, which oversees ODA definitions, to take a “conservative approach.” The Independent Commission for Aid Impact (ICAI), which provides oversight of the UK’s aid spending, has described the current attribution of asylum and refugee related costs as “maximalist,” with “anything that could possibly be reported according to ODA eligibility rules” duly being scored as such.

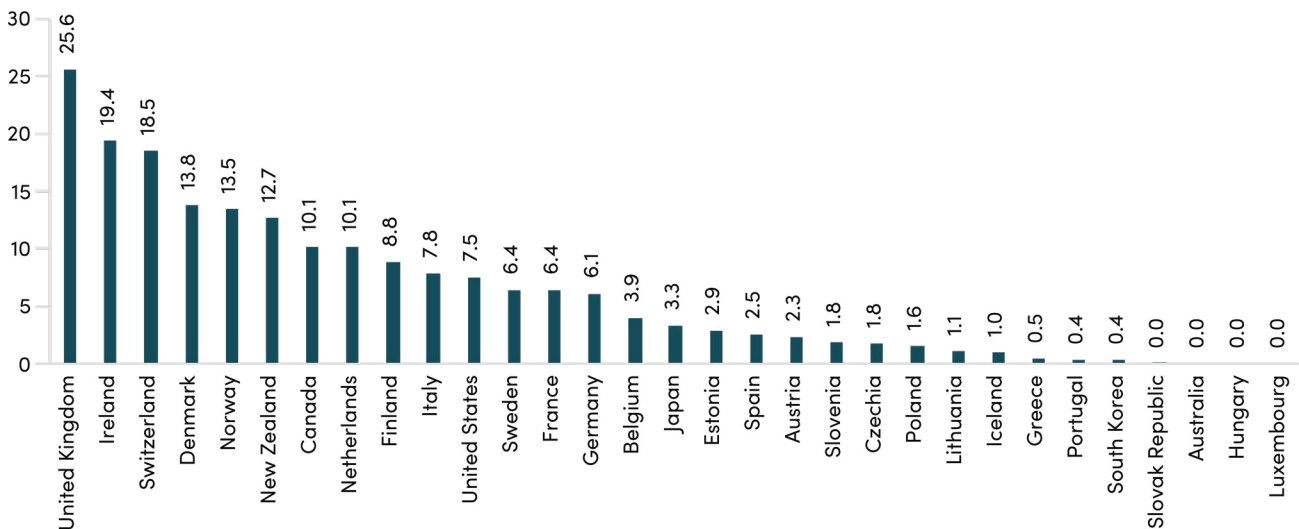
This ballooning in costs is contributed to by a set of incentives generated by the government’s current approach to spending and accounting for ODA.

The UK has committed to spend a fixed proportion of its income as ODA: currently 0.5 percent of gross national income (moving to 0.3 percent by 2027). Her Majesty’s Treasury (HMT) is usually motivated to reduce total spending within each area of government expenditure, to drive efficiency and free up resources for other purposes. But for ODA, there is no possibility of reducing spending below the spending target. Efficiencies will generate additional impact, but not free up resources for non-ODA spending. This means, in this case, HMT have reduced incentives to drive down spending.

When this is layered on top of the Foreign, Commonwealth and Development Office’s (FCDO’s) function within government as the ODA “spender and saver of last resort” (spending ODA funds that other departments cannot, and making savings where there are cost overruns), it means that the FCDO effectively funds any ODA eligible costs that the Home Office can identify.

These costs were already extremely high and formed a large proportion of the ODA budget. Twenty-eight percent of the UK’s ODA was spent on refugee hosting costs in 2023. When

FIGURE 1 In-donor refugee cost ODA per refugee / asylum seeker across DAC countries in 2022 and 2023 (2022 USD thousands)

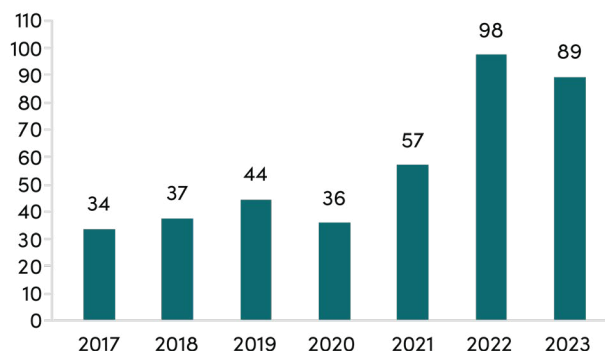


Source: CGD analysis; [link](#).

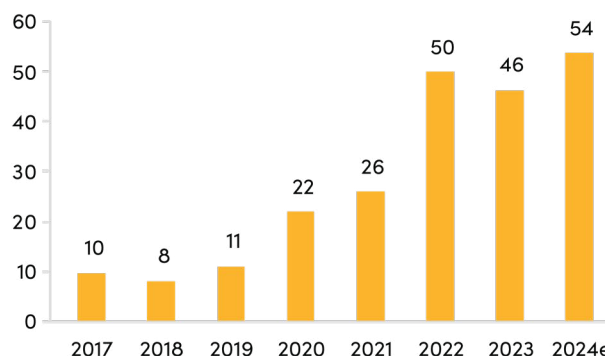
Note: This chart understates UK per head costs (see below) but takes a comparable approach across OECD countries by expressing costs per total number of refugees and asylum seekers.

FIGURE 2 UK trends in (A) asylum applicants and (B) ODA reported per asylum seeker

Panel A: Asylum applicants from ODA-eligible countries (thousands)



Panel B: ODA per person-year of support provided to asylum seekers (£ thousands, current prices)



Source: CGD based on Home Office and OECD data. See [blog](#) for full sources.

Note: 2024 estimates are based on a [reported average hotel cost of £51,100 plus £2,600 for admin and health costs](#).

Labour was last in government, [virtually no ODA was spent on this](#),³ despite similar numbers of asylum seekers arriving in the UK, as Labour declined to count these costs as ODA.

This has led to two significant problems. First, with the FCDO bearing the large part of the risk of higher-than-expected costs,⁴ this limits the incentives for the Home Office to control these costs, thereby potentially contributing to very high per head costs of hosting refugees in both absolute and relative terms. The [UK now spends](#) over two-and-a-half times more ODA per refugee and asylum seeker than any other G7 economy. While the numbers of arrivals have more than doubled in the past five years (see Figure 2, panel A), the per head costs have [risen five-fold](#) (Figure 2, panel B).

This very high spend has not led to better results for asylum seekers. Rather, much of the cost is on [very expensive contracts for poor quality hotel accommodation](#). Indeed, the precipitous increase in spend has led to [calls for an urgent independent forensic audit](#), with fears linked to a lack of process and oversight. [Options are available](#) to the government to deliver better support for asylum seekers, and at lower cost.

Second, it has created a historically high degree of unpredictability in the FCDO's programme ODA budget. The in-year budget changes have been larger in percentage terms than, for example, the annual cuts expected of any department during 'austerity' under the coalition government. Three months into 2024-25, the FCDO surrendered 10 percent of its budget (a [£991 million](#) reduction to [£8,790 million](#)). By way of contrast, the largest annual departmental resource budget cut during austerity averaged [9.9 percent](#). A similar situation arose last autumn when barely a month after the autumn budget confirmed FCDO's budget, HMT [allocated an additional £540 million](#) and asked FCDO to spend it before the end of 2024. With little time available to plan how this could be spent, it was mainly channelled to multilateral organisations.

As a result, UK bilateral programmes—the UK's most bespoke, visible form of partnership in country— have been particularly squeezed. In nominal terms ODA will be similar in 2023/ 2024 to five years ago, but bilateral programmes have fallen by over 40 percent. Indeed, Nick Dyer, the Second Permanent Under-Secretary at the FCDO, described

bilateral spend as the “residual” and explained that [only 80 percent](#) of in-country budgets can be programmed due to the risk of within-year cuts.

This unpredictability is a major problem. It matters for value for money in the UK’s development work, where the ability to plan is crucial to impact. But it also has a deeply damaging effect on the UK’s partnerships and reputation. The government has been clear that it seeks an international “reset,” including a [new, more respectful partnership offer](#) to the countries of the “Global South.” ODA accounts for over 80 percent of the FCDO’s budget, so a deeply unpredictable ODA budget—particularly for bilateral partnership work—seriously undermines this intention.

The government has committed to drive down asylum-related costs (and the aforementioned additional funds allocated to the FCDO in late 2024 are a tentative early sign of progress). However, it is now—with the fall in the ODA budget from 0.5 percent of GNI to 0.3 percent—absolutely critical that this happens as a matter of urgency. It is not sufficient to hope that the Home Office acts and that this feeds through to the FCDO’s resources. It is time to put incentives in place to reinforce the direction of travel that the Government has committed to.

Below we set out options for improving outcomes, focused on improving the incentives to manage refugee support costs, and enhancing FCDO budget predictability. There are five options, though some have variants. We set those out briefly, with pros and cons, and identify our preferred option.

Option 1. “Ceiling”: Set a maximum amount that the Home Office may report as refugee hosting costs

Several countries have taken this approach which fulfills the OECD guidance to take a “conservative” approach of counting these costs as ODA. It was [recommended by ICAI](#);

and [endorsed by the recent OECD](#) mid-term review of the UK’s development assistance. It could be set as an absolute amount, or a percentage. For example, the [Netherlands limited](#) its ODA contribution towards the costs of hosting Ukrainian refugees at €150 million in 2022; whereas [Sweden capped](#) in-donor refugee costs at 8 percent of its ODA budget in 2024 (and the Advisory Council on International Affairs has [recommended](#) that the Netherlands now follow the Swedish approach, with a cap of 11 percent—and the [coalition agreement](#) of the current Dutch government includes a 10 percent cap).

This could be set at the current level with a downward trajectory over the spending review, for example, £3 billion in 2025/26, falling to £1 billion in 2027/28.

Pros: Budget certainty for the FCDO and retains role of spender and saver for other risks/costs.

Cons: HMT bears the risk of overspend.

Option 2. A “ceiling on per head costs” of refugees

This would allow the Home Office to use a maximum per head ODA cost towards refugee arrivals, reducing over the period of the spending review⁵. A ceiling on per head ODA costs would mean that HMT—and in turn the Home Office—would seek to ensure that costs are managed downwards in areas where the Home Office has greatest control, like the speed of processing claims and the costs of accommodation. It would mean the FCDO continued to face financial risks relating to the numbers of asylum seekers arriving in the UK.

Under option 2, HMT would effectively retain the risk of Home Office not meeting its per head cost amounts. If this were the case, government could choose to report the full costs of refugee hosting and ODA would exceed the spending target; or it could choose to report just the ceiling amount and avoid the impression of spending above the target.

Pros: HMT focuses its cost reduction asks of the Home Office on variables where it has the greatest control; retains risk sharing in relation to numbers; clarity on expected cost reductions for the Home Office.

Cons: Still somewhat unpredictable; little incentive for the Home Office to make savings below the ceiling; may be seen to spend over ODA target if all costs are reported.

Option 3. “Floor”: Set a minimum budget that is spent overseas / by the FCDO

This would set a “real ODA” budget for the FCDO that it could spend with certainty.

FCDO’s budget would likely be smaller in this case than in other options, to ensure that sufficient resources could be retained by Home Office / HMT to manage refugee and/or other ODA spending across Whitehall within the ODA spending target.

If HMT allocated this retained spend to the Home Office it provides them with little incentive to reduce their ODA spending, though it could offer a budget with a downward trajectory.

This option would effectively mean HMT becoming the spender/saver of last resort (rather than FCDO) with responsibility for funding overspends or allocating underspends across Whitehall. HMT is likely less well-equipped to play this role given it does not spend itself, nor control multilateral payments which enable significant flexibility in timing of payments. Still, this places HMT in a position which more closely resembles the role it plays in other Departmental spend where it may fund unexpected overspends from its reserve and use Annual Managed Expenditure (AME) in recognition of the demand-led refugee costs at the Home Office.

Pros: Certainty for the FCDO; clarifies level of “overseas” aid.

Cons: Limited incentives for the Home Office to reduce ODA spending; may lead to underspend relative to the ODA spending target, or require departments to spend more at the last minute; may reduce overall resources for development; may establish refugee spend at a permanently high level; does not take advantage of flexibility in multilateral payments. FCDO are believed not to favour this option as it would weaken the link between aid spend and GNI.

Option 4. “Risk Sharing”: HMT, HO and FCDO share the risk of refugee costs

This would move some of the cost and risk of refugee spending away from the FCDO to Home Office and/or HMT. For example, the FCDO could agree to meet a share of the costs of refugee spend above a certain (target) level. For example, the Home Office could be allocated £3 billion, £2 billion and £1 billion of ODA for refugee hosting over the spending review, with the amount declining each year. The three Departments could then cover one third of any overspend above these levels.

Pros: Reduces degree of variability for the FCDO to manage; creates incentives for the HO and HMT to manage down refugee costs.

Cons: Somewhat complex; does not address incentives for the HO to make savings below the ODA ceiling.

Option 5. Re-opening ODA allocations in case of Home Office overspend

This proposal would set the Home Offices' budget for refugee hosting based on (falling) projections of costs. If those projections are overshot, HMT and the FCDO would reconsider ODA allocations across all departments (including the FCDO) to fund any overspend, rather than just the FCDO's allocation as now. A variant of this proposal with stronger incentives for the Home Office would be that, before ODA allocations across Whitehall are re-opened, the Home Office funds some (percentage) level of overspend from its existing budget. HMT would need to assess whether the Home Office would be in a position to meet this contribution from other budget lines, otherwise this would not be a credible position to take.⁶

Pros: It would enable the weakest value for money ODA across Whitehall to be cut; it would also spread the risk more evenly over departments (where ODA is a much smaller proportion of spend).

Cons: It adds uncertainty to other departments ODA spend; it provides more limited incentives for the Home Office to reduce costs below the planned levels.

Conclusion

Now is the time for the Government to change the way it manages refugee-related ODA spending.

The UK Government set a [manifesto commitment](#) to “rebuild Britain's reputation on international development,” and the [prime minister's statement](#) at the United Nations General Assembly said that “the UK will lead again.” These commitments are deeply challenged by the reduction of aid spending announced recently. But spending large amounts of ODA at home—potentially over a third—risks fatally undermining these objectives, and the UK's international position and influence.

The current approach has little to recommend it. Billions of pounds of taxpayer money are being spent on costs such as expensive, poor quality hotel accommodation, delivering very poor value for money. No other country faces such extraordinarily high levels of spending in this area. Misaligned incentives—which effectively mean that the FCDO finances Home Office costs—are helping to perpetuate this.

The impact of this for the FCDO has been to reduce its impact and to make long-term planning—and thus partnership—more difficult. This latest reduction in the size of the ODA budget dramatically exacerbates both effects. To enable effective partnership, and to ensure that every pound which could potentially be made available for international action is secured, HMT must act.

We call on HMT to implement one of the options laid out above, with urgency. We recommend option 2, a falling ceiling on per head refugee costs. Options 1 and 4 are also worth consideration, offering a significant improvement over the current approach.

Endnotes

- 1 Following the definition of the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC), references to "refugees" in the context of the "12-month rule" of ODA spent include asylum seekers/applicants.
- 2 This report estimates that ODA may be around £9.2bn in 2027 (0.3 percent of projected GNI in the year the reduced spend takes effect). The most recent year for which there is data (2023) recorded an annual ODA cost of refugee hosting of £4.273bn. Even if refugee-related spending fell by £1bn by 2027, 35 percent of UK ODA would be spent at home, on this purpose.
- 3 A total of £9m of in-UK refugee costs was reported between 1990 and 2009; despite similar levels of arrivals.
- 4 In the past two fiscal years, ODA-eligible costs have represented 67% and 54% of total asylum support costs
- 5 Between 2017-2019, the UK recorded an average of £10,000 of ODA per asylum seeker (see figure 2), which demonstrates a suitable goal for the spending review period
- 6 We would caution against trying to set costs against immigration fees, which have risen precipitously in recent years.

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