House of Commons
Foreign Affairs Committee

Foreign and Commonwealth Office
Annual Report 2006–07

First Report of Session 2007–08

Report, together with formal minutes, oral and written evidence

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Foreign Affairs Committee

The Foreign Affairs Committee is appointed by the House of Commons to examine the administration, expenditure and policy of the Foreign and Commonwealth Office and its associated agencies.

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Conclusions and recommendations

Form of the Departmental Annual Report and related papers

1. Given the scale of its efficiency programme, we recommend that in its next Annual Report the FCO considers devoting more space to reporting progress on meeting its efficiency target. (Paragraph 8)

Comprehensive Spending Review settlement

2. We conclude that the Comprehensive Spending Review 2007 (CSR07) settlement for the FCO, one of the tightest in Whitehall, risks jeopardising the FCO’s important work. We recommend that in its response to this Report the FCO sets out what impact an average real annual reduction in its budget will have on its programmes over the CSR07 period. (Paragraph 21)

3. We recommend that in its response to this Report the FCO set out what items of one-off and time-limited expenditure were excluded in the baseline for calculating the FCO’s CSR07 settlement and the grounds on which it was considered reasonable to exclude them. (Paragraph 22)

4. We conclude that it was wrong that the FCO had much of its activity defined as administration during the Spending Review 2004 period and that the reclassification of £300,000,000 for front-line diplomacy activity from “administration” to “programme” expenditure is to be welcomed. We recommend that in its response to this Report the FCO clarify what the outcome was of its discussions with the Treasury on this point. (Paragraph 24)

5. We conclude that the FCO should not have to meet the growing cost of international subscriptions without a corresponding increase in its budget and recommend that in its response to this Report the FCO also set out whether its budget was raised accordingly for the CSR07 period. (Paragraph 25)

6. We conclude that the estates security programme begun in Spending Review 2004 must not be disrupted, since it affects the safety of staff. We recommend that in its response to this Report the FCO explains whether it has received the funding it requires to continue this programme and that it breaks down how the £183 million in capital additions will be used. (Paragraph 26)

Measuring performance

7. We recommend that in its 2007-08 Annual Report, the last report covering its performance against its SR04 PSAs, the FCO provide more evidence to support its assessments against target indicators. We are disappointed that the FCO was unable to assess its performance against all but one of its consular targets in its Annual Report because the IT system was not able to produce the data required. We find it surprising that Compass was not designed with this functionality and we
recommend that in its response to this Report the FCO inform us of progress in adding this functionality to Compass. (Paragraph 34)

8. We recommend that in its response to this Report the FCO set out what representations it has made to other EU Member States in order to try to reach a common position on Kosovo. (Paragraph 42)

9. We welcome Lord Ashdown’s positive assessment of the FCO’s work in Bosnia and Herzegovina, in particular his praise for the Ambassador and other Embassy staff. Nevertheless, it appears that sufficient progress is not being made in the state. We recommend that the FCO urge its EU partners to drive forward constitutional change in Bosnia and Herzegovina, in particular by sending out more positive messages about the prospects for the state’s eventual accession into the EU if certain reforms are carried out and Karadzic and Mladic apprehended, if in that country. (Paragraph 50)

10. We are very concerned that almost half of the total budget for the Global Conflict Prevention Pool was spent in Iraq and Afghanistan in 2006-07. We conclude that the FCO should not have to direct funds away from long-term conflict prevention into crisis management. We recommend that the FCO should receive funding from the Treasury contingency reserve for the civilian costs of crisis management in Iraq and Afghanistan. (Paragraph 53)

11. We were disappointed not to have been consulted on the FCO’s draft targets far earlier in the process and recommend that the FCO in its response to this Report set out why this was not done. (Paragraph 58)

12. We welcome the fact that it was the FCO, rather than DfID or the MoD, that led on developing the new PSA on conflict. This sent an important signal that the Government was committed to diplomacy as the best form of conflict prevention. We also welcome the new structure of the target, which appears to avoid over-reliance on quantitative measures or purely narrative assessment. We recommend that in its response to this Report, the FCO sets out the extent to which the NGOs and academics it consulted influenced the final conflict Public Service Agreement and any lessons learned from this consultation process. We also recommend that the FCO consults widely on the development of its future targets. (Paragraph 63)

13. We conclude that the current system of performance targets is less appropriate for the FCO than it is for other departments, and may absorb time which could be better spent on core functions. We also conclude that ten strategic priorities is too many. We recommend that both targets and priorities be simplified and reduced in number and we hope that the FCO’s consultation on the “new diplomacy” will assist in this process. (Paragraph 69)

14. While we welcome greater joined-up working between the FCO and other Government Departments, we recommend that should be a clear recognition across Whitehall, including from the Prime Minister’s Office, of the FCO’s responsibilities for foreign policy and are disappointed that Simon McDonald was unable to appear before us after his appointment as special adviser to the new Prime Minister. (Paragraph 76)
Operational efficiency

15. We recommend that the FCO keep us informed about progress of the Future Firecrest Programme, including giving us advance warning if there are likely to be further delays to its introduction. (Paragraph 81)

16. We recommend that the FCO sets out in its response to this Report exactly how it plans to identify the additional posts it needs to relocate to meet its Lyons target. (Paragraph 85)

17. We conclude that although the Shared Services Programme has great potential for efficiencies, it also carries some financial and operational risks. We welcome the fact that the Programme has had an OGC Gateway 0 review and recommend that the FCO share the review’s findings with us. We also recommend that the FCO confirm whether the Treasury has provided funding from its Restructuring Fund to meet short-term redundancy costs related to the Programme. (Paragraph 91)

18. We recommend that the FCO and UKTI work together to ensure that any reduction in FCO management and support costs that occurred as a result of UKTI reducing its presence in a post is recorded as accurately as possible in order to prevent any double counting of FCO and UKTI efficiencies. (Paragraph 96)

Measurement and leadership

19. We welcome Sir Peter Rickett’s commitment to improving management capability in the FCO, in particular signs that the FCO is opening up competition for senior management roles to professionally qualified, experienced individuals from outside the FCO. We recommend that in its quarterly management reports to the Committee, the FCO continue to update us on progress against the four key areas for action highlighted in the Capability Review. (Paragraph 105)

20. We are not convinced that the decision taken by the FCO Board in April 2007 to hold back money from some of its programmes will not have affected their work. We are especially concerned about the possible impact on bilateral projects and the Global Opportunities Fund. We recommend that in its response to this Report the FCO set out these programmes’ current financial position and whether money has been recommitted to them. (Paragraph 109)

21. We welcome the faster closure of the FCO’s accounts and the steps being taken to improve financial controls and management in the FCO. We recommend that the FCO keep us updated on the progress it is making in this area, including its Five Star Finance programme. (Paragraph 118)

22. We welcome the fact that the FCO’s Strategic Risk Register now better reflects potential sudden demands on its resources, such as Iraq, and we recommend that in its response to this Report the FCO explain to us its proposed changes to the Register. We also recommend that the FCO share with us the recommendations of its Internal Audit Department’s review of the FCO’s risk management framework and the action it is taking as a result. (Paragraph 123)
23. We welcome Sir Peter Rickett’s stated objective of reducing the FCO’s dependence on management consultants. We recommend that in its response to this Report the FCO set out the exact areas, in which it is currently being assisted by outside expertise, where it plans to build internal skills and the expected savings in consultancy costs. (Paragraph 127)

24. We recommend that there should be discussions of both foreign policy and corporate issues at the Senior Leadership Forum and Annual Leadership Conference. (Paragraph 130)

25. We conclude that the FCO’s rejection of the NAO’s recommendation to offer expert mediation to those individuals whose complaints initiated the review of grievance procedures sends the wrong message about its commitment to improving its procedures. We recommend that the FCO reverses this decision. (Paragraph 133)

FCO Services

26. We welcome the benefits that have been realised since FCO Services became an Executive Agency. However, we are concerned that once it transforms into a Trading Fund and becomes increasingly reliant on non-FCO clients, there is a risk that the quality of its services to the FCO may decline. We recommend that the FCO put safeguards in its Terms of Business and Service Level Agreements with FCO Services to ensure that it will be able to obtain good quality services from FCO Services at a reasonable price. (Paragraph 139)

27. We recommend that the FCO reconsiders the proposal to close its language centre. High quality language training is a vital part of successful diplomacy and we are not convinced that it will be successfully delivered by an outsourced model. In particular we are concerned that there appears to be a significant drop in the number of staff receiving language training over the last two years. (Paragraph 145)

28. We are concerned about the impact on staff morale of the redundancies related to FCO Services’ new business strategy. We recommend that the FCO inform us whether it has formally assessed staff morale in FCO Services and the results of any such survey. (Paragraph 149)

Diplomatic representation overseas

29. We welcome the increases in FCO staff in high priority places, such as Afghanistan, India and China. However, we do not think such redeployments should be decided without consideration of the impact on the FCO’s network as a whole. We note the apparent success of the Zero Based Review of the FCO’s European network and repeat the recommendation in our previous Report that the FCO should carry out a Zero Based Review of its entire network. We also recommend that in its response to this Report the FCO set out whether the CSR settlement will enable it to sustain higher level activity in Afghanistan in the longer term. (Paragraph 154)

30. We welcome the FCO’s decision to invest in premises in Mumbai. However, we are concerned by the decision to put building projects on hold while there is a major
review of asset sales. We reiterate our recommendation in last year’s Report that the FCO should base sales solely on the merits of each case rather than on a revenue raising target. (Paragraph 161)

31. We recommend that in its response to this Report the FCO give a public update on its latest plans for the Ambassador’s residences in Dublin. We also recommend that it explain who was responsible for the failure to carry out an invasive survey of Marlay Grange prior to acquisition. (Paragraph 166)

32. We are disappointed that there does not appear to have been a joined-up approach to the future of the Defence Attaché network, with the FCO simply taking a unilateral decision to withdraw its contribution to funding in order to reduce demands on its budget. We recommend that the Government reconsider the decision to make cuts to the Defence Attaché network, which is critically important to several Government departments and agencies, in order to ensure that the network has the necessary funding to perform all its roles effectively and efficiently. (Paragraph 172)

33. We welcome the publication of the consular strategy and the many new initiatives that have been established in consular services since the NAO’s review. In particular we were impressed by the new Consular Crisis Centre. However, the FCO must ensure that its planning includes the risk of an increase in demand for support from other EU Member States’ nationals. We recommend that in its response to this Report the FCO inform us how it is managing this risk. (Paragraph 178)

34. We are concerned that the FCO’s change programme for passports may mean British passport applicants overseas have to travel long distances to give biometric data and for interviews. We welcome the consideration the FCO is giving to using commercial partners to collect biometrics and to remote alternatives to interviews. However, we believe the FCO should also have a target for the maximum distance applicants will have to travel and we recommend that it develops such a target. We also recommend that the FCO share with us the business case for merging the overseas passport operation with the Identity and Passport Service, when it is brought to the FCO Board in November 2007. (Paragraph 183)

35. Given the basic weaknesses in VFS’ online facility, we agree that it should not be reopened. We are particularly concerned that, according to the findings of Costelloe Baker’s independent investigation, UKvisas did not follow best procurement practices nor adequately respond to prior warnings of the security weakness. We welcome the action set out in the FCO’s response to the investigation. In particular we conclude that it is vital that UKvisas carry out an audit of all its commercial partners’ data security procedures. We recommend that UKvisas share the results of this audit with us. (Paragraph 188)

36. We are concerned by the cost of calls to Posts on outsourced lines managed by Abtran Ltd. While we understand why Posts with high levels of inquiries might wish to outsource phone-handling, we find it unacceptable that British nationals are having to pay as much as an average of £8.00 to call the British Embassy in Canada. We recommend that in its response to this Report, the FCO share with us the process
of procurement leading up to the central framework contract with Abtran. In particular we would like to know whether it considered the likely average call charges and whether these charges are limited in the contract. (Paragraph 192)

**Transparency and openness**

37. We were very disappointed by the previous Foreign Secretary’s decision to withdraw a commitment to send us a quarterly management report. We welcome the fact that under the new Foreign Secretary this decision has been overturned. We remind the FCO that the other aspect of the commitment made to the Committee, was an assurance that we would be sent information, particularly key management papers, on a systematic basis. We recommend that in its response to this Report, the FCO set out whether it now intends to send the Committee key papers being considered by the FCO Board, such as the “Top Risks Register” (Paragraph 198)

38. We recommend that the decision to ban valedictory telegrams should be reversed, other than in respect of comments about the governments to which the outgoing Ambassadors or High Commissioners are accredited or comments likely to cause diplomatic embarrassment. (Paragraph 208)

**Public Diplomacy**

39. We conclude that it appears that the BBC World Service has been able to play a positive role as an observer on the Public Diplomacy Board without affecting its editorial independence. However, the Board must also respect the operational independence of the British Council. We recommend that the Board focus on developing strategies rather than discussing the detail of operations. At the same time, the British Council must ensure that it keeps the BBC World Service aware of its activities, particularly those that have the potential to be broadcast. (Paragraph 215)

40. We welcome the fact that there has been an increase in contacts between the British Council and FCO ministers and senior officials since the decision was taken that the Permanent Under-Secretary should not sit on the British Council’s Board and recommend that this increase in contacts should be sustained. (Paragraph 218)

41. We conclude that the decision to pilot targeted activity for public diplomacy activity is to be welcomed and support the approach of selecting three very different strategic priorities for the pilots. (Paragraph 222)

42. We recommend that the FCO keeps us informed of possible proposals for the shared evaluation framework. (Paragraph 225)

43. We recommend that in its response to this Report the FCO share with us the findings of its review of the Chevening programme and explain the basis on which Posts will be able to select scholars for the Chevening Programme. (Paragraph 229)
British Council

44. We recommend that the British Council presents income data by country in both tables and piecharts in its next Annual Report. (Paragraph 231)

45. We welcome the British Council’s increased audience figures, in particular the huge rise in its remote reach. However, three of its corporate outputs are still below target. We recommend that the FCO set out in its response to this Report what steps the British Council is taking to ensure it meets these targets the following year. (Paragraph 242)

46. We recommend that in its response to this Report the FCO set out what safeguards are in place to ensure that the British Council meets its 2007-08 efficiencies target without reducing its effectiveness. (Paragraph 246)

47. We welcome the fact that the British Council has further defined its aims beyond the 1934 objective. However, we conclude that China and Russia should be a major part of the British Council’s strategy and recommend that the British Council refers to these countries in its four objectives. (Paragraph 254)

48. We welcome Lord Kinnock’s confirmation that the British Council’s shift in resources out of Europe will not involve a reduction in funding for activities in Bulgaria, Romania or Turkey and his reassurance that British Council operations in the Balkans will continue to receive increased resources. We recommend that in its response to this Report, the FCO clarify whether it has any concerns about the extent to which the Council will be able to achieve its objectives and retain control of projects when relying on partners. (Paragraph 259)

49. We recommend that as part of its shift of resources into the Middle East, North Africa and South and Central Asia, the British Council should be aiming to expand its English language teaching work. We recommend that, as well as strengthening links with countries’ education systems, this expansion should include providing cheaper or free places for English language lessons in the highest priority areas, such as Afghanistan. (Paragraph 261)

50. We accept that in some circumstances it may not make financial sense to keep traditional library or teaching facilities open and we welcome the expansion of virtual educational services as a means of reaching a wider audience. However, we recommend that the British Council ensure that in any alternatives it provides to direct language training or library services, it is made clear that the British Council is the source of the material. (Paragraph 267)

51. We welcome the successful activities the British Council has been able to carry out in Russia, against a background of obstruction from the Russian authorities. We recommend that in its response to this Report, the FCO set out what representations it has made to Russia to urge it to conclude a Cultural Centre Agreement as soon as possible. (Paragraph 275)

52. Given that the British Council is facing a real reduction in its total budget over the three year CSR07 period, we recommend that in its response to this Report the FCO
set out whether the Council will now have to divert funding from more activities than previously planned in order to fund the additional investment in its Reconnect programme. We conclude that the Council should also have received additional funding for restructuring in this period so that it could achieve greater successes more quickly. We also recommend that the Government give a firm statement that it would be willing to give the British Council additional resources to further improve the security of its estates if it faced unexpected security issues during the SR07 period. (Paragraph 280)

**BBC World Service**

53. We welcome the BBC World Service’s performance over the last financial year, in particular its record audience figures, achieved against increasing worldwide competition. However, there are areas where improvement is required, including scheduling and marketing in Africa and partnerships in Latin America and parts of Eastern Europe. We recommend that in its response to this Report, the FCO update us on the Service’s progress on these areas. We also recommend that the Service keep us informed of any new targets it develops for measuring the impact of the web. (Paragraph 291)

54. We conclude that the BBC World Service’s investment in improving its distribution system is to be welcomed. (Paragraph 294)

55. We recommend that the FCO should support the BBC World Service by also making representations to the Indian government about removing restrictions on FM broadcasts. We also recommend that both the FCO and BBC World Service should make representations to All India Radio about the potential weakening of radio as a medium if it is not liberalised. (Paragraph 297)

56. We conclude that we can find no evidence to support claims that the BBC Russian Service was weaker than the main BBC news. However, we also conclude that the development of a partnership with the international arm of a Russian state broadcasting network puts the BBC World Service’s reputation for editorial independence at risk. (Paragraph 301)

57. We agree that it is sensible to focus resources in China on those media that are less subject to jamming. However, this must not be treated as a signal that the UK is giving up on persuading the Chinese government to make media more accessible. We reiterate our recommendation in our East Asia Report that the Government should make strong representations to China about this issue. (Paragraph 304)

58. We recommend that any decision to close further language services should be driven by declining audience need and reduced impact, and not by an arbitrary savings target. (Paragraph 309)

59. We welcome the BBC World Service’s strategy to move from being a radio broadcaster into a multimedia network. However, this will require a joined-up approach with the rest of the BBC’s services. We recommend that in its response to this Report, the FCO set out what consultations it has had with the Service about this
new strategy and what measures the Service is taking to ensure clear editorial lines and a coherent mix of services. (Paragraph 315)

60. We welcome the confirmation of £15 million annual funding for the Farsi language television service and an extra £6 million to extend the BBC Arabic television service. We also conclude that the BBC World Service should have received additional funding in CSR07 for its planned new investments and redundancy costs and recommend that in its response to this Report the FCO set out what the outcome was of the Service’s discussion with the Treasury on this point. (Paragraph 322)
1 Introduction

1. The Foreign Affairs Committee has a remit to examine the “expenditure, policy and administration” of the Foreign and Commonwealth Office (FCO) and its associated bodies.¹ Most of our scrutiny activity takes the form of inquiries into the FCO’s work on a particular theme or in a specific country or region. However, every year, we also carry out an inquiry which takes an overall view of how the FCO is managing its resources, using the FCO’s Annual Report as our starting point. This Report continues this annual series of inquiries, examining the FCO’s Annual Report for the period 1 April 2006 to 31 March 2007.²

2. In our Report on the FCO’s 2005-06 Annual Report we made recommendations on a wide range of issues.³ These included the FCO’s relations with Parliament, the quality of its management and leadership, its performance against efficiency and Public Service Agreement (PSA) targets, and the work of its consular services. We also looked at the FCO’s public diplomacy and the performance of the British Council and the BBC World Service.

3. This year a key area of interest for us has been the 2007 Comprehensive Spending Review (CSR07). We held our evidence sessions in June and July, when negotiations on the settlements and related new targets under the CSR07 for the FCO, the BBC World Service and the British Council were well underway. Details of the final settlements and targets were announced on 9 October 2007.⁴

4. Our inquiry also spanned a change in Prime Minister. In his reshuffle, the new Prime Minister, Rt Hon Gordon Brown MP, altered the leadership of the FCO. We welcome Rt Hon David Miliband MP to the post of Foreign Secretary and the other new members of the FCO’s ministerial team.

5. As part of our inquiry, we have taken oral evidence from Sir Peter Ricketts, Permanent Under-Secretary (PUS), Dickie Stagg, then Director General, Change and Delivery, Keith Luck, Director General, Finance, and David Warren, Director, Human Resources, FCO, as well as Rt Hon Lord Kinnock of Bedwelty, Chair, Martin Davidson, Chief Executive, and Margaret Mayne, Director of Finance, British Council and Nigel Chapman, Director, and Ms Alison Woodhams, Chief Operating Officer and Finance Director, BBC World Service. We are grateful to them for their evidence.

6. In a departure from our previous inquiries on the FCO’s Annual Report, we decided also to hear from witnesses outside the FCO and its associated bodies. We asked Sir Ivor Roberts, former Ambassador to Italy and San Marino and author of a leaked valedictory e-

¹ House of Commons, Standing Orders of the House of Commons: Public Business 2007, HC 405, 29 March 2007, SO No. 152
⁴ HM Treasury, Meeting the aspirations of the British people: 2007 Pre-Budget Report and Comprehensive Spending Review, Cm 7227, October 2007
gram critical of the FCO, to give evidence on the Department’s performance over the last financial year. We also invited Rt Hon Lord Ashdown of Norton-sub-Hamdon, High Representative for Bosnia and Herzegovina until 31 January 2006, to discuss the FCO’s work in the Western Balkans. His evidence has helped us to put together a case study on the FCO’s performance against its PSA on conflict prevention. We would like to thank both Sir Ivor and Lord Ashdown for taking the time to give us their views.

Form of the Departmental Annual Report and related papers

7. The FCO’s Annual Report for 2006-07 was published on 9 May 2007. The main section of the report is structured around the FCO’s ten Strategic Priorities and is very well-presented, with a good mix of prose, tables and graphics. Last year we expressed disappointment that the FCO had discontinued the practice of including cost-benefit analyses in its reports. We recommended that the analyses should be reintroduced.5 In its response, the FCO said that cost-benefit analyses were not a mandatory requirement of the Treasury but agreed to include them where they could provide useful information not detailed in the performance assessment against PSA targets.6 This year’s report includes five such tables.

8. At 182 pages, the 2006-07 report is slightly longer than the 2005-06 report. There is a lot of narrative in its main section, but only two pages of the report detail the work the FCO has done to improve its efficiency. The FCO’s efficiency programme (which we consider in Chapter 4 of this Report) involves 27 different projects. Given the scale of its efficiency programme, we recommend that in its next Annual Report the FCO considers devoting more space to reporting progress on meeting its efficiency target.

9. The FCO, has, for the first time, made available a html version of the report on its website. It has further improved accessibility by offering to produce the Annual Report in alternative formats for anyone who requests them.7 We applaud these steps. The FCO has also continued last year’s practice, which we welcomed,8 of attaching a DVD to the Annual Report. This year, the Annual Report includes the DVD shown at the FCO’s 2007 Leadership Conference,9 which discusses the impact of globalisation and the FCO’s work in helping to deliver Strategic Priorities.

10. We have also received from the FCO various other documents, reporting on its financial performance or on its expenditure proposals. These include the FCO’s Supplementary Estimates Memoranda, in which the FCO explains why it is seeking approval of changes in the spending plans already agreed. In last year’s Report we drew attention to the fact that the 2006 Spring Supplementary Estimates Memorandum failed to comply fully with Treasury guidelines or to explain adequately the background to or the

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6 Foreign and Commonwealth Office, Response to the Eighth Report from the Foreign Affairs Committee 2005-06, Cm 7008, January 2007
7 Ev 62
9 We consider the FCO’s leadership forums in Chapter 5.
effects of the changes being proposed. There was evidence of improvement in the 2006 Winter Supplementary Estimates and 2007 Spring Supplementary Estimates Memoranda, but there were areas where more information could have been provided. We wrote to the FCO with specific suggestions and it has assured us that future memoranda will take our comments into account. We are grateful to the Committee Office Scrutiny Unit for helping us to analyse these financial documents and the CSR07 settlements.

11. We corresponded with the FCO on its Autumn Performance Report too. As well as asking for evidence to support certain assessments of PSA targets, we requested more information on efficiency reporting. In response, the FCO told us that the efficiency section of its Autumn Performance Report had been approved by the Treasury. Nevertheless, the FCO agreed to expand this section in next year’s report to ensure more detail was included on how efficiency savings were being delivered, particularly with respect to new or modified projects, as well as additional information on the quality measures being used. We welcome this commitment.

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11 Ev 47
12 Ev 56
13 Foreign and Commonwealth Office, Autumn Performance Report: A review of progress towards the FCO’s Public Service Agreement and Efficiency targets 1 April-30 September 2006; available at www.fco.gov.uk/
14 Ev 27
15 Ev 28
2 Comprehensive Spending Review settlement

12. We held our evidence sessions on this inquiry before the Government had announced the final outcome of the 2007 Comprehensive Spending Review (CSR07). Carried out a decade after the initial Spending Review of 1998, the CSR07 established expenditure totals within Departmental Expenditure Limits for 2008-09, 2009-2010 and 2010-11. Unlike the 2000, 2002 and 2004 Spending Reviews, the 2007 Review was characterised as “Comprehensive”. The Government explained the objective of CSR07 as follows:

Whereas past Spending Reviews have traditionally focused on allocating incremental increases in expenditure, the process of setting new long-term objectives in the CSR provides an important opportunity – with many past objectives achieved and supporting programmes and spending potentially available for reallocation - for a more fundamental review of the balance and pattern of expenditure within and across departments.16

13. In this Chapter we first outline the areas of disagreement in the FCO’s negotiations with the Treasury on its CSR07 settlement. We then examine the final settlement, considering whether it addressed the FCO's concerns. We consider related new targets for the FCO in Chapter 3. We look at the issues arising out of the CSR07 for the BBC World Service and the British Council in Chapters 10 and 11.

Areas of disagreement

14. In June 2007, Sir Peter Ricketts informed us that the FCO was still negotiating with the Treasury over its final settlement for the CSR07 period. At that time, four main areas of disagreement remained. The first was the way “administration” was defined in the FCO, given the Treasury’s target to find efficiencies of 5% in administration across Departments. The PUS told us:

[…] for some reason […] at the moment all FCO activity pretty much counts as administration, so the cost of our ambassador in Kabul or in Baghdad counts towards our administration costs, which for most people in other Departments is their support costs or perhaps their HQ costs.17

This was not the first time the FCO had raised its unusually high classification of front-line services as administrative expenditure with the Treasury. The FCO had discussed the issue with the Treasury during negotiations on the 2004 Spending Review (SR04), but had only succeeded in persuading it to reclassify consular and visa work. In our Report on the FCO’s Annual Report 2004-05 we expressed support for the FCO’s attempt to redefine its services

16 HM Treasury, *Releasing the resources to meet the challenges ahead: value for money in the 2007 Comprehensive Spending Review*, July 2006, Cm 6889, para 3.14, p 24

17 Ev 93
and urged the FCO to present a strong case to the Treasury. In response the FCO told us that it would pick up the issue again in CSR07.

15. Another point of difference between the FCO and the Treasury was the Treasury’s 3% overall target for efficiencies. Sir Peter Ricketts argued that this target would have a bigger impact on the FCO than other Departments since the FCO spent the largest amount of its budget on staffing costs. He told us that it might only be feasible for the FCO to achieve the 3% target if the Treasury recognised the impact on the FCO of rising international subscriptions. These subscriptions are met entirely from the FCO’s budget, which has “not kept pace” with rising subscription levels. The FCO is also responsible for meeting the costs of various commitments outside the contribution system, such as peacekeeping and other UN activities, as well as subscriptions for the new UN and NATO headquarter buildings. Sir Ivor Roberts argued that this situation was “utterly ludicrous”:

[…] the Treasury is behaving appallingly over this. It really is disgraceful that the Foreign Office should somehow be penalised for the fact that international subscriptions, over which it has no control at all, are going up, partly reflecting the success of the British economy.

16. The final area of disagreement between the FCO and the Treasury was capital security requirements. The PUS told us that the “[…] the cost of keeping our people secure in embassies around the world at a time of rising threats is mounting.” In SR04 the FCO made a specific bid for £200 million to make security improvements across its estates in light of the attack on the consulate in Istanbul. The majority was spent on “major security-driven infrastructure projects” and the rest on “smaller-scale security works, such as installing rising vehicle access ramps and fitting anti-shatter film on office windows”.

17. Sir Peter Ricketts explained that the FCO wanted to spend a similar amount in the CSR07 period - £60 million a year on major security infrastructure projects and a further £7 million on smaller-scale works. Part of this bid included the costs of providing permanent staff and office accommodation to the expanded Post in Afghanistan (which we discuss later in Chapter 7). However, the PUS told us:

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20 Ev 93 [Sir Peter Ricketts]
21 Ev 93
22 Ev 93 [Sir Peter Ricketts]
23 Ev 94
24 Ev 174
25 Ev 93
26 Ev 94 [Dickie Stagg]
27 Ev 109
28 Ev 109
29 Ev 49
We are not at present being offered the additional sums that we were offered in the last spending round, but we need something of almost that magnitude, if not quite at that level, to continue to make inroads into the list of posts that are not currently secure.30

Sir Ivor Roberts expressed concern about this, asking, “What happens when a British ambassador or consulate in the Middle East is blown up?”31

18. Sir Peter Ricketts also highlighted that in the last two Spending Rounds the FCO’s budget had grown more slowly than the budgets of many other Government departments.32 In the SR04 period, for example, the Department for International Development (DfID) received an average annual growth rate of real terms spending of 9.2% (as part of a commitment to increase UK official development assistance as a proportion of Gross National Income), while the FCO was only allocated an average annual increase of 1.4%.33

19. Sir Ivor Roberts argued that the Government had failed to consider that investing in diplomacy would save expenditure in the Ministry of Defence (MoD) and DfID:

The Foreign Office is about conflict prevention; DFID is largely about reconstruction; and the Ministry of Defence is about armed peacekeeping, intervention or whatever else it is called. The cheapest of those by far is conflict prevention, yet the Department of State that has the fewest resources […] is the Foreign Office, as far as I can tell […]

He added:

As it is, we often find, to our absolute horror, that we share a capital with DFID, and that DFID, because its budgets seem to be so much larger than ours, is able to outbid us in recruiting local staff.34

Final settlement

20. The CSR07 was announced shortly before we agreed this Report. The FCO received a settlement of £1.7 billion by 2010-11, broken down as shown in Figure 1 below. (The settlements for the British Council and BBC World Service are included in this table, but are also considered separately in Chapters 10 and 11).

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30 Ev 94
31 Ev 174
32 Ev 93
34 Ev 172
21. The FCO’s baseline budget for 2007-08 was taken to be £1.6 billion. Within the threyear CSR period, we calculate the annual real terms budget growth year on year upon this baseline as 3.4%,-1.2%, and -2.8% respectively. On our analysis, the FCO settlement therefore represents an average real annual reduction of 0.2% in its Departmental Expenditure Limit (DEL) against the baseline (CSR07 gives a reduction figure of 0.1%). This compares poorly to the settlements of other departments where the average real increase of DEL is 2.1% per annum over the CSR period. Sir Peter Ricketts told us that “the global presence that the FCO provides in a globalising world is one that is of real value to the Government.” We agree. We conclude that the Comprehensive Spending Review 2007 (CSR07) settlement for the FCO, one of the tightest in Whitehall, risks jeopardising the FCO’s important work. We recommend that in its response to this Report the FCO sets out what impact an average real annual reduction in its budget will have on its programmes over the CSR07 period.

22. Moreover, if the FCO’s settlement is compared against its expenditure plans for 2007-08 as set out in Public Expenditure Statistical Analyses, we calculate the change in budget as an average real reduction to be significantly greater: 5.1% per annum. This is because the

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**Figure 1: CSR07: FCO baseline and additions**

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<tr>
<th></th>
<th>Baseline</th>
<th>Additions</th>
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<tbody>
<tr>
<td></td>
<td>2007-08</td>
<td>2008-09</td>
</tr>
<tr>
<td>Resource DEL</td>
<td>1551</td>
<td>41</td>
</tr>
<tr>
<td>of which near-cash</td>
<td>1394</td>
<td>41</td>
</tr>
<tr>
<td>of which administration</td>
<td>396</td>
<td>-10</td>
</tr>
<tr>
<td>Capital DEL</td>
<td>148</td>
<td>58</td>
</tr>
<tr>
<td><strong>Total DEL</strong></td>
<td><strong>1581</strong></td>
<td><strong>99</strong></td>
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**Of which:**

<p>| | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>British Council</td>
<td>193</td>
</tr>
<tr>
<td>BBC World Service</td>
<td>246</td>
</tr>
</tbody>
</table>

* Full resource budgeting basis, net of depreciation

Source: HM Treasury

35 HM Treasury, Meeting the aspirations of the British people: 2007 Pre-Budget Report and Comprehensive Spending Review, Cm 7227, October 2007, Table D15, p 236

36 HM Treasury, Meeting the aspirations of the British people: 2007 Pre-Budget Report and Comprehensive Spending Review, Cm 7227, October 2007, Table 1.3, p 12

37 Ev 93
Treasury has used a baseline for the FCO’s 2007-08 budget in the CSR which excludes “one-off and time-limited expenditures that year”. We recommend that in its response to this Report the FCO set out what items of one-off and time-limited expenditure were excluded in the baseline for calculating the FCO’s CSR07 settlement and the grounds on which it was considered reasonable to exclude them.

23. The FCO has not been exempted from the Treasury’s cross-Whitehall target for 3% overall efficiencies and 5% administration efficiencies in the CSR period. The FCO will have to generate £144 million cashable efficiency savings over the next three years covered by CSR07, compared to £80 million in the SR04 period. The Treasury states that these savings will be achieved by: increased co-location with DFID, realising net cash releasing savings of at least £22 million per year by 2010-11; working more flexibly and effectively in Europe, releasing net cash-releasing savings of at least £9 million per year by 2010-11; and rationalisation of the overseas estate, enabling the disposal of £140 million of assets. These are ambitious efficiency targets and we will monitor the FCO’s progress against them and their impact on its services closely in our future Annual Report inquiries.

24. The administration baseline for 2007-08 in Figure 1 is significantly below that presented in the Main Estimates. In a written answer on 29 October 2007, the FCO confirmed that £300,000,000 for UK staff engaged in front-line diplomacy had been reclassified from “administration” budget to programme “other current” expenditure. We conclude that it was wrong that the FCO had much of its activity defined as administration during the Spending Review 2004 period and that the reclassification of £300,000,000 for front-line diplomacy activity from “administration” to “programme” expenditure is to be welcomed. We recommend that in its response to this Report the FCO clarify what the outcome was of its discussions with the Treasury on this point.

25. On the information available to us so far, we have been unable to assess the extent to which the CSR settlement addresses the other areas of disagreement between the FCO and the Treasury outlined at the beginning of this Chapter. We are unclear whether the rising cost of international subscriptions was taken into account in the FCO’s settlement. We conclude that the FCO should not have to meet the growing cost of international subscriptions without a corresponding increase in its budget and recommend that in its response to this Report the FCO also set out whether its budget was raised accordingly for the CSR07 period.

26. On estate security, the CSR announcement emphasised that the FCO settlement contained a “£183 million capital investment programme over the CSR07 period, including enhancing security across the UK’s embassy network and a new embassy in Kabul”. However, we are uncertain about the extent to which this figure meets the FCO’s initial bid

38 HM Treasury, Meeting the aspirations of the British people: 2007 Pre-Budget Report and Comprehensive Spending Review, Cm 7227, October 2007, Table 1.3, p 12
39 HM Treasury, Meeting the aspirations of the British people: 2007 Pre-Budget Report and Comprehensive Spending Review, Cm 7227, October 2007, Table 1.3, p 235
40 Foreign and Commonwealth Office, Main Estimate 2007-08, p 360
41 HC Deb, 29 October 2007, col 821W
42 HM Treasury, Meeting the aspirations of the British people: 2007 Pre-Budget Report and Comprehensive Spending Review, Cm 7227, October 2007, p 23
for security improvements. We conclude that the estates security programme begun in Spending Review 2004 must not be disrupted, since it affects the safety of staff. We recommend that in its response to this Report the FCO explains whether it has received the funding it requires to continue this programme and that it breaks down how the £183 million in capital additions will be used.
3 Measuring performance

27. The FCO’s Annual Report analyses the FCO’s performance in 2006-07 against nine PSA targets agreed with the Treasury for the SR04 period, which runs until March 2008. In this Chapter we first consider the FCO’s assessment of its performance against these targets. Since, as we will see later in this Chapter, conflict prevention is a key target for the FCO in the CSR07 PSA set, we focus in particular on the FCO’s assessment of its performance against its SR04 conflict prevention PSA target. We carry out a case study on the FCO’s performance in peacebuilding in the Western Balkans and we consider the FCO’s funding for conflict prevention. Finally, we outline the FCO’s new framework of targets for the CSR07 period and discuss whether the framework is appropriate.

Performance against PSA targets in 2006-07

28. Overall, the FCO has assessed its performance against all nine PSAs in 2006-07 as “amber”. Sir Ivor Roberts expressed scepticism about this assessment:

[…] you look at the progress towards PSA targets, and everything is on course. All nine of them are on course, so nothing could be going better.

[…] “PSA 2—to reduce the risk from international terrorism so that UK citizens can go about their business freely and with confidence.” We are on course. Well, that is great, but I do not perceive as I go from airport to airport that we are in that situation.44

29. It was unclear to us, too, why some of the indicators for PSAs had been assessed as “on course”. We wrote to the FCO to ask for evidence to support “amber” assessments of the following indicators:

- SR04 PSA 3 (A9) - By end 2007–08: A fully implemented comprehensive peace agreement between the Government of Sudan and the Sudan People’s Liberation Movement (SPLM), progress towards a stable and democratic government.

- SR04 PSA 4 (H) - Better integration of new EU members in European security, economic, social and JHA systems as a result of UK interventions.

- SR04 PSA 7 (A4) - A strengthened civil society as a consequence of the development of indigenous non-governmental organisations (NGOs), enhanced legislative process, strengthened public administration/ civil service.

- SR04 PSA 7 (A5) - An increase in the representation of women in national and local government as well as in civil society and international organisation.45

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43 PSA 1 Weapons of mass destruction, PSA 2 International terrorism, PSA 3 Conflict prevention, PSA 4 Effective EU, PSA 5 European security, PSA 6 UK Trade and Investment, PSA 7 Engaging with the Islamic world, PSA 8 Sustainable development, and PSA 9 Entry clearance and consular services.

44 Ev 176

45 Ev 64
30. In response, the FCO:

- told us that there had been some progress in implementing the north-south peace agreement and that the assessment would have been red if it had focused on Darfur only;

- detailed its work in preparing new Member States for accession, as well as the contribution these nations had made to EU policies;

- gave evidence to support statements that FCO-funded projects had helped to strengthen civil society in Saudi Arabia, Jordan and Kenya; and

- provided the Committee with further data to support the statement that there had been an increase in female representation in politics and civil society.46

31. In our Global Security: Middle East Report, we highlighted the fact that the six indicators for the PSA target on terrorism did not mention the role that the situation in the Middle East might play in reducing the risk of international terrorism.47 We also argued that given the severe deterioration in security in both the Occupied Palestinian Territories and Iraq highlighted in the FCO’s Annual Report, there might “be a case for arguing that ‘major slippage’ in these two arenas ought to weigh more heavily in the FCO’s consideration of whether it is meeting its Conflict Prevention target”.48

32. The evaluation of progress made against some PSA targets in the FCO’s Annual Report also appeared to be based on considerations of both inputs and outputs or outcomes. For instance the PSA 1 target, which relates to the rolling back of programmes of WMD, was assessed as “amber” or “on course” because although outcomes had been poor (North Korea carried out a successful nuclear test), the FCO increased inputs – “the FCO has consolidated progress and continued to expand the depth of counter-proliferation work”.49

33. The FCO was unable to assess its performance against six out of seven of its consular targets because data for the Consular Annual Return had not yet been collated. Dickie Stagg told us this was as a result of an IT problem:

the main IT system, Compass, used by our consular operation does not have as part of its functionality the ability to suck out directly details about the activity undertaken by staff. That is in the process of being changed, and by the autumn we will have it working properly.50

34. We recommend that in its 2007-08 Annual Report, the last report covering its performance against its SR04 PSAs, the FCO provide more evidence to support its assessments against target indicators. We are disappointed that the FCO was unable to assess its performance against all but one of its consular targets in its Annual Report because the IT system was not able to produce the data required. We find it surprising

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46 Ev 78
47 Foreign Affairs Committee, Eighth Report of Session 2006-07, Global Security: The Middle East, HC 363, para 220
48 Foreign Affairs Committee, Eighth Report of Session 2006-07, Global Security: The Middle East, HC 363, para 219
50 Ev 97
that Compass was not designed with this functionality and we recommend that in its response to this Report the FCO inform us of progress in adding this functionality to Compass. We consider the progress being made on developing another ICT system, Future Firecrest, in the following Chapter in the context of the contribution new ICT is making towards the FCO’s efficiency savings.

**Conflict prevention - a case study: peacebuilding in the Western Balkans**

35. The Balkans is one of 12 indicators in the FCO’s assessment of its progress against its PSA 3 target of “preventing and resolving conflict through a strong international neighbourhood”. The indicator states: “By end 2007/08, Western Balkan states at peace within and between themselves and continuing on the path to closer integration with the EU and NATO”. The FCO has given itself an assessment of broadly on course, with minor slippage, against this indicator. It states:

The Western Balkan states remain at peace within and between themselves, but inter-ethnic tensions persist. Serbia was awarded NATO Partnership for Peace (PfP) status, but lack of co-operation with the International Criminal Tribunal for the Former Yugoslavia continues to stall their Stabilisation and Association Agreement. Bosnia and Montenegro were also invited to join PfP.

The UK Government has provided considerable support both multilaterally (through the EU and NATO) and bilaterally, to help establish the conditions that will help the process of integration, with particular diplomatic focus on Kosovo's final status. Conflict prevention programmes are helping states and ethnic communities to address the underlying causes of instability in the Balkans, helping to remove barriers to further EU and NATO integration.51

36. The Balkans are also referred to in the FCO’s assessment of its progress against the second indicator for its PSA 5 NATO/ESDP target which is “a more coherent and effective European security and defence policy”. The FCO states:

Challenges remain in furthering EU-NATO co-operation, but some progress has been made, e.g. on Kosovo where both the EU and NATO will be engaged. This co-operation has supported complementarity between the EU and NATO and helped avoid duplication.52

37. We asked Lord Ashdown whether he agreed with the FCO’s overall assessment. He replied that amber was “a good judgement” since the FCO’s policy had “by and large […] been effectively carried out”. He believed that the “flaw and fault” in international foreign policy in the Western Balkans was Brussels:

The lack of co-ordination and sufficient muscularity for conditionality, putting the wrong people in the wrong jobs, the lack of an overall regional policy towards the Western Balkans and its penny-packet policies that apply to each country have left a

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situation where I fear the Western Balkans has gone backwards in the past 18 months.

He did not believe the Western Balkan would return to conflict, but his fear was that it would become “an ungovernable black hole in the middle of Europe”.\(^5\)

38. The resolution of Kosovo’s status is clearly the most significant issue in the Western Balkans at the moment and a delegation of Members of our Committee visited Belgrade and Pristina in July 2007. We therefore asked Lord Ashdown about the FCO’s performance on Kosovo in particular. Given Lord Ashdown’s experience as High Representative for Bosnia and Herzegovina (BiH), we also questioned him about the progress being made there by the FCO. We consider his comments on each of these territories in turn.

**Kosovo**

39. The FCO’s Annual Report described its work on Kosovo as follows:

\[\ldots\] our Posts in Pristina and Belgrade have worked closely with our international partners and the UN Special Envoy for Kosovo, Martti Ahtisaari, to take forward the process laid down in UNSCR 1244. \[\ldots\] We have strongly supported Ahtisaari’s proposals, which we believe form the basis for a settlement that would contribute to regional stability. We have been working closely with the UN and our Contact Group partners to guide the process to conclusion. We have also been closely involved in planning for EU and NATO operations in Kosovo after a final status settlement. We continue to push hard for Kosovo to meet standards in areas such as minority rights and the rule of law.\(^5\)

UK experts are also leading work to provide criminal intelligence to the UN mission in Kosovo.\(^5\) In evidence to our Global Security: Russia inquiry, the Minister for Europe, Mr Jim Murphy MP, restated the UK Government’s support for supervised independence for Kosovo, based on the Ahtisaari proposals and told us that he had recently had meetings with the UN Special Envoy.\(^5\)

40. Given the strength of Russian opposition, which we will consider further in our Global Security: Russia Report, efforts to push a resolution through the United Nations Security Council based on the Ahtisaari plan have now ended. The UN Secretary General ordered a new round of talks between Serbia’s leaders and Kosovo’s ethnic Albanian leadership, but they are unlikely to be successful.\(^5\) Kosovo is expected to declare independence if there are no results by 10 December, when the 120 days of negotiations called by the UN Secretary General expire.\(^5\) The United States has already indicated that it will recognise Kosovo unilaterally. It is likely that most European countries and the Islamic Conference will also

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\(^{53}\) Ev 163

\(^{54}\) Foreign and Commonwealth Office, Departmental Report 2006-07, Cm 7099, May 2007, p 44


\(^{56}\) Oral evidence taken before the Foreign Affairs Committee on 18 July 2007, HC (2006-07) 495-iii, Q 140

\(^{57}\) “Statehood or stasis: Crunch time nears for Kosovo”, Financial Times, 6 September 2007

\(^{58}\) “Serbia offers Kosovo reassurance”, Financial Times, 6 September 2007
recognise an independent Kosovo. However, several EU Member States, including Greece, Cyprus, Romania and Slovakia have said they will not recognise Kosovo’s independence without a UN resolution.\textsuperscript{59} It is therefore possible that there could be a serious split within the EU.

41. We asked Lord Ashdown about the likely scenario if there was no Security Council resolution. He replied:

Then you are in a very difficult situation. I guess that the United States independently recognises the independence of Kosovo. I guess that other countries follow suit and that most of the major countries of the European Union do so, but I guess that some do not. Then there is a division in the EU. We need to recognise that, but it does not alter the fundamental fact that Kosovo cannot again be governed by Belgrade.\textsuperscript{60}

42. Lord Ashdown criticised the lack of a united EU position on Kosovo, arguing that the “failure to take a clear and distinctive position on Kosovo” had “left open territory for the radicals in Serbia to play upon and, indeed, for Moscow to use.”\textsuperscript{61} We agree that it is disappointing. \textbf{We recommend that in its response to this Report the FCO set out what representations it has made to other EU Member States in order to try to reach a common position on Kosovo.}

\textit{Bosnia and Herzegovina}

43. Lord Ashdown’s overall assessment of BiH was that it had “gone backwards”. Yet he distinguished between his opinion of the situation in the state and his view of the FCO’s performance there:

I have a high regard for the work that the Foreign Office has done in the Western Balkans and particularly in Bosnia and Herzegovina. It was a tremendous assistance to me. In so far as I was able to achieve some things in Bosnia—I made some mistakes too—it was in large measure because of the huge support provided by Her Majesty’s Government through the Foreign Office.

He reserved particularly high praise for the Ambassador:

\textcurlybrackets{[…]} Matthew Rycroft, is an exceptional ambassador. \textcurlybrackets{[…]} I do not think that it is an exaggeration to say that he is probably, among all sides, one of the most respected, if not the most respected, ambassador in Bosnia.\textsuperscript{62}

44. On 19 June 2007 the Peace Implementation Council, which comprises 55 countries and agencies that support the peace process, took the decision that the Office of the High Representative should continue its mandate until 30 June 2008. The High Representative has certain powers, known as “Bonn Powers”, which include the right to remove from

\textsuperscript{59} “Serbia may use force over Kosovo”, \textit{International Herald Tribune}, 6 September 2007

\textsuperscript{60} Ev 165

\textsuperscript{61} Ev 163

\textsuperscript{62} Ev 163
office public officials who violate legal commitments and the Dayton Peace Agreement, which ended the Bosnian war, and to impose laws as he sees fit if BiH’s legislative bodies fail to do so. In its Annual Report, the FCO drew attention to the fact that having taken the “domestic and regional context into account” it supported the decision to continue the Office beyond 2007.63

45. In its Western Balkans Report, our predecessor Committee concluded that plans to reduce the role of the High Representative were essential to the establishment of an effective non-dependent state in BiH and expressed concerns about the impact of the Bonn Powers on the evolution of democracy in BiH. It recommended that the Government should encourage its partners to speed the transfer of competencies to the BiH government at the same time as increasing EU involvement in BiH, in a manner conducive to the long term development of democratic standards.64

46. We asked Lord Ashdown whether the FCO was right to support the extension of the Office. He replied:

No, I do not think that they were right, […] but I accept that that is the way that the international consensus was going. I suspect that the UK Government did not think that it was the best policy, either. The truth is that if you have these powers and do not use them, which was the position that I got myself into at the end, when I used them only once or twice, they become less and less possible to use. It is far more dangerous if one possesses them in theory but not in practice.

He believed it would have been better “to dispense with the Bonn powers completely and rely on the magnetic pull of the EU, as the driver for reforming change in Bosnia.”65

47. Lord Ashdown argued that the EU had been unable to drive the process of constitutional reform in BiH forward because it had not insisted on such change being a condition of the Stability and Association Agreement.66 He did not think this was the fault of the FCO, arguing that “unless the European Union is prepared to exercise that leverage, the British Government cannot” and suggesting that the UK was probably “doing as much as we can within less than optimal circumstances.”67

Lord Ashdown was particularly critical about the signals on the prospects for eventual accession of BiH coming out of the EU:

in the chancelleries of Europe there is, and this is well recognised in the Balkans, a lack of enthusiasm and perhaps even a growing feeling that we do not want the Western Balkans in. That has had a disastrous effect.68

64 Foreign Affairs Committee, Third Report of Session 2004-05, The Western Balkans, HC 87-I, para 171
65 Ev 165
66 Ev 165
67 Ev 166
68 Ev 163
48. The FCO’s Annual Report stated that BiH’s October 2006 elections had seen “an increase in national political rhetoric and less progress in key reforms than previously.”69 We asked Lord Ashdown what the UK was doing to counter nationalism. He replied:

I think we are doing quite a lot—Westminster Foundation for Democracy work, etc.—to build the civil society. I think we are doing quite a lot through our ambassador and through the British Council to try to encourage the process of reconciliation.

However, he believed that to be effective such work needed “a structure and functionality of the state”.70

49. The FCO’s Annual Report reported that it contributed £5,319,942 to the International Criminal Tribunal for the former Yugoslavia (ICTY) in 2006.71 We asked Lord Ashdown how likely it was that Radovan Karadzic, the former Bosnian Serb president, and Ratko Mladic, the Bosnian Serb general, would soon be apprehended. In response he argued that in his view Karadzic and Mladic were “further away from The Hague than they have probably been in the past 10 years.” He attributed this to NATO relaxing its conditions on the war criminals being delivered before BiH could join Partnership for Peace, a decision he described as “extremely unwise”.72

50. We welcome Lord Ashdown’s positive assessment of the FCO’s work in Bosnia and Herzegovina, in particular his praise for the Ambassador and other Embassy staff. Nevertheless, it appears that sufficient progress is not being made in the state. We recommend that the FCO urge its EU partners to drive forward constitutional change in Bosnia and Herzegovina, in particular by sending out more positive messages about the prospects for the state’s eventual accession into the EU if certain reforms are carried out and Karadzic and Mladic apprehended, if in that country.

Conflict prevention funding

51. The FCO runs joint pools with the MoD and DfID to support conflict prevention in many countries. DfID leads the Africa Conflict Prevention Pool, which covers Sub-Saharan Africa and had a budget of £63 million in 2006/07 (£64.5 million in 2007/08). The FCO heads the management of the Global Conflict Prevention Pool (GCPP), which covers the rest of the world. The GCPP had a total budget of £90.6 million in 2006-07 (it had an initial budget of £74 million in 2006/07, but also had access to £11.77 million of funds rolled over from FY 2005-06, as well as £4.83m of departmental DELs). £43.825 million of GCPP’s final allocation was spent on delivering strategies in Iraq and Afghanistan.73

52. We asked Sir Peter Ricketts whether there was a risk that by spending a significant proportion of GCPP funding in Iraq and Afghanistan, the FCO was missing the opportunity to do long-term conflict prevention work. He replied:

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70 Ev 166
72 Ev 167
73 Ev 78
[...] there is a danger of what you describe and it arises because of a longstanding problem in funding arrangements in Whitehall, which means that the Ministry of Defence, when conducting operations, is funded from the Treasury reserve for its operational costs, but the FCO is not. [...] 

We have people at risk in Baghdad and Basra, in Kabul and Lashkar Gah, who are effectively on operations and who need security, protection and money to survive in those very difficult environments. The only place we can get that, if we cannot find it from within our own budget, is the conflict prevention pool, so the result has been that more and more of the money in the pools has been allocated to the short-term requirements, and less and less to the long-term requirements.74

53. We are very concerned that almost half of the total budget for the Global Conflict Prevention Pool was spent in Iraq and Afghanistan in 2006-07. We conclude that the FCO should not have to direct funds away from long-term conflict prevention into crisis management. We recommend that the FCO should receive funding from the Treasury contingency reserve for the civilian costs of crisis management in Iraq and Afghanistan.

PSA framework 2008-2011

54. The PSA framework for CSR07 is different from the framework for previous Spending Reviews. In October 2006, the Treasury announced that PSAs would be set across Government according to the key challenges the UK faced, rather than on a Department by Department basis.75 The Pre-Budget Report 2006 indicated that there would also be a reduction in the number of PSAs.76 Each PSA would have a published cross-Government Delivery Agreement that set out how the PSA outcome would be delivered and by which Department.77 Alongside PSAs, Departments would also have Departmental Strategic Objectives (DSOs) which would cover “the broader business of Government”. DSOs would be defined in the CSR and would be linked to the PSAs.78

55. In March 2006, the FCO outlined its foreign policy strategy in the White Paper “Active Diplomacy for a Changing World: The UK’s International Priorities”79. This paper identified nine SPs for the UK and a tenth80 was added by the former Foreign Secretary in June 2006.81 Together, these priorities were as follows:

1 Making the world safe from global terrorism and weapons of mass destruction

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74 Ev 96
75 Speech by Economic Secretary to the Treasury at the SMF Business Forum, The PSA Framework in CSR 2007, 17 October 2006
76 HM Treasury, Pre-Budget Report 2006, 6 December 2006, Cm 6984, para 6.55
77 Ev 69
79 Foreign and Commonwealth Office, Active Diplomacy for a Changing World – The UK’s International Priorities, March 2006, Cm 6762
80 SP 6
81 Foreign and Commonwealth Office, Active Diplomacy for a Changing World – The UK’s International Priorities, March 2006, Cm 6762, p 28
2 Reducing the harm to the UK from international crime, including drug trafficking, people smuggling and money laundering

3 Preventing and resolving conflict through a strong international system

4 Building an effective and globally competitive EU in a secure neighbourhood

5 Supporting the UK economy and business through an open and expanding global economy, science and innovation and secure energy supplies

6 Achieving climate security by promoting a faster transition to a sustainable, low carbon global economy

7 Promoting sustainable development and poverty reduction underpinned by human rights, democracy, good governance and protection of the environment

8 Managing migration and combating illegal immigration

9 Delivering high-quality support for British nationals abroad, in normal times and in crises

10 Ensuring the security and good governance of the UK’s Overseas Territories

56. We have commented in the past on the misalignment of the FCO’s Strategic Priorities (SPs) and PSA targets. The FCO’s response to our last Report stated that it would ensure that PSA targets were fully aligned with its SPs. However, during this year’s inquiry, the FCO told us that it did not expect the CSR07 PSAs to cover all its SPs. Instead, it explained, its SPs would be mirrored in its DSOs, adding: “Our SPs do not therefore need to be bound by the PSA timetable, but can instead be revised as necessary to take account of evolving challenges in the international system.”

Sir Peter Ricketts explained this further to us:

We will be left with a set of 10 departmental strategic priorities and, like other Departments, a much smaller number of PSA targets, which will be geared to identify targeted bits of our activity. I hope that that will be more helpful to us, because it will point us to areas of joint working with other Departments.

57. In June 2007, the Treasury Committee recommended that Government departments should consult select committees about their DSOs and about the PSAs for which they were in the lead, sending committees drafts of those documents by mid-July at the latest. The FCO initially suggested to us that it would be likely to be in a position to brief us on draft targets “after the Easter recess”. Our briefing from the PUS did not actually take place until 3 October 2007, just before the CSR07 was announced. On 28 September 2007,
the FCO sent us details of its contribution to the CSR07 targets, as background to this briefing. This showed that it was going to be associated with six PSAs in which other Departments were in the lead: counter-terrorism, climate change, migration, international poverty, drugs and crime, and science and innovation. The FCO also gave us a summary list of its DSOs, which were unchanged from its previous SPs. Possible future reductions in the number of these DSOs are discussed in the final section of this Chapter.

58. We were disappointed not to have been consulted on the FCO’s draft targets far earlier in the process and recommend that the FCO in its response to this Report set out why this was not done.

**New conflict prevention target**

59. The FCO did inform us, in June 2007, that it was leading on drawing up a joint PSA target with the MoD and DfID on conflict. In our previous Report we criticised the indicators used for the SR04 PSAs, arguing that the FCO should discuss with Treasury a move to targets based on inputs and outputs, rather than outcomes which might be outside the FCO’s control.88 In response the FCO told us that it would have such discussions with the Treasury.89 However, Sir Peter Ricketts told us that the FCO was seeking an outcome-based target on conflict, despite the fact that it had “always found that the conflict PSA is the most difficult PSA about which to get sensible performance measures”. 90 He argued:

[…]

I recognise your point that sometimes you get outcomes without a great deal of input from the UK. But [...] measuring inputs measures enthusiastic work by Departments; it does not really measure whether that is achieving anything. If you want to take a view on whether all this activity is worth while, and whether it is a higher priority for funding than something else, holding us to the hard discipline of saying, “What are we are actually changing in the world as a result of this?” is worth doing, even though it is difficult.91

60. In our *Global Security: Middle East* Report, we recommended that the indicators for the conflict target should “reflect the impact of conflicts in the Middle East, including Iraq, the Occupied Palestinian Territories and Lebanon, on broader global security.”92 When we asked Lord Ashdown what he believed the PSA should look like, he suggested it should have “international coordination” as its aim.93 Sir Ivor Roberts did not believe it was worth establishing objectives for conflict prevention. He argued:

When dealing with conflict prevention, I do not see the great value of management-speak and management practice. I have a slightly pessimistic view of diplomacy, […] as a slightly Sisyphean task. You constantly push your boulder up hill and most of

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90 Ev 95

91 Ev 95


93 Ev 170
the time watch a series of boulders going down in the other direction. I do not believe that Wall Street language will help anyone to deal with the problem.94

We consider Sir Ivor’s arguments against the current levels of performance measurement in the FCO in the following section.

61. The FCO told us that it was consulting with the NGO community, through the Peace and Security Liaison Group, and also looking to engage the academic community, think tanks and stakeholders in the international system on the development of the conflict target.95 Sir Peter Ricketts explained:

[...] we are trying to have both a quantifiable sense of how much conflict is going on in the world and what Departments can do about it, and some more specific milestones for the individual programmes that we will pursue [...] That will involve a mixture of working with places such as the university of British Columbia, which has a model for measuring conflict globally, and referring to more specific milestones that apply to the activity of our Department.96

62. During our oral briefing on 3 October 2007, the PUS gave us more details of the conflict target. He explained that it would have a four pillar structure to measure the following types of progress: a downward trend in the number of conflicts globally, which would rely on statistical analysis from the Human Security Report Project; reduced impact of conflict in specific countries and regions, which would use an “illustrative selection” of countries or regions and consider FCO, DfID and MoD activity using baskets of quantitative and qualitative measures; effectiveness of international institutions to prevent, manage and resolve conflict and build peace; and effective UK capability to prevent, manage and resolve conflict and build peace.97 The baselines for these targets still needed work, but would be ready for April 2008 when the targets came into effect.

63. We welcome the fact that it was the FCO, rather than DfID or the MoD, that led on developing the new PSA on conflict. This sent an important signal that the Government was committed to diplomacy as the best form of conflict prevention. We also welcome the new structure of the target, which appears to avoid over-reliance on quantitative measures or purely narrative assessment. We recommend that in its response to this Report, the FCO sets out the extent to which the NGOs and academics it consulted influenced the final conflict Public Service Agreement and any lessons learned from this consultation process. We also recommend that the FCO consults widely on the development of its future targets.

An appropriate approach to performance measurement?

64. In June 2007, the Treasury Committee concluded that the function of the new system of targets across Whitehall Departments was “unclear”. It explained:

94 Ev 172
95 Ev 69
96 Ev 95
97 Ev 121
First, Public Service Agreements have been seen as a form of quasi-contract, specifying the performance expected from departments (or cross-departmental programmes) in exchange for the public spending invested in them. Given that a number of departments have agreed Comprehensive Spending Review spending plans without apparently agreeing Public Service Agreement targets at the same time it is unclear what part Public Service Agreement targets play in spending settlements. Secondly, the advent of Delivery Plans and Departmental Strategic Objectives raise issues about how these three sets of plans and targets fit together.  

We share the Treasury Committee’s concerns.

65. In the FCO’s case, there is a further degree of uncertainty over its 2008-2011 framework of targets. On 19 July 2007, the new Foreign Secretary gave a speech at Chatham House in which he questioned the value of having as many as ten SP/DSOs:

[...]

Based on this speech, the FCO is currently holding a public consultation on “new diplomacy”. Its website invites views on three “key questions”, including: “What should our priorities be?”

66. When we asked Sir Ivor Roberts about the FCO’s SPs, he expressed scepticism about the entire exercise of performance measurement:

[...]

In particular, he criticised number 4 for being “apple pie and motherhood stuff [...] so vague and bromide-like that [...] it was not] worth putting down on paper and developing measurements towards” and number 9 for being simply “a job description”. Sir Ivor argued that diplomacy was unsuitable for performance measurement:

[...] some things cannot be measured—diplomacy is not that sort of thing. [...] it is an art, not a science [...] There is a famous Spanish proverb: “Traveller, roads are made by walking.” [...] that is how you have to approach diplomacy. You have to
walk that path yourself, and put down markers as you go. There are no guidelines. Simply to see it all in terms of PSAs and SP2s and all the rest of it is to reduce diplomacy to a mathematical science, which it does not begin to approximate to.  

67. In Radio 4’s PM programme, he further argued that because it was spending too much time trying to meet targets, the FCO was less able to perform “core functions”, such as advising ministers on policy. Sir Peter Ricketts responded to Sir Ivor’s comments as follows:

Of course you can poke fun at management speak, which I try to avoid where I can, but the idea that the Civil Service is trying to manage itself in modern ways, make efficient use of public money and open itself up to the same disciplines as the private sector is not stupid, actually, and it is a pity to suggest that it is. I have great respect for the individual concerned, who was a fine diplomat, but the younger generation coming on behind him are much more comfortable looking at the public service in that way.

However, Sir Ivor told us that he had received over 100 e-mails in response to his valedictory, many from junior members of the FCO who supported his comments.

68. Sir Ivor did, however, believe that it was important to have some form of strategy for foreign policy. He told us, “I certainly do not believe that you should reduce it simply to the level of a sort of Lord Salisbury floating lazily down the stream, putting out the occasional boat hook.” He suggested having objectives “in very broad terms”, such as “that you want to protect British interests and respect for international law.”

69. **We conclude that the current system of performance targets is less appropriate for the FCO than it is for other departments, and may absorb time which could be better spent on core functions. We also conclude that ten strategic priorities is too many. We recommend that both targets and priorities be simplified and reduced in number and we hope that the FCO’s consultation on the “new diplomacy” will assist in this process.**

70. As well as asking what the FCO’s SP/DSOs should be, the Department’s public consultation on new diplomacy is also focusing on how best the FCO can coordinate foreign policy across UK Government and engage beyond Whitehall. We asked Lord Ashdown for his observations on the way foreign policy was currently carried out. He argued that Ministries of Foreign Affairs worldwide, including the FCO, were “somewhat puzzled by the world in which they suddenly, blinkingly find themselves.” He explained:
[...] our Foreign and Commonwealth Office was created at a time when we were living in an information-poor structure. [...W]e needed ambassadors and embassies [...] to know what was happening. Ministries of Foreign Affairs now live in an information-rich world and, frankly, I think this has discombobulated them. They are not quite sure what their job is because, by and large, an ambassador [...] can rather rarely provide you with an insight that is not available from other means, perhaps from the Head of State picking up the phone or sending an e-mail.112

71. Lord Ashdown argued that the FCO was not “doing the job it ought to be doing in the modern age”.113 He believed cooperation across Whitehall and with international partners was vital to modern diplomacy and that the FCO should model itself on modern commerce which had “stripped down the vertical hierarchies, [...] networked organisations and restructured them to serve their customer.”114

72. We asked Sir Peter Ricketts whether it might now be worth the FCO taking a Government-wide approach to its overseas network. He told us that the FCO was moving “increasingly” towards staffing Posts with individuals from across Whitehall, with the FCO playing a “small but enabling part”. His only “reservation” was that if staff from other Departments were to be the only British representative in a country they would have to be prepared to deal with any eventuality, which could mean taking on a wider role than their usual area of work.115 The FCO has established a “Future Role of the FCO” project “specifically to review with our key Whitehall partners their future planned international engagement and what the FCO’s distinctive contribution to this will be”.116

73. Lord Ashdown believed that the FCO’s role should be to provide project management:

[...What the FCO] needs to become good at—and what it is very bad at, by the way—is project management. It is very good at reporting and sitting dizzily above the scene and providing elegant telegrams for home, but what it should be saying is, “Here are the improvements that are needed to resolve this problem: here is the [..MoD] contribution, here is the Treasury contribution and here is [...] DfID’s contribution of aid; here is what we can do by bringing some police reforms in.”117

We consider the FCO’s project management skills further in Chapter 5, in the context of the FCO’s capital underspend.

74. Sir Ivor Roberts argued that it was important to have only one Department in the lead on foreign policy:

I think that we need to have a clear understanding of who runs foreign policy, and at the moment the lines are so blurred that it is very difficult to know, [...] whether it is

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112 Ev 169
113 Ev 170
114 Ev 169
115 Ev 104
116 Ev 78
117 Ev 169
run by a Department called DFID or a Department called the Foreign and Commonwealth Office is not the point. The point is that there can only be one British Government foreign policy, and in every capital there can only be one voice that holds sway. It can be the ambassador or someone else, but there can ultimately be only one person who is responsible. We cannot have—and this happens too often—two voices in the same capital.\textsuperscript{118}

75. During Rt Hon Tony Blair’s premiership, there were criticisms that foreign policy was being run from the Prime Minister’s Office rather than the FCO. Since taking over as Prime Minister, Gordon Brown has been seen to be marking a change in direction, appointing a new Foreign Secretary as well as an “outsider”, former United Nations Deputy Secretary General, Lord Malloch Brown, as Minister for Africa, Asia and the UN, attending the Cabinet. At the same time, the new Prime Minister has continued Tony Blair’s practice of appointing two foreign policy advisers, only one of whom, Simon McDonald, is an official from the FCO. We asked Sir Ivor whether he believed the FCO would be able to exert more control over the direction of foreign policy under Mr Brown. He answered:

My gut feeling is that the new Prime Minister, at this stage at least, wants to push work and policy back toward the Foreign Office. That is certainly what the Foreign Office feels, I think—that it is a welcome development, that it will spend more time on foreign policy and that less foreign policy will be decided inside No. 10.\textsuperscript{119}

We invited Simon McDonald to appear before us, but the Prime Minister’s Office refused.

76. While we welcome greater joined-up working between the FCO and other Government Departments, we recommend that there should be a clear recognition across Whitehall, including from the Prime Minister’s Office, of the FCO’s responsibilities for foreign policy and are disappointed that Simon McDonald was unable to appear before us after his appointment as special adviser to the new Prime Minister.
4 Operational efficiency

77. As part of the CSR 2004, the FCO agreed to make more than 2.5% year on year efficiency savings. This amounts to a total of £120 million by the end of 2007/08, of which £33 million will be delivered by the British Council and BBC World Service. The FCO’s Annual Report reports that it is “on track” to meet its total target by 2007/08. The Q4 efficiency figures for 2006/07 show that the FCO had made total efficiency savings of £87.8 million by the end of the financial year. The FCO is making efficiencies under the following initiatives and individual projects:

- Estates projects – Lyons (relocating from London and the South East of England to other parts of the UK), asset recycling and energy efficiencies
- Future Firecrest and Prism (ICT projects)
- Reductions in low priority activity – BBC Monitoring, alternative representation, and restructuring the Department of Strategy and Information
- UK/Ancillary pay-bill reduction – UK-based staff pay-bill reduction, ancillary pay-bill reduction, overtime reductions and local staff pay bill reductions
- Increase efficiency of procurement function – strategic sourcing and demand management, procurement at post and facilities management
- Restructuring corporate services – strategy unit savings, Finance Directorate savings, HR Change Programme, extra wider market turnover from FCOS (FCO Services), reductions in FCO back office, better project management, reductions in contractor costs and language training.

We consider the impact of some of these projects later in this Report, but for now we will look at three particular aspects of the FCO’s efficiency programme — ICT savings, workforce changes, and Shared Services — as well as the overall monitoring of the programme.

ICT savings

78. The ICT efficiency savings forecast for 2006-07 in the 2005-06 Annual Report were £16.4 million, but up to the third quarter of 2006-07 the outturn of ICT efficiencies stood at only £1.1 million. The 2006-07 Annual Report stated that this was because of a delay in the rollout of the Future Firecrest programme, which is replacing the FCO’s present desktop ICT system, known as Firecrest. As the rollout would not now take place until early 2008, related efficiencies would be realised outside the SR04 programme. The report added
that the FCO had introduced six new projects (included in those listed above) which “more than” compensated for the delayed savings.\footnote{Foreign and Commonwealth Office, Departmental Report 2006-07, Cm 7099, May 2007, p 126}

79. The Future Firecrest programme was delayed because new Cabinet Office security requirements at the time the FCO signed the Future Firecrest contract with Hewlett Packard meant a significant redesign.\footnote{Ev 69} We questioned Sir Peter Ricketts about whether these requirements could have been anticipated. He replied:

> It is unfortunate that we were just on the point of investing in Future Firecrest when the security authorities changed the rules on IT systems that could be connected to the internet and the security arrangements needed for them. When they come across evidence, the security authorities have a duty to ensure that the rules take account of it and none of us wants to be responsible for lapses in IT security.\footnote{Ev 97}

80. We asked Dickie Stagg who would cover the additional costs of the redesign. He told us that the FCO was very unlikely to get help from the rest of Government, but that it was negotiating with its IT partner in the programme, Hewlett-Packard, to try to minimise the cost. He added that the FCO hoped to conclude the contract variation negotiation in July and expressed optimism that the FCO would “be able to make these changes at a cost well below that forecast nine or 12 months ago, through some quite creative input from Hewlett-Packard and our own IT people.”\footnote{Ev 97} The FCO later told us that it had reduced the original estimate for the altered specification from £53 million to £36 million.\footnote{Ev 118}

81. It is unfortunate that additional security requirements have delayed the efficiency savings expected from the Future Firecrest Programme, but we congratulate the FCO on having managed to remain on target with its efficiencies by introducing new projects. We are also pleased to see that the FCO was able to negotiate a reduction in the additional costs of meeting the new requirements. However, we are concerned about the possibility of further slippage in the Programme. In January 2007 the FCO Board raised the risk level of the Future Firecrest Programme to “red”\footnote{Unclassified minutes of FCO Board, 31 January 2007} The FCO’s Board minutes for March 2007 stated that the timetable for the Future Firecrest programme remained “very tight”,\footnote{Unclassified minutes of FCO Board, 30 March 2007} although by July 2007 the Board was told that the risk status was expected to drop to amber by September.\footnote{Unclassified minutes of FCO Board, 23 July 2007} \textbf{We recommend that the FCO keep us informed about progress of the Future Firecrest Programme, including giving us advance warning if there are likely to be further delays to its introduction.}
Workforce changes

82. As part of its efficiencies, the FCO has a target of reducing its workforce by 310 staff by 2007/08. This excludes consular and entry clearance services, which are revenue-funded and are in fact expanding their staff numbers to meet growing demand.132 The FCO’s UK-based workforce decreased by 256 staff by the end of December 2006, compared with an interim target of reducing staff numbers by 265 by the end of March 2007.133

83. The FCO also has a Lyons relocation target134 of 450 by the third quarter of December 2010/11. By December 2006 the FCO had relocated 123 positions. The FCO’s Annual Report stated that it remained on track to deliver a further 171 relocations and was identifying more posts to relocate.135 We asked the FCO how it would identify the further 156 posts needed to meet the target. In response, the FCO rather dodged the question, writing:

The FCO took a strategic decision to base additional staff in support of its IT programme at Hanslope Park rather than in London. This, together with the inclusion of 200 relocated British Council posts to Manchester, and the increase in support service staff at Hanslope Park, mean that FCO is on track to meet in full its commitment of relocating 450 posts out of London by 2010-11.136

84. When we queried the inclusion of the 200 relocated British Council posts, Dickie Stagg replied:

It is not a way in which to massage the figure, Chairman. It is merely a reflection of the rules within which the Treasury makes us work, whereby our own non-departmental public bodies are counted in the figures for better or for worse. In some areas, that makes life more difficult for us. In others, it makes it slightly easier for us.137

Keith Luck added that the FCO had relocated 150 of its Hewlett-Packard colleagues, but that the Office of Government Commerce had ruled out this part of the FCO’s relocation plan on the basis that Hewlett Packard were partners, rather than direct employees, of the FCO.138

85. We recommend that the FCO sets out in its response to this Report exactly how it plans to identify the additional posts it needs to relocate to meet its Lyons target.

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132 Ev 114
134 A target for relocations from London and the South East to other parts of the UK, following the March 2004 Independent Review of Public Sector Relocations by Sir Michael Lyons.
136 Ev 69
137 Ev 98
138 Ev 98
Shared Services

86. The FCO has a Shared Services Programme to “simplify, standardise and streamline corporate services” within its network of Posts during the CSR07 period. The FCO estimates that the Programme could reduce the FCO’s baseline spend on corporate services by a net total of approximately £22 million, but states that this figure is only based on “high level analysis” at present.139

87. One of the main projects in this programme is to consolidate financial and procurement processes and human resources for locally engaged staff in a small number of Global Process Centres, beginning in the developing world where the potential savings are greater. The FCO also intends to outsource certain Facilities Management services to private sector contractors.140

88. We asked the FCO what the greatest risks it had identified in the Shared Services Programme were and what it was doing to counteract them. It told us that the greatest risks were financial:

There is the possibility that the Programme may not meet its required savings targets within the CSR period. There is also the possibility that HM Treasury may refuse to fund redundancy costs, thus impacting on Programme affordability, and that implementation costs will be greater than expected.

To mitigate these particular risks, the FCO had made a bid for Restructuring Funds from the Treasury for short-term redundancy costs, regularly reviewed its ongoing costs, and had appointed a benefits manager to “help define, record and measure all the benefits for the programme, ensure that these are monitored on a regular basis and the results reported back to the FCO Board.”141

89. The FCO had also identified operational risks in the Shared Services programme. These included “preparing posts for the Shared Services implementation/cut-over phase, and ‘change-fatigue’ leading to a loss of morale and key staff leaving, with implications for maintaining business as usual.” It told us that its communications team and business change teams were working to mitigate these risks.142 The FCO had also had an OGC Gateway 0 review of the Programme.143

90. The FCO told us that the Centres were a “well-established technique for improving corporate services in both the public and private sectors”, but acknowledged that they required “a high degree of technical expertise in order to implement successfully”. We asked the FCO what expertise or experience it was intending to draw on when setting up Global Process Centres. It replied:

139 Ev 69
140 Ev 69
141 Ev 114
142 Ev 114
143 Ev 114
The Shared Services Programme has brought in contractors and consultants with relevant experience and skills in this field, and has also engaged a senior OGC consultant to help manage the programme as a whole. We have consulted other private and public sector organisations to study their experiences. We are also using skills that exist within the FCO already by employing officers with experience of corporate services work within the Programme, and ensuring that FCO officers acquire skills from external contractors.144

91. We conclude that although the Shared Services Programme has great potential for efficiencies, it also carries some financial and operational risks. We welcome the fact that the Programme has had an OGC Gateway 0 review and recommend that the FCO share the review’s findings with us. We also recommend that the FCO confirm whether the Treasury has provided funding from its Restructuring Fund to meet short-term redundancy costs related to the Programme.

92. The FCO also has a separate Shared Service Delivery Plan to increase co-operation with DfID. This includes corporate services sharing and increasing the co-location of offices.145 DfID will then pay the FCO towards the overall costs.146 Forty-five DfID offices and approximately 600 of its staff are currently co-located with the FCO. The FCO and DfID have a target to increase the proportion of co-located offices by over 10% and the proportion of DfID staff in co-located offices by over 25% by the end of the CSR07.147 The FCO also has an agreement with DfID that it will move towards the FCO’s Future Firecrest platform from 2010-11.148

93. The FCO’s Annual Report stated that it has also agreed to work with the British Council to share services.149 Margaret Mayne told us that the Council already worked “very closely” with the FCO in a number of areas. These included shared arrangements for the provision of web services and close cooperation on procurement, particularly for mobile phone, travel and hotel contracts. She explained that the British Council was now talking to the FCO and DfID about sharing arrangements for banking and managing foreign exchange. It was also exploring shared services in the back-office accounting function, and opportunities for shared services in transaction processing.150

Efficiency monitoring

94. Treasury guidance for Departmental Annual Reports demands detail on how efficiency gains claimed in previous years have been audited and the auditor’s conclusions. Additionally, the Treasury Committee has recommended that departments should report their efficiency savings with reference to the Office of Government Commerce (OGC) classification of ‘provisional’, ‘interim’ and ‘final’, to help the reader to assess whether

144 Ev 114
145 Ev 69
146 Ev 105
147 Ev 114
148 Ev 104 [Dickie Stagg]
150 Ev 137
reported savings have been independently verified. We asked the FCO to give us an analysis of the Department’s reported efficiency savings according to the OGC classification, as well as copies of the Department’s latest quarterly efficiency monitoring reports submitted to the OGC. The FCO replied to us in confidence.

95. In February 2007, the National Audit Office (NAO) gave a “red rating” to the measurement of efficiencies in the project relating to the overseas network of the FCO staff engaged in UKTI work, because there was uncertainty whether efficiency gains were being double counted between the FCO and the UKTI. We asked the FCO what measures it was taking to ensure that there was no such double counting of efficiency gains. It told us that there was no direct double counting as the FCO and UKTI efficiency programmes were reported separately. Most FCO efficiency projects also had “no relation” to UKTI and, the FCO explained, where elements within projects could be identified as coming directly from UKTI savings, such as the UKTI elements of the Alternative Representation project, these elements were excluded. However, the FCO told us, in some projects it had:

not been possible to exclude indirect effects […] if UKTI reduces its presence in a post, this may make easier reductions in management and support costs that may be recorded as part of the FCO’s efficiency programme.

96. We recommend that the FCO and UKTI work together to ensure that any reduction in FCO management and support costs that occurred as a result of UKTI reducing its presence in a post is recorded as accurately as possible in order to prevent any double counting of FCO and UKTI efficiencies.

152 Ev 114
153 Ev 114
155 Ev 64
156 Ev 78
5 Management and leadership

Capability Review

97. In January 2005, the Collinson Grant review strongly criticised the management of the FCO. In response to our comments on the review’s findings, the FCO said it expected to “see a step change in the quality of leadership across the FCO by 2008.”

98. The FCO was subjected to a further review between October 2006 and February 2007, as part of a sequence of “capability reviews” across Whitehall. The review’s findings, together with the FCO’s response, were published in March 2007. The review made many positive comments about the FCO. However, it also identified four key areas for action:

- articulating clearly (for staff, stakeholders and the rest of government) the Department’s distinctive contribution to delivering the UK’s objectives overseas and the implications for its future role, shape and business model;

- strengthening change management capability and communications, for example, bringing change programmes into a coordinated and integrated programme monitored by the Board;

- strengthening the strategic management of HR and knowledge to support the future role and shape of the Department, in particular developing a HR strategy with a workforce plan; and

- strengthening business planning processes and disciplines to underpin more effective performance measures and resource allocation.

99. The review’s findings were reflected in the Cabinet Office’s survey of staff in the FCO Senior Management Structure, the results of which were sent to us by the FCO in February 2007. The FCO performed better than external benchmark norms in most questions. However, four of the five lowest favourable scores concerned management: only 18% and 36% respectively thought that poor management was dealt with effectively in the Department and were satisfied with the approach to performance management; only 28% thought that change was managed well in the Department (5% less than the Senior Civil Service overall); and just 29% thought that the FCO Board modelled a culture of effective teamwork.

100. We asked the FCO to update us on progress against the first key area for action in the Capability Review. Apart from its work on developing new cross-departmental PSA targets (discussed in Chapter 3 above), the FCO told us that it had also:
- established a strengthened Policy Planning Staff;
- created a new integrated Communications Directorate; and
- established a “Future Role of the FCO” project (discussed in Chapter 3).\

101. Regarding the second area for action, we asked the FCO whether, given the levels of confidence in performance and management expressed by FCO Senior Management Staff in this survey, it remained confident that it had the necessary staff skills to drive forward change. In response the FCO explained that it had now created a new Director General of Delivery and Change and that the new Director had appointed an “experienced” Director of Change, on secondment from HM Revenue and Customs, to lead the new Change Unit. The FCO added:

We are also increasing the project and programme management skills of our people by ensuring an increased level of professional qualification among our people directly employed on our major change initiatives. At a local level we will introduce a Change Management course for FCO managers in the autumn designed to improve the skills and confidence of our operational staff to deliver and implement the major changes planned.

The FCO has also told us that all of its Board Members are required to complete a “skills audit” when they take up their position.

102. In both of our last Reports into the FCO’s Annual Report, we have recommended that the FCO should bring itself into line with the rest of Whitehall by recruiting more professionally qualified, experienced people to top and middle roles in management. We therefore welcomed the news in February 2007 that the FCO had recruited a qualified Management Accountant, previously Finance Director for the Metropolitan Police, Keith Luck, via open competition to the role of Director General of Finance. We were also pleased to hear about the appointment of an experienced Finance Director for FCO Services, Clive Heaphy, formerly Finance Director of the English Sports Council (Sport England) and of a national commercial housing association.

103. We also asked the FCO how it was improving its strategic management of human resources, in light of the third key area for action highlighted in the Capability Review. It replied

The key actions we are taking in response to the Capability Review - including a clearer articulation of how and where the FCO adds most value, and a more
consistent and rigorous business planning framework - are designed to ensure that our resources are allocated to our highest priority activities and countries.

It gave the example of the expansion of the mission in Afghanistan (discussed in Chapter 7) as “evidence of the Department’s determination to move resources rapidly to where they are most needed.” In September 2007, it also told us that it had recruited a professionally qualified HR Director.

104. On the fourth key area for action (strengthening business planning processes), the FCO informed us that:

[...] a simpler and more consistent, corporate and professional business planning process has been introduced and is being rolled out across the Department. The new framework is built around Strategic Priority Strategies and Country Business Plans. This will increase the accountability of Strategic Priority Owners and Heads of Mission for delivery against their respective Strategies and Plans. We are developing a performance reporting framework to support the business planning reforms. This will apply consistently across the Department.

105. Sir Peter Ricketts told us that he would be happy to brief us further on the steps the FCO was taking in response to the Capability Review’s findings. We welcome Sir Peter Rickett’s commitment to improving management capability in the FCO, in particular signs that the FCO is opening up competition for senior management roles to professionally qualified, experienced individuals from outside the FCO. We recommend that in its quarterly management reports to the Committee, the FCO continue to update us on progress against the four key areas for action highlighted in the Capability Review.

Financial management

106. There have been signs since our last Report that the FCO’s management of finance continues to need improvement. The FCO’s Board minutes for April 2007 noted the Audit and Risk Committee’s “desire to see further urgent improvements in the finance function within the next 18 months” and the urgent need to improve the quality and timeliness of financial data. While the amounts lost to fraud in the FCO have fallen significantly since 2004-05 (from £957,000) they still stood at £344,000 in 2006-07.

107. As in 2005-06, the FCO had a significant capital underspend over the financial year 2006-07. Its capital spend in 2006-07 was projected to be £139 million in its Annual Report,

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168 Ev 111
169 Ev 118
170 Ev 69
171 Ev 99 [Sir Peter Ricketts]
172 Unclassified minutes of FCO Board, 20 April 2007
173 Ev 99 [Sir Peter Ricketts]
about 8% less than the budget of £150 million set out in the 2005-06 Annual Report.\textsuperscript{174} When we wrote to the FCO about this underspend it replied:

> [the underspend] should be seen in the context of an estate and ICT programme that stretches over five years. We fine tune spending across programmes towards the end of each FY to get as close to our annual targets as possible but it is very difficult to turn the flow of capital spend on and off easily. In this case a prudent approach was taken which resulted in an underspend.\textsuperscript{175}

As we have commented in our previous Report,\textsuperscript{176} the underspend is not in itself a huge difficulty since it can be carried over to this financial year. However, it does highlight poor programme management.

108. The FCO’s Board minutes for April 2007 also showed that the FCO was facing pressure on its budgets for this financial year (2007-08). The minutes stated that this was due to “new commitments” since allocations were made in 2005, “ongoing uncertainties around visa and consular income” and “a need to free up resources to invest in preparations for shared services”. As a result the FCO had to free up about £23 million and at its April meeting, the Board agreed reduce Administration budget allocations to Director Generals by £5million on a pro-rata basis, to hold back £10 million from the bilateral and Global Opportunities Fund budgets and to reduce the allocation of the Departmental Unallocated Provision to the Information Technology Directorate.\textsuperscript{177} We asked Sir Peter whether the Board had assessed the impact of reining in budgets. He replied:

> We certainly did […]. we assessed the impact of holding money back […] and we concluded that we could do it without doing violence to programmes that were already committed. Provided we took the decision by mid-year, we would be able to recommit some of the money if we found that we still had it.\textsuperscript{178}

109. We are not convinced that the decision taken by the FCO Board in April 2007 to hold back money from some of its programmes will not have affected their work. We are especially concerned about the possible impact on bilateral projects and the Global Opportunities Fund. We recommend that in its response to this Report the FCO set out these programmes’ current financial position and whether money has been recommitted to them.

110. There have been indications since our last Report that the FCO is seeking to improve its financial management. In 2006, the FCO ran a “Faster Closure exercise”, committing additional resources and a dedicated Project Manager to closing the FCO’s Resource Accounts for 2005-06. The Accounts were laid before Parliament in accordance with the


\textsuperscript{177} Unclassified minutes of FCO Board, 20 April 2007

\textsuperscript{178} Ev 99
Treasury target and received an unqualified opinion from the NAO. The Resource Accounts for 2006-07 were also laid before the summer recess.

111. At the FCO Board’s invitation, the NAO has recently reviewed the FCO’s financial controls. The review took the form of a series of Key Control Frameworks covering the main finance business processes that surround Prism (Oracle). The NAO’s overall conclusion was that:

[…] in most cases the process level controls exist but there appear to be fewer of the Management/Higher level controls identified as being in existence or operating. It is of course the latter that provide the overview to ensure that management information appears reasonable, and provides assurance that the process level controls are operating effectively. Put another way, good higher level controls are the key to reliable systems and data.

Keith Luck told us that the review had proved “very useful in the management of our accounts; and although it will not of itself necessarily speed up the production of the accounts, it will improve and enhance their quality.”

112. The FCO’s accompanying letter to the Committee stated that it had agreed to introduce the additional controls the NAO had recommended and that it would use the Key Control Frameworks as a basis for future internal audit testing. This letter also reported that the FCO had asked Pricewaterhouse Coopers to use their Oracle interrogation tool “GATE” to conduct a series of audits evaluating the controls within Prism, which would be copied to the NAO.

113. The FCO is also acting in other areas. In June 2007, the FCO told us that it had established a new “Financial Skills Team”, which reports directly to the Director General Finance and leads on policy and delivery, in order “to provide impetus and coherence to financial skills and training”. It also informed us that the Audit and Risk Committee was about to consider a business case for an 18 month financial skills project which would aim to improve financial skills “through both internal staff development and a limited amount of external recruitment”. The FCO described the key features of the project as follows:

[…] developing a financial skills framework that maps skills needed to jobs; delivering those skills through an improved finance training programme; establishing a trainee accountants scheme; and recruiting external finance specialists to a small number of key jobs.

114. In August 2007, the FCO told us that it was continuing to improve its monitoring and reporting mechanisms in order to provide more accurate and timely management information on capital spending. Keith Luck told us that the FCO was taking “action to
improve the timeliness and quality and completeness of the Board reports—and those reports that go to our budget holders across the organisation.” The FCO is also seeking to combine a number of change programmes within the finance function, under a programme called Five Star Finance.

115. The FCO has learnt lessons from the huge accounting fraud at the San Domingo Embassy in August 2006, which we considered in our previous Report. During our last Annual Report inquiry, the FCO told the Committee that “the fraud was allowed to take place because of non application of prescribed procedures rather than gaps in the control framework”. Keith Luck told us that in response the FCO “immediately wrote to all embassies to ensure that they saw the originals of bank statements, and […these] now come into our accounting centre in Milton Keynes.” “In due course”, he wanted the FCO “to move to a position where we can actually see the bank account details from the centre and have banking arrangements regionally or, indeed, globally around the world.”

116. We asked Keith Luck whether the FCO had considered internet banking. He replied:

Absolutely, and our intention under the shared services programme is to do precisely that, but we run up against some peculiar technical difficulties with internet and electronic banking, particularly around the security constraints that were referred to earlier; for example, the use of Firecrest. In the past few months, we have engaged actively with the Treasury, which is keen to run pilots with us. Oslo is particularly keen, as is Washington, for internet banking.

117. Another lesson learnt from the San Domingo fraud was to focus the financial compliance unit on high cash posts. Keith Luck explained that the ever-increasing cash balances, which were a feature of the San Domingo fraud, had “become a red flag to us.” He added:

[…]when our internal audit teams and the National Audit Office do a visit now, we ask them to follow through with four specific checks to highlight precisely the sort of fraud that we found at Santo Domingo. There is no complacency on our part […]

118. We welcome the faster closure of the FCO’s accounts and the steps being taken to improve financial controls and management in the FCO. We recommend that the FCO keep us updated on the progress it is making in this area, including its Five Star Finance programme.
Risk management

119. The FCO has separate operational and strategic Top Risks Registers. During our last inquiry we asked for, and received from the FCO, a copy of its Strategic Top Risks Register, on a confidential basis. We questioned why Iraq and the Middle East were not identified in the five strategic risks listed. In response, the FCO said that it had recently reformed the way risks were reported to its Board to ensure the Top Risks Register covered the range of different types of risk which required Board-level input. The FCO Board minutes for April 2007 show that Iraq is now included in the Top Risks Register as Strategic Risk 5.

120. The FCO refused to send us a copy of this year’s Top Risk Register, a refusal which we discuss in Chapter 8 on the FCO’s transparency and openness. However, the FCO did include information on its strategic Top Risks in the quarterly management report it sent us in September 2007. This stated that, in June 2007, the register included the following six strategic risks: Iran, terrorist attack, Afghanistan, Iraq, EU Constitutional Treaty and Pakistan. The PUS told us that the Middle East peace process was not included as a strategic risk because it was “a risk that is well known and fully managed in the FCO; we have been working on it for years.” He added:

> With an issue such as Afghanistan, Iraq or Iran, there is more likelihood of a sudden crisis demanding more FCO resources, and it is therefore the sort of risk that the Board thinks we ought to keep under regular review.

The FCO’s Board minutes for June 2007 show that the Board agreed that the strategic Top Risks needed to be “revamped to focus more on the implications for the FCO as an organisation”.

121. The quarterly management report also listed the FCO’s six top operational risks in June 2007. These were: physical security, FCO resources, systems of internal financial control, workforce planning, IT systems, and UKvisas control.

122. The FCO’s Board minutes for February 2007 referred to the Board approving recommendations from the Internal Audit Department’s review of the FCO’s risk management framework. Sir Peter Ricketts gave us further details of the review’s findings:

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191 Ev 100 (Sir Peter Ricketts)
193 Foreign and Commonwealth Office, Eighth Report from the Foreign Affairs Committee Session 2005-06: Response of the Secretary of State for Foreign and Commonwealth Affairs, Cm 6791, January 2007, response to recommendation 11
194 Unclassified minutes of FCO Board, 20 April 2007
195 Ev 114
196 Ev 118
197 Ev 100
198 Unclassified minutes of FCO Board, 29 June 2007
199 Ev 118
200 Unclassified minutes of FCO Board, 27 February 2007
The Internal Audit review of our risk management arrangements concluded that they were satisfactory. It came up with a number of specific points about the communication of risks and what we were doing about them through the organisation. The Board is keeping those regularly under review.\textsuperscript{201}

123. \textbf{We welcome the fact that the FCO’s Strategic Risk Register now better reflects potential sudden demands on its resources, such as Iraq, and we recommend that in its response to this Report the FCO explain to us its proposed changes to the Register. We also recommend that the FCO share with us the recommendations of its Internal Audit Department’s review of the FCO’s risk management framework and the action it is taking as a result.}

\textbf{Management consultants}

124. Sir Ivor Robert’s valedictory dispatch was quoted to have said that there had been an “explosion” of reports commissioned by management consultants, many of whose recommendations had done “little more than reverse the previous recommendations of management consultants 15 years ago”.\textsuperscript{202} In oral evidence he elaborated on this further:

Collinson Grant was a bad joke. I do not know who dreamed up that scheme, but in management terms Collinson Grant seemed to reverse most of the proposals for the organisation of the Foreign Office that had been introduced 15 years ago. […] you would think that these sets of management consultants were in collusion, and that one would say, “I’ll tell you what. One year you propose that we double the number of human resources people, and then we’ll come along five years later and say that they should halve the number. We’ll each get a handsome fee for it, and the Foreign Office will be left in the same position as it was at the start.”\textsuperscript{203}

125. The FCO’s expenditure on consultants rose by 46% between 2005 and 2006, from £24.07 million to £35.4 million.\textsuperscript{204} When asked whether the FCO relied too heavily on consultants, Dickie Stagg replied:

[…] the large bulk of the money, by far the biggest single sum, is spent on Hewlett Packard, which is our IT partner in developing a new global desktop system. Whether you define this as a consultancy is really quite an interesting and esoteric question, but I am absolutely sure that we need to have some high quality, private sector input into that process.\textsuperscript{205}

126. We asked Sir Ivor whether he felt the FCO had sufficient expertise to reduce its dependency on outside consultants. He replied, “[o]bviously, we need outside help to do what we are trying to do but in my experience of the process we have not gained experience

\textsuperscript{201} Ev 100
\textsuperscript{202} “Former envoy makes devastating attack on Blair’s ‘bullshit bingo’ management”, The Independent, 27 April 2007
\textsuperscript{203} Ev 172
\textsuperscript{204} Foreign and Commonwealth Office, Departmental Report 2005-2006, Cm 6823, Table 25, p106 and Foreign and Commonwealth Office, Departmental Report 2006-2007, Cm 7099, Table 21, p 146
\textsuperscript{205} Ev 96
to handle it ourselves successfully. Sir Peter Ricketts told us that he wanted the FCO’s
dependence on consultants to reduce during his time in post, arguing:

I think we ought to be trying, where we can, to grow expertise in the Department
that can take on some of the roles that consultants are rightly and inimitably helping
us with at the moment, such as our IT programmes.

127. We welcome Sir Peter Rickett’s stated objective of reducing the FCO’s dependence
on management consultants. We recommend that in its response to this Report the
FCO set out the exact areas, in which it is currently being assisted by outside expertise,
where it plans to build internal skills and the expected savings in consultancy costs.

Leadership forums

128. In our last Report we welcomed the FCO’s Senior Leadership Forum, comprised of
the Board and about 20 Heads of Mission, which meets every six months. One aspect of
the Senior Leadership Forum’s role is “contributing to the development of policy” and the
Forum has in the past discussed the UK’s strategic relationships with China, India, and
Russia. However, the Forum’s main focus is on corporate issues. Sir Ivor Roberts told us:

At the last one I attended there was a series of events at which we were going to be
talked at on various corporate governance issues. I feebly protested, saying,
“Shouldn’t we have something on the agenda covering Iraq, the middle east peace
process, Iran and so on?” I was told, “Oh, well, I expect we’ll find some time over
lunch to have a chat about that.”

129. The FCO also has an Annual Leadership Conference, which brings together Heads of
Posts from all around the world and senior managers based in London. The purpose of the
Conference is described as “to strengthen […] corporate leadership” and to ensure “the
Government’s international agenda is delivered across the network”. Sir Ivor’s dispatch
was reported to have said:

It’s been an excellent initiative to bring together senior ambassadors from around the
world twice a year but it would make better sense – even if occasionally
uncomfortable for the home team – if we were allowed to debate foreign policy
rather than corporate governance.

In oral evidence Sir Ivor told us:

206 Ev 177
207 Ev 96
06, HC 1371, paras 32 and 33
209 Connect, Issue 23, February 2007, p 3
210 Ev 178
212 “Former envoy makes devastating attack on Blair’s ‘bullshit bingo’ management”, The Independent, 27 April 2007
[...] something that I found quite shocking [was] when the Foreign Office assembled all ambassadors throughout the world a month before the Iraq war. The Iraq war was not on the agenda; it was not there to be discussed at all. That is extraordinary.213

130. We recommend that there should be discussions of both foreign policy and corporate issues at the Senior Leadership Forum and Annual Leadership Conference.

Grievance procedures

131. In December 2006, the NAO reported on its review of the FCO’s grievance procedures, which was initiated after the receipt of three complaints from FCO employees. The review found that before 2004, when the FCO revised its grievance procedure in accordance with statutory changes, the Department’s arrangements for handling grievances were deficient – written guidance lacked precision, investigating and resolving grievances took too long and management information was poor. The NAO report concluded that the revised procedure complied with good practice in most aspects, but set out areas for further improvements, which included:

- further refining its written procedure and ensuring more consistent compliance with it;
- developing a training plan for line managers and checking promotion panels adequately test understanding and commitment to good people management; and
- tighter central monitoring and case tracking.214

132. In response the FCO said that it accepted all the NAO’s recommendations and was putting together an action plan to implement them. There was one exception: the FCO declined to accept the NAO’s recommendation that it should offer expert mediation to the three initial complainants, arguing that it had done as much as any employer could reasonably be expected to do to resolve outstanding issues related to cases that predated its current procedures and that no further action was appropriate.215 In oral evidence Sir Peter Ricketts reiterated this argument and added:

[...] we would never have decided not to accept a recommendation of the NAO without serious thought. These were advisory recommendations and in the end [...] we had to take a view on whether mediation would add to what we had already been through with these particular members of staff.216

David Warren also told us:

The NAO invited us to consider—and made it clear that we were at liberty to reject—the suggestion that we should reopen old cases that we considered to be closed and should invite independent mediation to resolve issues that we no longer considered to be disputes.

213 Ev 177
214 National Audit Office, Handling staff grievances at the Foreign and Commonwealth Office, 4 December 2006
215 Ev 12
216 Ev 107
It is an important point of principle for us that, having gone through what we believe are exhaustive and very careful processes, and having done all that any responsible employer could reasonably be expected to do to resolve these disputes, we believe [...] it would not be correct to reopen these cases [...]. I recognise that that leaves an issue of disagreement, as it were, between us and the NAO. However, the NAO was content for us to respond in that way, as this was a report to FCO management.217

133. We conclude that the FCO’s rejection of the NAO’s recommendation to offer expert mediation to those individuals whose complaints initiated the review of grievance procedures sends the wrong message about its commitment to improving its procedures. We recommend that the FCO reverses this decision.
6 FCO Services

Trading Fund

134. FCO Services became an Executive Agency on 1 April 2006. As part of this process it has reformulated its business mission, which now focuses on delivering “secure services”, including IT, logistics and a secure environment, rather than providing “support services”.

It delivers services to both FCO and non-FCO customers. FCO Services employs approximately 1100 staff and delivers over 130 chargeable products.

135. In the last financial year, FCO Services had transformed from a loss-making internal department of the FCO into a surplus-making Agency. It increased revenues from non-FCO customers by 3.4%, increased customer satisfaction by 10% to 84% and reduced trade debts from over £22 million to £3 million. The FCO argued that efficiency savings of at least 15% of total costs should be achievable by FCO Services over the next 5 years.

136. The FCO told us that this transformation had been achieved by improving “relationship management and credit control processes”. Dickie Stagg explained:

What has happened is that we have changed some of the organisation’s incentives so that there is now a bigger incentive for people to operate in a more businesslike way. We have got the FCO working more efficiently as a customer. Previously, there was a slightly cosy relationship in which people would scratch each others’ backs; now, there is a much more transparent, commercial relationship in which people know what they are paying for in goods and services.

He added that the new Chief Executive and senior management team had also “helped to give the organisation new focus and energy.”

137. The FCO is currently running a consultation on its plans to convert FCO Services into a Government Trading Fund, that is, a service that can generate income, on 1 April 2008. It told us that as a Trading Fund, FCO Services would “remain an integral part of the FCO”. The Foreign Secretary would retain overall strategic control and direction of FCO Services, the FCO would agree its Business Plans yearly and its in-year performance would be reviewed quarterly by a Ministerial Advisory Board chaired by the Parliamentary Under-Secretary. The FCO also stressed that even as revenue from non-FCO customers grew, the FCO would remain FCO Services “principal customer and stakeholder”.

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219 Ev 48
221 Ev 69
222 Ev 69
223 Ev 101
225 Ev 69
138. However, as a Trading Fund, FCO Services will clearly have greater commercial and management freedom. We asked Sir Peter Ricketts about the accountability arrangements that would be in place between the FCO and FCO Services when it became a Trading Fund. He told us:

> It will have more of an arm’s length relationship with the FCO. I think that the Foreign Secretary will still have strategic oversight for setting its objectives and overall targets, but the Chief Executive will be separately accountable to Parliament.\(^{226}\)

The FCO consultation document about the decision to turn FCO Services into a Trading Fund states that the relationship between the FCO and FCO Services will be set out in a Framework Document, as well as Terms of Business and Service Level Agreements.\(^{227}\)

139. **We welcome the benefits that have been realised since FCO Services became an Executive Agency. However, we are concerned that once it transforms into a Trading Fund and becomes increasingly reliant on non-FCO clients, there is a risk that the quality of its services to the FCO may decline. We recommend that the FCO put safeguards in its Terms of Business and Service Level Agreements with FCO Services to ensure that it will be able to obtain good quality services from FCO Services at a reasonable price.** We will monitor the work of FCO Services carefully and will consider inviting its Chief Executive to give evidence to us after 1 April 2008, when FCO Services becomes a Trading Fund.

### Language training

140. FCO Services has concluded that it is not appropriate for it to continue to provide Language Teaching. In March 2007 the FCO informed the Committee that it had decided not to take on the Language Teaching operation as it was not “financially viable”.\(^{228}\) The FCO’s language centre will close on 2 October.\(^{229}\) The FCO has decided to adopt “a new business model [which] will entail more training overseas”\(^{230}\) and outsourced training in London governed by framework agreements with at least two possible suppliers for each foreign language.\(^{231}\) An invitation to tender was put out on 22 August 2007.\(^{232}\)

141. In a written answer the FCO expanded on its reasons for not taking on the Language Teaching operation:

> - the business demand for language training is changing from one-to-one to group training, a much more effective way of delivering tuition, involving four hours per day direct teaching time;

\(^{226}\) Ev 101  
\(^{227}\) Foreign and Commonwealth Office, *FCO Services: Moving to Trading Fund status Consultation Document*, July 2007, paras 4.1-4.2  
\(^{228}\) Ev 48  
\(^{229}\) Ev 118  
\(^{230}\) Ev 48  
\(^{231}\) HC Deb, 24 May 2007, col 1474W  
- demand for all languages fluctuates considerably;
- the recommended productivity of teaching staff (percentage of time spent teaching as opposed to other tasks e.g. lesson and exam preparation, producing materials, administration, pastoral care and liaising with overseas centres) is between 45 and 50 per cent. Very few languages attain this level and productivity is likely to fall below 30 per cent. in most languages with the move to group classes and more in-country training;
- a flexible hours and agency model operating on a “pay per use” basis achieves good productivity rates. Most external providers employ this model because of the fluctuations in demand;
- FCO language training costs on average 15-40 per cent. more than other providers;
- 40 per cent. of our existing teaching for priority languages is currently out-sourced despite our large in-house teaching staff; and
- performance by exam results indicates that the quality of teaching is not enhanced by having a permanent workforce.233

Sir Peter Ricketts told us:

[…] I do not want to leave any impression that we are somehow short-changing language training in the FCO. Frankly, the efficiency savings are not the only reason or even the main reason for the closure; the main reason is to have the most flexible and efficient way of teaching languages.234

142. The FCO estimates annual savings of £1.5 million.235 It argues that “the level of language teaching will not be adversely affected”.236 In oral evidence Sir Peter Ricketts committed himself “100% […] to maintaining the excellence of our language speaking abilities in the FCO.”237 In response to a written question about whether the proportion of language training would change, the FCO replied that: “it is proposed that in-country training will increase from current levels for those requiring a high proficiency level”.238

143. However, the number of staff receiving language training has decreased from 405 in 2004-05 to 252 in 2006-07.239 We queried this decline in our evidence session with the FCO. David Warren replied:

Several factors go into a fluctuation in the numbers receiving language training, one being the number of posts; we are localising slots and not deploying UK-based
diplomats. Another factor is that we are reusing diplomats who have existing language skills. In some cases we are recruiting diplomats with language skills. We are fast-tracking diplomats with the specific language skills that we want at the recruitment stage. […] we are not looking at any systemic or structural decline in the numbers receiving language training.240

144. Sir Ivor told us that he regretted the abolition of the language centre:

What concerns me particularly is that, going to outside consultants, they will not understand what the Foreign Office is all about, and what sort of specialised knowledge it needs. Some of the language centre people with whom I worked closely were outstandingly able, including those involved in the production of manuals on diplomatic language and the intricacies of diplomatic negotiation, which you would never find in a commercial company.241

We agree.

145. We recommend that the FCO reconsiders the proposal to close its language centre. High quality language training is a vital part of successful diplomacy and we are not convinced that it will be successfully delivered by an outsourced model. In particular we are concerned that there appears to be a significant drop in the number of staff receiving language training over the last two years.

Redundancies

146. In March 2007, the FCO wrote to us announcing redundancies as a result of FCO Service’s new strategy. It explained that four areas employing eight staff would close, and that five further service areas, employing 114 staff, were under review. The largest unit of redundancy was the language centre, which employed 58 full-time staff and 46 flexible lecturers.242

147. FCO Services and the FCO entered into consultation with Trade Unions in March. The FCO is trying to identify opportunities to redeploy staff, but the formal consultation process does include the option of redundancy.243 Sir Peter Ricketts told us the FCO was going through the process of redundancies “carefully”, because it wanted “to be good employers and follow absolutely best practice in that area.”244

148. We asked Sir Peter Ricketts about levels of morale. He replied:

It is always going to be difficult when you have an organisation that is going through a period of real, profound change, as FCO Services is, with some reductions in numbers. Equally […] there is a real sense of purpose in the organisation now. When
it is through the transformation, which is going to be difficult, there will be quite a sense of pride that it has converted itself from an internal department of the FCO into a Trading Fund that can go out in the market and do good work against the competition […] There is a very strong, forward perspective for FCO Services, and that will lift morale.245

149. **We are concerned about the impact on staff morale of the redundancies related to FCO Services’ new business strategy. We recommend that the FCO inform us whether it has formally assessed staff morale in FCO Services and the results of any such survey. We hope to visit Hanslope Park ourselves shortly and have discussions with staff.**

245 Ev 103
7 Diplomatic representation overseas

The ‘global’ network of Posts

150. Since our last Report, the FCO has informed us of only one Post closure – that of “a small residual post” in Kingstown, St Vincent & the Grenadines in March 2007.246 In February 2007 it wrote to us about the relocation of regional Embassy offices in Iraq.247 We have also been informed about the FCO’s decision to give Heads of Mission across its network more flexibility to decide to appoint local staff instead of UK-based staff. Posts will then be able to keep back some of the savings to appoint further local staff or for other uses.248

151. The largest change in its network of Posts which the FCO wrote to us about was the decision to reinforce its efforts in Afghanistan. The FCO has created 17 new positions in Kabul, five in Lashkar Garh, and two in Islamabad. It told us that just over half of the paybill cost would be met through “existing plans to draw down staff levels in Iraq” and the remainder from “reassignment of staff working in lower priority areas in London and overseas”. The FCO told us that it did not expect to have to close any Posts as a consequence, although it warned “our ability to sustain this increased level of activity on Afghanistan in the long term without considering future post closures will depend on the terms of our eventual CSR settlement.”249

152. In oral evidence Sir Peter Ricketts told us about further changes the FCO had made in its network:

They have not involved post closures so much as movement of staff away from the classic west European embassies and towards places such as India and China. From memory, we have moved about 25% of staff out of posts in Europe, or working on Europe in the FCO, towards places such as China, which has seen a 10% increase in staff, and India, which has also seen a 10% rise. [...] We have increased the size of embassies in countries such as Brazil, which are involved in global issues. [...] The PUS added that this trend of moving staff out of Posts in western Europe would continue, as other Departments were now able to look after their own interests there. Moreover, he believed the trend would “accelerate under the pressure of tight resources and a growing demand for the FCO to engage in a whole range of global issues, such as climate, energy and migration.”250

153. However, as last year, the FCO’s Annual Report once again does not discuss its network of posts at all. The FCO’s response to our last Report stated that it did not plan to

246 Ev 13
247 Ev 53 and 63
248 Ev 114
249 Ev 49
250 Ev 103
undertake a zero-based review (ZBR) of its entire global network.251 It has continued to undertake its ZBR of the Europe network, defined as looking “from first principles at the allocation of resources to the European network”.252 Board minutes from January 2007 and May 2007 show support for implementation of the ZBR programme and encouragement for it to be shared through the Change Committee and through other Directorates as an example of best practice.253 We asked Sir Peter Ricketts about the failure to discuss the FCO’s network of representation. He undertook to include it in next year’s Report.254

154. We welcome the increases in FCO staff in high priority places, such as Afghanistan, India and China. However, we do not think such redeployments should be decided without consideration of the impact on the FCO’s network as a whole. We note the apparent success of the Zero Based Review of the FCO’s European network and repeat the recommendation in our previous Report that the FCO should carry out a Zero Based Review of its entire network. We also recommend that in its response to this Report the FCO set out whether the CSR settlement will enable it to sustain higher level activity in Afghanistan in the longer term.

155. Our last Report also recommended that the FCO review its policy towards one-person UK-based diplomatic representation at Posts.255 In April 2007, the FCO Board considered a paper on Small Posts and the Board agreed that the definition of a Small Post would be reviewed.256 We asked the FCO about this in correspondence. It told us that the Board had had:

[… ] concerns that the then current definition failed to recognise adequately the characteristics of a Small Post and, as a consequence, the current grouping of the really small Posts, and the problems that arise for them.257

The Board had also considered whether Consulates General should be included in the definition of Small Posts. The FCO explained:

[… ] these Posts tend to have a limited range of tasks (e.g. they generally specialise in consular, entry clearance or commercial work). Thus they do not face the tensions arising from prioritising sometimes competing demands for work on Strategic Priorities, an issue that may affect sovereign Small Posts or those in Overseas Territories. Moreover, subordinate Posts can look to their superintending sovereign

251 Foreign and Commonwealth Office, Eight Report from the Foreign Affairs Committee Session 2005-06: Response of the Secretary of State for Foreign and Commonwealth Affairs, Cm 6791, January 2007, response to recommendation 16

252 Foreign and Commonwealth Office, Eight Report from the Foreign Affairs Committee Session 2005-06: Response of the Secretary of State for Foreign and Commonwealth Affairs, Cm 6791, January 2007, response to recommendation 16

253 Unclassified minutes of FCO Board, 31 January 2007 and 22 May 2007

254 Ev 104


256 Unclassified minutes of FCO Board, 3 April 2007

257 Ev 114
Post to handle tasks falling outside their specialist remit, a flexibility not available to sovereign or Overseas Territories Small Posts.258

156. We are pleased that the FCO is now reviewing the issues affecting Small Posts and consider that the attention being paid to appropriately defining the characteristics of such a Post should be helpful in reviewing the issues that they face. We will consider some of these issues further in our inquiry into the UK’s Overseas Territories.

**FCO estate**

157. The FCO sends us a quarterly report on assets sold and purchased. Between July and September 2006, the FCO sold four residences in Tel Aviv, Kingstown, Bordeaux and Nassau, with sales proceeds of £1,590,000. In the same period it purchased one office in Palma at a cost of £517,000.259 In November 2006, the FCO informed us that it had decided to sell the Ambassador’s former residence in Lisbon since the cost of its refurbishment would be greater than its market value and because the residence did not meet security requirements.260 In the last quarter of the financial year 06-07 the FCO sold properties in Vienna and Mbabane, with gross sale proceeds of £1,567,000 and purchased property in Nairobi and Warsaw, to the value of £4,376,000.261 The FCO has also written to us about the accelerated depreciation of its Basra Office’s asset value due to the withdrawal from Basra Palace to Basra Air Station.262 In April, following our letter to the Foreign Secretary urging a quick resolution to the future of the FCO’s accommodation in Mumbai, the FCO decided to purchase office accommodation in a building under construction in the Bandra Kurla area of the city at a cost of £30 million.263

158. The FCO Board minutes for May 2007 stated that there were “major (and urgent) requirements in Baghdad, Mumbai and further work in Kabul all driven by security” which meant that there was insufficient capital to fund fully the Estates Programme for 2007/08. As a result, the Board had taken the decision to continue with estates projects to which it was already contractually committed or mid-project, but to put other projects on hold while there was an urgent review of asset sales to provide more capital for the next two financial years.264 We asked the FCO about the extent of projects it had put on hold for this reason and the expected cost of this delay. It told us that it had had to postpone a new Consulate-General compound in Jeddah, the replacement of an office in Georgetown, the refurbishment of the High Commission in Bridgetown, new offices in Erbil and the refurbishment of buildings at Hanslope Park. The FCO had also decided to look at a sale/leaseback approach in Ottawa, where it had initially planned a traditional office refurbishment. It commented:

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258 Ev 114
259 Ev 14
260 Ev 5
261 Ev 111
262 Ev 63
263 Ev 54
264 Unclassified minutes of FCO Board, 22 May 2007
Our present estate situation at these locations is manageable, but far from ideal. [...] In most cases, the most significant cost of the delay comes in the form of carrying additional risks for an extended period until the new facilities have been completed.265

159. We also asked the FCO what the target for capital was in the urgent review of asset sales described in its May Board minutes. It told us that its “first concern” was to meet the agreed Treasury target of £140 million in asset sale receipts between 2004-05 and 2010-2011.266 The FCO still has £54.4m to be realised in further sales between 1 April 2007 and 31 March 2011 in order to reach this target.267 It added that it might have to sell some assets if the CSR settlement failed to meet an investment programme of £70-80 million.268 As we explained in Chapter 2, we are unclear exactly how the capital additions in the CSR settlement will be allocated. The FCO’s total estate was valued at £1.2 billion as at 31 March.269

160. We asked Sir Peter Ricketts whether there was a danger that the FCO would be forced to make inappropriate asset sales. He replied:

I am very conscious of that risk. I do not want to go there, if it can be avoided. The answer is that we are not looking at sales in desperate urgency, but we have to look at opportunities to sell parts of the estate in order to help provide the money for the higher priorities. We are bidding vigorously to the Treasury for more money next year. It is our programme, and the Treasury is bound to look to us to do some of it by realising some of the capital that we have locked up in estates around the world. We have learned lessons from the past and will aim to do that sensibly in order to ensure that we get proper value. If that takes a bit more time, it will have to take a bit more time.270

The action points from the FCO’s Board minutes for July 2007 showed that the Security and Estates Directorate was going to work up three or four options for the sale of high value properties.271

161. We welcome the FCO’s decision to invest in premises in Mumbai. However, we are concerned by the decision to put building projects on hold while there is a major review of asset sales. We reiterate our recommendation in last year’s Report that the FCO should base sales solely on the merits of each case rather than on a revenue raising target.

162. In its Report on the FCO’s 2003-04 Annual Report, our predecessor Committee concluded that “serious mistakes” had been made in the FCO’s handling of the sale of Glencairn, the Ambassador’s residence in Dublin, and the purchase of a new residence –

265 Ev 114
266 Ev 114
267 Ev 114
268 Ev 114
269 HC Deb, 5 June 2007, col 453W
270 Ev 105
271 Unclassified minutes of the FCO Board, 23 July 2007
Marlay Grange. Glencairn House and estate had comprised 14.2 hectares and was sold for Irish Punt 27 million (£24 million) in 1999. Marlay Grange was purchased for Irish Punt 8 million in 2000 (£6.258 million). An invasive survey was not carried out until after the property was purchased, when the extent of asbestos was revealed. The FCO had ended up deciding to repurchase Glencairn.

163. The National Audit Office also reported its conclusions on this episode and found that the FCO had embarked on the sale of Glencairn “without real knowledge of the likelihood of being able to find the kind of replacement that it wished to purchase” and that its purchase of Marlay Grange “should not have gone ahead unless the owners had first agreed to a full survey”.

164. During our inquiry into the FCO’s 2005-06 Annual Report, the FCO told us that it still intended to repurchase Glencairn and that it was not marketing Marlay Grange pending completion of the reacquisition of Glencairn. On 23 October 2007, in written answers to parliamentary questions, the FCO confirmed that the Ambassador remained in occupation of Glencairn House “and its immediate curtilage”, without paying rent, and that:

[U]nder terms agreed with the purchaser, the agreed portion of the sale price relating to Glencairn House and its immediate grounds of 2.87 hectares (Irish Punt 4 million, £3.5 million approximately at today’s rate of exchange) will only be payable when the Foreign and Commonwealth Office gives vacant possession. Total fees (legal and agents) relating to the sale amounted to about £170,000.

165. In the written answers the FCO also confirmed that it had incurred the following non-purchase costs related to Marlay Grange:

Up until mid-2004, we had spent £700,000 on works to Marlay Grange, which included asbestos removal, fees and security works. No refurbishment works have been carried out. Since mid-2004 we have incurred security and minor maintenance costs of £507,000.

166. On 30 October 2007, the FCO wrote to us in confidence updating us on its plans for the two residences. We believe this information should be in the public domain. We recommend that in its response to this Report the FCO give a public update on its latest plans for the Ambassador’s residences in Dublin. We also recommend that it explain who was responsible for the failure to carry out an invasive survey of Marlay Grange prior to acquisition.

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273 HC Deb, 23 October 2007, col 192W
274 HC Deb, 23 October 2007, col 193W
277 HC Deb, 23 October 2007, col 192W
278 HC Deb, 23 October 2007, col 193W
Defence Attachés

167. The FCO used to contribute about 30% or approximately £10 million a year to the cost of maintaining Defence Attachés/Advisers at Posts.\(^\text{279}\) Last year, it decided to withdraw this contribution. The MoD therefore undertook a review of its defence diplomacy network, with the aim of deciding whether to reduce the total number of Attachés or to increase funding to keep their numbers the same.\(^\text{280}\) On 17 September 2007, the Ministry of Defence announced that it would be creating a Defence Attaché post in Afghanistan and allocating an additional Attaché to Pakistan. However, Defence Sections would be closing in Albania, Croatia, Guatemala, Ireland, Macedonia, Slovakia and Thailand. In most of these countries Attaché cover would now be provided “from nearby states”. Defence Sections in Argentina, Egypt, France, Greece, the Republic of Korea, Malaysia, Poland, the Russian Federation, Spain and Ukraine would retain cover but be reduced by one.\(^\text{281}\)

168. During our evidence session, we asked Sir Peter Ricketts whether the FCO had had any discussions with the MoD about the implications of terminating the funding. He told us that he had talked to his counterpart in the MoD about the decision, but emphasised that the decision was taken by the FCO alone.\(^\text{282}\) He justified it as follows:

[…] like all Departments, we are under real pressure from the Treasury to show efficiency savings. We therefore had to look at the totality of our expenditure and make some prioritisation choices. […] We took the view that it was entirely right that the MOD should fund the defence attaché network for defence purposes […]\(^\text{283}\)

We challenged Sir Peter to tell us whether he believed the Defence Attaché network did not contribute to FCO objectives. He replied:

I believe it serves primary defence objectives, and it is therefore right it should be funded by the MOD. Defence attachés continue to work in close co-operation with FCO-funded parts of our missions abroad, but […] the funds that we had been providing, frankly, were not delivering high-priority outcomes for the FCO.\(^\text{284}\)

169. Following our evidence session with him, Sir Peter Ricketts wrote to us, saying that the FCO was still “keen to provide a platform for the Attaché network” through its posts. He explained that the MoD and FCO were cooperating on a new Service Level Agreement between the two Departments that would “ensure that the Attaché network is supported in the same way and on the same financial basis as are staff from other Government Departments located in our overseas posts.” Interim arrangements had been agreed for 2008-09, with full charging starting from April 2009. He stressed, “[O]ur aim throughout is

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\(^{279}\) Ev 91 [Sir Peter Ricketts]

\(^{280}\) Ev 92 [Sir Peter Ricketts]

\(^{281}\) HC Deb, 17 September 2007, col 125 WS

\(^{282}\) Ev 91-92

\(^{283}\) Ev 91-92

\(^{284}\) Ev 91
to maintain the effectiveness of close FCO/MOD collaboration in the UK and overseas in delivery of the Government’s defence and international security policy.”

170. Sir Ivor Roberts regretted the FCO’s decision. He told us that Defence Attachés had been “invaluable” to him when he was an Ambassador, explaining:

“They could pick up intelligence information in areas where I, as a layman in military terms, would never have been able to, and they could go into areas where I, as an identified ambassador, could not go. They could dress down, disappear into the night and pick up information that it was not possible for me to pick up, so I found their role very important in several posts where I went.

He further commented:

Again, it seems a pity that all this happens in the context of one Department trying to save money, as opposed to a holistic approach, asking, “Do we need military intelligence from our attachés?”

171. In its recent Report, Strategic Export Controls: 2007 Review, the Quadripartite Committee recommended that the Government should not:

cut defence attaché posts in countries where the export of goods and technology from the UK requires careful consideration to ensure that they meet the EU Code of Conduct on Arms Exports and the National Export Licensing Criteria, and in countries where the UK and other members of the international community are assisting in the destruction of surplus conventional weapons and WMD materials, or where there are concerns about the exporting of such surplus weapons and materials.

172. We are disappointed that there does not appear to have been a joined-up approach to the future of the Defence Attaché network, with the FCO simply taking a unilateral decision to withdraw its contribution to funding in order to reduce demands on its budget. We recommend that the Government reconsider the decision to make cuts to the Defence Attaché network, which is critically important to several Government departments and agencies, in order to ensure that the network has the necessary funding to perform all its roles effectively and efficiently.

Consular services

173. The NAO published a major review of the FCO’s consular services in November 2005. The FCO sent the Committee a final update on progress in implementing the NAO’s recommendations in March 2007. Initiatives the FCO has introduced in its consular services since the NAO’s review include:

285 Ev 109
286 Ev 177
288 Ev 29
- publishing a guide explaining the services that the FCO is and are is not able to provide to British people abroad, Support for British Nationals Abroad: A Guide, which we welcomed in our last Report;^289

- increasing the number of regional training courses for locally engaged staff from six to eight and introducing obligatory pass/fail pre-posting for all consular officers;^290

- creating an “Internal Communications Officer” within the Consular Directorate;^291

- running a programme of regional consular strategy conferences;^292

- running an award-winning “Know Before You Go” campaign;

- expanding the Consular Review team to include four full-time reviewers and two ad-hoc reviewers and requiring posts to produce implementation plans following a review;^293

- rolling out updated computer software, Compass (referred to in Chapter 3), to record consular cases;^294

- creating regional Rapid Deployment Teams in Hong Kong and the US to allow it to respond more quickly to emerging crises in distant locations;^295

- appointing additional Honorary Consuls (26 in 2006) to provide consular assistance to British nationals in areas where the FCO lacks official representation;^296

- established a new 24/7 Consular Crisis Centre able to respond to emerging crises;

- establishing a framework document with the Department for Culture, Media and Sport, who have responsibility for the aftercare of victims of major incidents, on providing support to British victims of major overseas emergencies.297

174. In April 2007 the FCO published a three year strategy setting out its approach to raising the quality, consistency, professionalism and efficiency of consular services.^298 In order to implement this strategy, the FCO is establishing two major change programmes, which will “drive improvements across the consular network and ensure our overseas


\[^{290}\text{Ev 14}\]

\[^{291}\text{Ev 14}\]

\[^{292}\text{Ev 14}\]

\[^{293}\text{Ev 14}\]

\[^{294}\text{Ev 14}\]

\[^{295}\text{Ev 14}\]

\[^{296}\text{Ev 14}\]

\[^{297}\text{Ev 6}\]

passport operation meets international requirements for second generation biometrics.”

We discuss changes to the overseas passport operation in the next section of this Chapter.

175. The Committee visited the FCO’s new Consular Crisis Centre on Tuesday 8 May. We were impressed by this new facility. Equipped with 67 workstations, including Firecrest and broadband networks, video and telephone conferencing facilities, television screens and access to key press agency feeds, it has the capacity to respond to two crises at a time.

176. According to the UK’s obligations under Article 20 of the Treaty establishing the European Community, the FCO’s consular staff overseas offer assistance to EU citizens whose own country is not represented. This assistance is offered on a reciprocal basis, with local agreements for which EU mission will help which unrepresented countries’ nationals. The European Commission has produced a Green Paper on Diplomatic and Consular Protection of Union Citizens in Third Countries, which was deposited in Parliament on 25 January 2007. The Paper put forward a number of proposals, including improving the information available to EU citizens on consular matters, broadening the entitlement of consular assistance to include non-EU family members of EU citizens, and establishing common consular offices to provide assistance to all EU citizens in third countries. At the meeting of the European Scrutiny Committee on this proposal, the then Minister for Europe described the proposals as “problematic” including because the Government provided consular assistance as a matter of policy rather than an obligation.

177. We asked the FCO what assessment it had made of the impact of providing support to other EU Member States’ nationals on the FCO’s consular network. It replied:

During 2005-2006, we recorded 120 serious cases in which we provided consular assistance to unrepresented EU citizens. To put this figure in context, the number of serious cases involving British nationals during the same period was over 26,000. Provision of help to EU citizens does not, therefore, currently represent a significant drain on our consular resources. We remain, however, alert to the risk that demand for our services may rise, particularly if the number of EU citizens travelling beyond the EU climbs. We will continue to work with the Council Secretariat, the Commission and EU Partners to monitor the situation, and to find new ways to coordinate our consular networks to ensure a fair, effective and efficient means of providing consular assistance in third countries to all EU citizens.

178. We welcome the publication of the consular strategy and the many new initiatives that have been established in consular services since the NAO’s review. In particular we were impressed by the new Consular Crisis Centre. However, the FCO must ensure that

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299 Ev 29

300 This article sets out an obligation of non-discrimination, i.e. it requires EU Member States to treat requests for consular assistance from unrepresented nationals of Member States on the same basis as requests by their own nationals.

301 Ev 114

302 European Union Document No. 6192/07

303 European Scrutiny Committee, Sixteenth Report of Session 2006-07, Documents considered by the Committee on 28 March 2007, including: Conservation of the European Eel; Diplomatic and consular protection of Union citizens in third countries, HC 41-xvi, para 2.6

304 Ev 114
its planning includes the risk of an increase in demand for support from other EU Member States’ nationals. We recommend that in its response to this Report the FCO inform us how it is managing this risk.

**Overseas passport operations**

179. The FCO’s business change programme for passports aims to align passport procedure overseas with that of the Identity and Passport Service (IPS). This will involve British nationals providing finger scans when applying for a passport from 2010 onwards and, for certain first time applicants, authenticating their identity by interview. It will also involve centralised passport printing in the UK. British nationals are now able to apply for a replacement passport through the IPS when visiting the UK.

180. We asked the FCO how far British nationals overseas would have to travel under the new system. In response the FCO said that it would “not be able to match” IPS’ UK target of providing offices within 60 minutes of where applicants live “in all places”. However, it planned to offer facilities to apply for a passport and give biometrics at all Embassies and Consulates and was also “looking at” alternative methods of collecting biometrics, such as through commercial partners, and introducing remote alternative, such as webcams, for interviews.

181. We also asked how long applicants would have to wait for their new passport to be sent to them. The FCO told us that the arrangements were “still being designed and tested” and that a global target time had yet to be agreed. However, it expected overseas clients to receive a similar service to that being provided by IPS to customers in the UK. Dickie Stagg told us:

> For most applicants, it will be a matter of two or three days for them to get a passport back. Of course, it depends hugely on where they are and how close they are to one of our consulates.

182. The FCO Board minutes for June 2007 show that the Board was considering a proposal by Consulate Directorate to merge the passport processing operation with IPS by 2011. The Board endorsed this “direction of travel” but also examined risks, such as the impact on the network, the cost of the transfer and the reputational risk to the FCO. A full business case will be brought to the Board in November 2007.

183. We are concerned that the FCO’s change programme for passports may mean British passport applicants overseas have to travel long distances to give biometric data.
and for interviews. We welcome the consideration the FCO is giving to using commercial partners to collect biometrics and to remote alternatives to interviews. However, we believe the FCO should also have a target for the maximum distance applicants will have to travel and we recommend that it develops such a target. We also recommend that the FCO share with us the business case for merging the overseas passport operation with the Identity and Passport Service, when it is brought to the FCO Board in November 2007.

**UKvisas**

184. UKvisas has a contract with the Visa Facilitation Service (VFS) to provide a visa application service in India, Nigeria and Russia. On 16 May 2007, the FCO closed VFS’s online service worldwide and confirmed that there had been a security breach of the personal details of visa applicants in India.\(^{313}\)

185. VFS and UKvisas had first been informed of the security problem in India in December 2005 and applicants in Nigeria had reported a similar problem in April 2006. On both occasions, VFS had taken some remedial action.\(^{314}\) The FCO told us that the view of its legal advisers was that liability for any compensation rested with VFS, not UKvisas.\(^{315}\)

186. Following the security breach, the then FCO minister, Lord Triesman, announced an independent investigation by Mrs Costelloe Baker, Independent Monitor, UKvisas, into the security breach. Costelloe Baker’s report was laid before Parliament on 26 July. It found that “no third party penetration tests were carried out in the development phase of the online system or after it was launched”, a failing which it described as “serious and very basic”.\(^{316}\) The report also highlighted other basic security failings within VFS and recommended that the online facility should not be reopened.\(^{317}\) On UKvisas’ responsibility, the report found that UKvisas did not follow best procurement practices in acquiring some of the visa support services, nor react adequately to notifications of the weakness.\(^{318}\) The report recommend that UKvisas’ Board should include a member with responsibility for governance of information assurance.\(^{319}\)

187. The FCO’s response to the report agreed that VFS’ online facility should not be reopened. Instead it will be replaced by visa4uk, UKvisas’ online application service. The FCO’s response also stated that the UKvisas Corporate Services Director would take on the role of Chief Information Officer and that a Technical Design Authority would be established to “ensure the overall coherence and integrity of UKvisas’ business processes”.

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\(^{313}\) L M Costelloe Baker, *Report of The Independent Investigation: breach of data security in the VFS online UK visa application facility, operated through VFS websites in India, Nigeria and Russia*, 16 July 2007, paras 2-3

\(^{314}\) *Report of The Independent Investigation*, paras 4-5

\(^{315}\) Ev 69

\(^{316}\) *Report of The Independent Investigation*, para 104


\(^{318}\) L M Costelloe Baker, *Report of The Independent Investigation*, para 158


\(^{320}\) L M Costelloe Baker, *Report of The Independent Investigation*, para 179

\(^{321}\) L M Costelloe Baker, *Report of The Independent Investigation*, para 172
UKvisas would also be revising its complaints procedures. It was already undertaking a strategic review of data processing (including by Commercial Partners), in order to strengthen Data Protection Act risk management processes, and would carry out a detailed audit of Commercial Partners’ data security procedures and practice in light of the Report.322

188. In our South Asia Report we concluded that the outsourcing of visa applications handling had greatly improved the process for visa applicants.323 We are therefore very concerned to hear that VFS’ online facility was not secure. Given the basic weaknesses in VFS’ online facility, we agree that it should not be reopened. We are particularly concerned that, according to the findings of Costelloe Baker’s independent investigation, UKvisas did not follow best procurement practices nor adequately respond to prior warnings of the security weakness. We welcome the action set out in the FCO’s response to the investigation. In particular we conclude that it is vital that UKvisas carry out an audit of all its commercial partners’ data security procedures. We recommend that UKvisas share the results of this audit with us.

189. In September 2007, the FCO informed us that “detailed discussions” were now underway on the integration of UKvisas with the Home Office’s Border and Immigration Agency.324 We learnt more about this merger when we visited UKvisas in October 2007. We urge the FCO to keep us informed of UKvisas’ progress in making this transition.

Telephone services

190. During the course of our inquiry, we received a memorandum from a British national working in the US complaining about the cost of calling the British Embassy in Washington. The memorandum drew attention to the fact that the calls were handled by an external company, Abtran Ltd.325

191. We asked the FCO about the extent of outsourcing of its lines across its network and the average cost of calls to such lines.326 It told us that most calls at FCO posts were handled by FCO staff at “normal” rates. However, UK visas had signed contracts with CSC Computer Sciences Corporation and VFS Global Ltd for visa applicant lines, with an average cost per call across all countries where the service was already in place of US$6. A “number of posts” had also outsourced phone handling in order “to deal with the large volume passport enquiries”. Some of these were local contracts, but the FCO also had one central framework contract for seven posts in Europe and North America with Abtran. The FCO told us the call charges for these calls varied by country, but that “a call made from Spain would cost an average of £3.00, from Germany £3.32, from the US, £5.00, and Canada £8.00”.327 It added that the FCO received no income from the telephone inquiry

322 Foreign and Commonwealth Office, Foreign & Commonwealth Office response to recommendations contained in the Report of the Independent Investigation: breach of data security in the VFS online UKvisas application facility, operated through VFS websites in India, Nigeria and Russia
323 Foreign Affairs Committee, Fourth Report of Session 2006-07, South Asia, HC 55
324 Ev 118
325 Ev 180
326 Ev 111
327 Ev 114
lines handled by Abtran Ltd in the last 12 months and that the surplus the company made allowed it to run lines at no cost to the FCO.328

192. We are concerned by the cost of calls to Posts on outsourced lines managed by Abtran Ltd. While we understand why Posts with high levels of inquiries might wish to outsource phone-handling, we find it unacceptable that British nationals are having to pay as much as an average of £8.00 to call the British Embassy in Canada. We recommend that in its response to this Report, the FCO share with us the process of procurement leading up to the central framework contract with Abtran. In particular we would like to know whether it considered the likely average call charges and whether these charges are limited in the contract.

328 HC Deb, 24 May 2007, col 1476W
8 Transparency and openness

Relations with Parliament

Flow of information

193. Among the documents, other than regular or routine publications, that we received over the last year without having to put in a request were:

- findings of the Capability Review of the FCO and the FCO’s response;
- the NAO’s reviews on Handling Staff Grievances at the FCO and on FCO Controls;
- FCO results of the Senior Civil Service Staff Survey;
- an updated Follow-up Action Plan for implementing the recommendations of the NAO’s review of Consular Services; and
- the consultation document on the establishment of a Trading Fund in respect of FCO Services.

We continued to receive quarterly reports on the FCO’s estate sales and purchases. Lord Triesman also offered us an annual progress report on two major change programmes in consular services, an offer which we have accepted. We requested and were supplied with the FCO Services Framework Document.

194. However, analysis of the unclassified minutes of the FCO Board’s meetings between January and July 2007 suggest that there has been mention of or consideration of other papers or proposals on, among other things:

- Review of Language Training (January)
- IT performance (February) and a new IT Directorate Strategy Process (April)
- Resource Accounting Department Risk Indicators (February and March)
- new Business Planning System (February)
- FCO’s risk management (February & March)
- Small Posts paper (March)
- Diversity business case (April)
- Europe Zero Based Review (January & May)
- Local Staff strategy (May)
- High Level Change Plan (June)

The Board also received regular Key Performance Reports and updates on Prism and Future Firecrest.

195. In June 2006, Sir Peter Ricketts’ predecessor, Sir Michael Jay, offered us “a report for publication on the main management issues that have been at the top of our agenda in the previous three months”. In a subsequent letter he was even more precise: “I would like to restate the offer I made during the evidence session on 28 June that we should let you have a quarterly report, for publication, on the main management issues that have been at the top of our agenda in the previous three months”. He also undertook “to put systems in place which will enable you to get information on a more systematic basis, in particular […] key management papers”.

196. In our last Report we expressed disappointment that we had not yet received any of the promised quarterly management reports from the FCO. In February 2007 we received a letter from Sir Peter Ricketts, which stated that “in consultation with our ministers” the FCO had taken the decision to “offer the Committee an account of the main developments roughly halfway between Departmental Reports”. We replied, asking why Sir Michael’s commitment had been withdrawn and whether the FCO still accepted that we should see FCO key management papers. Sir Peter’s response made it clear that the decision to reduce the amount of managerial information sent to us had been taken by the then Foreign Secretary:

> It is her firm view that, while we should be careful to keep the Committee informed of our work […], we should not routinely send Management Board papers to the Committee. […] She does not believe that a quarterly management letter would add materially to […] the existing flow of information.

When we wrote directly to the then Foreign Secretary, her response repeated the decision and emphasised that it reflected her views.

197. On 10 July 2007, after the appointment of the new Foreign Secretary, Sir Peter Ricketts wrote to us again, stating that he had discussed quarterly management reports with David Miliband and would be happy to provide them. We welcomed this as a sign...
of a new era of openness and transparency with the Committee. We were therefore disappointed when, in August 2007, our request to see a copy of the FCO’s Top Risks Register was refused. Although details of the FCO’s risk management were included in the quarterly management report we received in September 2007, discussed in Chapter 5, the FCO argued that it would not provide us with a copy of the Register because it was “a confidential internal document to inform the Board of Management on resource and operational decisions.”

Last year we requested and received, in confidence, a copy of this Register.

198. We were very disappointed by the previous Foreign Secretary’s decision to withdraw a commitment to send us a quarterly management report. We welcome the fact that under the new Foreign Secretary this decision has been overturned. We remind the FCO that the other aspect of the commitment made to the Committee, was an assurance that we would be sent information, particularly key management papers, on a systematic basis. We recommend that in its response to this Report, the FCO set out whether it now intends to send the Committee key papers being considered by the FCO Board, such as the “Top Risks Register”

**Scrutiny of senior diplomatic appointments**

199. In previous Reports we have announced our intention to scrutinise the appointments of individuals outside the diplomatic service to senior diplomatic posts, hopefully before the appointments are formally made.

200. In August 2007, it was announced that Scottish Labour leader and former First Minister, Jack McConnell, would become the next British High Commissioner to Malawi, after being nominated by the new Prime Minister. The current High Commissioner’s posting is scheduled to end in 2009. We intend to hold a confirmatory hearing with Mr McConnell before he takes up post as British High Commissioner to Malawi.

**Protective marking**

201. In our last Report, we recommended that the FCO should examine the way it applied protective marking criteria, following the classification of the Hogarth Review of ministerial private offices as “confidential”. The FCO’s response made it clear that it had no intention to revise its policy.

202. During our recent *Global Security: The Middle East* inquiry we wrote to the FCO asking questions about its administration and expenditure in the Middle East. We received...
a reply with a “confidential” classification. However, with one exception, answers to similar questions submitted by the Chairman as Parliamentary Questions were not withheld. We concluded that the FCO needed to reconsider its approach towards confidentiality of documents, and recommended that it should not apply a blanket classification to documents, when parts of them could be released. In response the FCO told us that in future it would consider how it could release parts of documents in order to help meet our needs.

We welcome this response.

Freedom of Information

203. The FCO received 1030 requests under the Freedom of Information (FoI) Act in 2006. Of these requests, 72 generated requests for internal review of the FCO’s decisions and 40 generated complaints to the Information Commissioner’s Office (ICO). Three ICO decisions were appealed to the Information Tribunal. The ICO has disagreed with the FCO’s response in two of the 24 complaints it has so far decided. In both these cases the FCO is appealing to the Information Tribunal. In a further two cases the ICO has required the FCO to disclose partially withheld material.

204. There has been steady improvement in the FCO’s performance in meeting permitted deadlines for FoI requests. In 2005, the FCO’s performance in this area was 86%. In the last quarter of 2006, the FCO achieved a 96% success rate. This improvement continued into 2007, with the FCO answering 98% of requests within the permitted deadline between April and June 2007.

205. The success rates for meeting permitted deadlines include requests dealt with under the provisions allowing for an extension of the statutory 20-day period. In our last Report we drew attention to the fact that the FCO had the highest number of permitted extensions of any Whitehall Department, with 25% of requests dealt with under this provision in 2005. By April to June 2007, the FCO’s proportion of permitted extensions had declined to 14%.

206. We welcome the FCO’s steady improvement in meeting permitted deadlines under the Freedom of Information Act. We are also pleased to see that the FCO’s proportion of extensions is reducing.

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346 Foreign Affairs Committee, Eighth Report of Session 2006-07, Global Security: The Middle East, HC 363, para 9
347 Foreign and Commonwealth Office, Response to the Eight Report of the Foreign Affairs Committee Session 2006-07, Cm 7212, para 10
348 Foreign and Commonwealth Office, FOI Annual Report 2006-07, p 1
349 Foreign and Commonwealth Office, FOI Annual Report 2006-07, p 1
350 Foreign and Commonwealth Office, FOI Annual Report 2006-07, p 2
351 Foreign and Commonwealth Office, FOI Annual Report 2006-07, p 2
352 Ev 114
Ban on valedictory telegrams

207. Sir Peter Ricketts is reported to have banned the practice of valedictory telegrams as a result of Sir Ivor’s leaked dispatch.\textsuperscript{356} In response to a written parliamentary question about this ban, the former Foreign Secretary said:

All Heads of Mission overseas are encouraged to provide their frank and confidential advice on policy and management issues at all stages of their posting, not just at the end. Modern communications allow this to be done in a more targeted way than the traditional valedictory telegram.\textsuperscript{357}

208. When we asked Sir Ivor Roberts for his views on the ban, he told us:

I think it is depressing to think that people’s advice will not be given a full airing so that people can reflect on what has been said by those who have lived a full and varied life and want to impart something to a wider audience as they leave.\textsuperscript{358}

Sir Ivor also told us that he had seen figures which suggested that his dispatch had been read by 4000 people.\textsuperscript{359} We put to him that, given this wide distribution, it might be sensible to have a ban in order to prevent diplomatic embarrassment. He replied:

My valedictory dispatch was in two parts. The first was a valedictory to Italy and the second was a valedictory to the diplomatic service. It is right to ensure that comments made about a Government to whom you are accredited should be protected, but comments that are meant to give food for thought to Parliament, serving diplomats and the rest on a long career in foreign affairs might usefully be shared and discussed in forums such as this. I can see no technical reason why the two things cannot be divided.\textsuperscript{360}

We agree. \textbf{We recommend that the decision to ban valedictory telegrams should be reversed, other than in respect of comments about the governments to which the outgoing Ambassadors or High Commissioners are accredited or comments likely to cause diplomatic embarrassment.}

\textsuperscript{356} “Former envoy makes devastating attack on Blair’s ‘bullshit bingo’ management”, \textit{The Independent}, 27 April 2007
\textsuperscript{357} HC Deb, 16 April 2007, col 35W
\textsuperscript{358} Ev 178
\textsuperscript{359} Ev 178
\textsuperscript{360} Ev 178
9 Public Diplomacy

Oversight of Public Diplomacy

The Public Diplomacy Board

209. Public diplomacy was last reviewed in 2005 by Lord Carter of Coles. One of his review’s recommendations was that “public diplomacy” should no longer be defined simply in terms of creating positive perceptions of the UK but instead as:

work aiming to inform and engage individuals and organisations overseas, in order to improve understanding of, and influence for, the United Kingdom in a manner consistent with government medium- and long-term goals.361

210. Following the Carter review, a new, smaller Public Diplomacy Board was established, chaired by an FCO minister, and with five other members: the Director of Communications at the FCO, the British Council, two independent members and the BBC World Service as an observer. Our 2006 Public Diplomacy Report agreed that these new oversight arrangements were appropriate, as long as there were institutional safeguards to preserve the day-to-day and short-term editorial independence of the World Service and the operational independence of the British Council.362

211. We asked Sir Peter Ricketts how well the Public Diplomacy Board was operating. He told us it had:

[…] developed very well as a forum where we meet at ministerial level. The BBC and the British Council can come together, with others involved, to ensure that the activities of the BBC and British Council in particular are well lined up with the strategic priorities that we in the FCO are pursuing. We do that without cutting across the World Service’s editorial independence or anything like that, but while ensuring overall strategic coherence.363

212. In its memorandum, the British Council told us that the Public Diplomacy Board had helped to establish “closer collaboration with other public diplomacy partners” and to ensure “effective co-ordination and planning for future events and public diplomacy opportunities.”364 However, in oral evidence Martin Davidson told us that the Council wanted the Public Diplomacy Board “to focus more on the broader strategy and less on the detail of operations.”365

213. Nigel Chapman was very positive about the Board and explained how the editorial independence of the World Service was being protected:

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363 Ev 108
364 Ev 125
365 Ev 139
I do not have concerns about the way it is working, because everybody is clear about the ground rules. First, [...] I am not doing campaigns, and I am not going to do them. Nobody has asked me [...] to do them, so that is fine. Secondly, I am not putting money on the table for campaigns; that is also clear.

He described his role on the Board as follows:

Part of my job is to make sure [...] that the World Service Trust is playing a proper part and that we are not trying to reinvent the wheel in some other place when we have expertise at hand to provide that sort of training or programme making with third parties on human rights and governance issues.366

214. We also asked Nigel Chapman about the BBC World Service’s relations with the British Council. He told us that the two organisations were doing more work with each other than they had in the past, but argued that there were still areas where there could be greater cooperation:

I would like to push it on harder, to be honest, which means that we have to have closer liaison and more conversations about the sort of activities that it is up to and whether they are broadcastable. If they are broadcastable, you reach far more people than you could possibly reach in the flesh, if you like, in a city by doing a play or other activity, such as having a debate or discussion.367

215. We conclude that it appears that the BBC World Service has been able to play a positive role as an observer on the Public Diplomacy Board without affecting its editorial independence. However, the Board must also respect the operational independence of the British Council. We recommend that the Board focus on developing strategies rather than discussing the detail of operations. At the same time, the British Council must ensure that it keeps the BBC World Service aware of its activities, particularly those that have the potential to be broadcast.

 Governence of the British Council

216. In our Public Diplomacy Report, we also recommended that in order to avoid any perception of a conflict of interest arising from the position of the PUS as principal accounting officer of the British Council and member of its board, the FCO should be represented on the British Council’s board by another member of the FCO’s board of management.368 In our Report on the FCO’s 2005-06 Annual Report we welcomed the FCO’s decision that the PUS should no longer sit on the board and that instead there should be enhanced coordination and oversight at a senior official level and directly by FCO ministers.369

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366 Ev 154
367 Ev 154
368 Foreign Affairs Committee, Third Report of Session 2005-06, Public Diplomacy, HC 903, paras 37 and 38
217. We asked Lord Kinnock how this new arrangement was working. He admitted that he had had reservations about the FCO’s decision, but added:

I will say, however—without withdrawing those reservations—that the increase in the number of meetings between me and Ministers and at official level between the British Council and the FCO is entirely healthy. We are not living in each other’s pockets, but there is an improved flow because we cannot take the relationship for granted because the FCO’s senior civil servant happens to be on the board.\(^{370}\)

218. We welcome the fact that there has been an increase in contacts between the British Council and FCO ministers and senior officials since the decision was taken that the Permanent Under-Secretary should not sit on the British Council’s Board and recommend that this increase in contacts should be sustained.

**Public Diplomacy Pilots**

219. The FCO’s Annual Report reports that the Public Diplomacy Board is “testing a new approach to public diplomacy, focusing on three particular SPs – supporting UK business (SP5), climate security (SP6) and sustainable development (SP7).” These are being piloted for two years in three countries each. The aim is “to target activity effectively, to bring out what each partner can do best and to ensure that the combined impact of the pilot activity is significantly greater than could have been achieved by partners working in isolation”.\(^{371}\)

220. We asked Sir Peter Ricketts to explain the reasoning behind the choice of these three particular SPs for pilot activity. He replied:

We chose the three particular pilots because we wanted separate, quite different sorts of area to test whether a more targeted approach could achieve something. The ones we chose […] seemed to us to be quite different areas, where public diplomacy could work in different ways, but each of them were important tests to see whether the money that the Government were spending could actually achieve something useful. So they were chosen for their variety as test cases, really.\(^{372}\)

221. Martin Davidson told us that the British Council welcomed the pilots because they were “an opportunity to see how the three organisations work together.”\(^{373}\) Nigel Chapman also supported the pilots:

The countries and topics that we are examining in relation to human rights and democracy, climate change and economic development seem to me to be sensible, and the piloting is starting with various activities. There is quite a good opportunity in some of those societies for the World Service Trust, which has a bit more latitude because of its role in media training and general development work, to play a part in that.\(^{374}\)

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\(^{370}\) Ev 139  
\(^{371}\) British Council, Annual Report 2006-07, p 5  
\(^{372}\) Ev 108  
\(^{373}\) Ev 139  
\(^{374}\) Ev 154
222. We conclude that the decision to pilot targeted activity for public diplomacy activity is to be welcomed and support the approach of selecting three very different strategic priorities for the pilots.

Shared evaluation framework

223. The FCO told us that work was underway to develop for 2007/08 “a shared evaluation framework for public diplomacy work conducted by the FCO, British Council and BBC World Service.” River Path Associate has been commissioned to develop this framework, which it will initially apply to the pilots.375

224. Martin Davidson explained the relationship between the new framework and the British Council’s existing performance indicators (listed in paragraph 231 of the next Chapter). He told us that the Council would be unlikely to change its major measures once the new framework had been developed, as this would then make year-on-year comparisons difficult. Instead it was likely to add only some measurements, as well as finding ways to match those measures it was already taking to those of the World Service and FCO.376

225. The FCO stated that it was “confident” that the new framework would “deliver more coherent reporting of effectiveness in relation to the International Strategic Priorities”.377 In our last Report we noted that “any new means of measuring performance will need to be worth its cost”.378 We therefore welcome the news that the new framework will be reviewed as part of the NAO’s Value-for-Money review of the British Council (discussed in the next Chapter).379 The FCO must also ensure it is possible to compare the Council and Service’s performances under any new framework with that under their current performance measures. We recommend that the FCO keeps us informed of possible proposals for the shared evaluation framework.

Chevening Scholarships and Fellowships

226. Chevening Scholarships and Fellowship schemes are administered by the British Council on behalf of the FCO. The FCO provided £37 million for the schemes last year, with 1976 new scholars and fellows in the academic year 2005/06.

227. In our Public Diplomacy Report we recommended that the FCO set out how it proposed to appraise expenditure on the Chevening scholarships and fellowships in terms of their impact in the medium and long term and that it also explain the selection process and criteria it used to identify the scholars and fellows most likely to bring benefit to the UK in the long and medium term.380 In response the FCO told us that its evaluation

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376 Ev 139
377 Ev 49
379 Ev 49
methodology for Chevening would evolve in line with measures introduced following the
Carter review. Chevening scholars were selected following interview in their home
countries and Chevening fellows were chosen by Global Selection Panels in the UK,
following nomination by Posts.381

228. The Annual Report states that during 2006 the FCO carried out a “thorough review of
the FCO Chevening Programme”, defining “a clearer purpose for the programme, with a
new focus on building support for the UK among the leaders of the future in support of the
SPs”, as well as building in “more local flexibility at our Posts to select the scholars they
think will be future leaders”.382

229. We recommend that in its response to this Report the FCO share with us the
findings of its review of the Chevening programme and explain the basis on which
Posts will be able to select scholars for the Chevening Programme.

381 Foreign and Commonwealth Office, Response to the Third Report from the Foreign Affairs Committee Session 2005-
06, Cm 6840, p 8

10 British Council

2006-07 Annual Report

230. The British Council prepared a memorandum for our inquiry and provided us with a draft copy of its Annual Report 2006-07. Over the past twelve months the British Council has also continued to submit evidence explaining its ongoing work in regions in which we were holding inquiries. We are very grateful for all this material.

231. Last year we welcomed the structuring of the Council’s Annual Report into 13 global regions, with case studies showing how the Council had achieved impact against its corporate outputs and narratives of activity accompanied by regional performance, audience and income data. In particular we found the breakdown of income data by country very useful.383 This year’s Annual Report has retained this structure, but does not mention corporate outputs. The country share of regional income is only presented in tabular form, unlike last year’s helpful pie charts. We recommend that the British Council presents income data by country in both tables and pie charts in its next Annual Report.

232. Our previous Report also welcomed the increased transparency about measurement of performance, in particular the simplification of its scorecard system for measuring performance outputs and the introduction of a traffic light system similar to those used by other Government departments.384 We are pleased to see that this year’s Annual Report has retained this performance measurement system.

Activities in 2006-07

233. In the financial year 2006-07, the British Council received £188.1 million in grant-in-aid from the FCO for its public diplomacy activity.385 The Council’s memorandum highlighted its main activity in 2006-07. Examples of the programmes and initiatives included were:

- working with 100 schools, including madrassahs, in Pakistan in order to tackle alienation and radicalisation;

- agreeing a deal with Iraq to fund 1000 Iraqi scholars over five years and create partnerships between Iraq’s 18 universities and UK institutions;

- organising a UK/Iranian medical week attended by over 2000 medical professionals and the first UK stand at the Tehran international education exhibition;

- the Network Effects initiative, which brought together young leaders from northern, central and eastern Europe for collaboration with the UK;

- continuing the ZeroCarbonCity initiative with projects in Russia, China and Brazil;
- a three year Climate Cool programme in China, including a documentary “Environmental Celluloid” seen by 10 million people;
- establishing an extensive internet-based programme in Brazil to reach younger audiences on climate change issues;
- designing and launching the UK-China Connections Through Culture programme in partnership with DCMA, FCO and the Scottish Executive;
- awarding £5 million for 30 collaborative research projects, in partnership with the DfES, FCO and DTI, under the UK-India Education and Research Initiative;
- supporting pilot courses for 60,000 in-service teachers in Brazil;
- extending the scope of the pan-African InterAction programme for leaders, by running spin-off activities, such as training for ministers and ministries;
- running programmes for the Sudanese judiciary, Tanzanian women and young African English and French-speaking leaders in partnership with the UN Economic Commission for Africa; and
- organising the commemorative event for Ghana’s 200th anniversary.386

234. We asked the British Council about the extent to which it was co-operating with other organisations, such as the Westminster Foundation for Democracy, in carrying out these activities. Martin Davidson told us that the Council worked with a range of partners and was seeking not only to maintain these partnerships but also to expand them in every possible case. He added:

Our whole approach is moving away from the belief that we have all the expertise within our organisation, towards trying to find expertise from other British organisations that can work in partnership with us.387

235. We also asked the British Council what its least successful activity had been. Lord Kinnock told us that he was most dissatisfied with the speed in which the Council had completed “residual commitments”, stating that there were a number of British Council activities in Europe that he wished had ended in 2005-06 rather than 2006-07.388 We discuss the British Council’s shift of resources out of Europe and increased reliance on partnerships in paragraphs 250 to 254 below.

Performance in 2006-07

236. The Council measures its performance against its own objectives rather than directly against the strategic priorities of the FCO (the development of a shared evaluation
framework was discussed in the previous Chapter). It uses five corporate outputs as performance indicators for overall impact. These are: internationalism, long-term relationships, positive partnerships, self development, creative ideas and evaluation of long-term outcomes. This year the Council has also added an output measuring long-term relationships at a global level: evaluation of long-term outcomes. Since the 2005-06 Annual Report, the Council’s indicators have been measured out of 100, a change which we welcomed in our last Report since it makes the results easier to interpret. The Council also measures the size of its audiences in two separate categories – those it engages with directly through its activities and those it reaches remotely through web and broadcast media. It also measure customer satisfaction and reputation with its customers.

237. The Council’s Annual Report shows improvement against its 2005-06 results in five out of its six corporate outputs. However, three of its results were still below target. This is disappointing since during our last Annual Report inquiry, the Council told us that its 2006-07 targets reflected “a more realistic view of the impact of change”.

238. The Council has made large increases in its audience figures. The numbers of people taking part in its events and direct activity internationally rose by nearly 10% in 2006-07, from 15.1 million to 16.5 million. There was a huge increase in its remote reach, attracting audiences of 86.8 million, compared to 35.4 million in 2005-06. The Council’s Annual Report stated that this was largely due to successful engagement with partner websites in China.

239. In our last Annual Report inquiry, the Council admitted to us that while it was successful in reaching new audiences it had given less attention to strengthening long-term relationships. We were therefore pleased to see that there was a large rise in the index of those who felt ties with the UK were strengthened as a result of the Council’s activity – from 61 to 74%, although this was still 4% below the target of 78%.

240. The Council scored 80 points in customer satisfaction and 81 for reputation with customers, up two and one points respectively from the previous year. The Council told us it was aiming to improve customer satisfaction further since the targets were still lower than it wanted them to be.

241. Regarding its business performance, the Council’s revenue-earning services accounted for 65% of turnover, up by 3% in the previous year. Its teaching and examination

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389 Ev 125
391 British Council, Annual Report 2006-07, p 7
393 British Council, Annual Report 2006-07, p 7
395 British Council, Annual Report 2006-07, p 7
396 British Council, Annual Report 2006-07, p 7
397 Ev 125
businesses exceeded their targets “largely as a result of a 15 per cent increase in the volume of exams” they administered. 398

242. We welcome the British Council’s increased audience figures, in particular the huge rise in its remote reach. However, three of its corporate outputs are still below target. We recommend that the FCO set out in its response to this Report what steps the British Council is taking to ensure it meets these targets the following year.

Efficiencies

243. The British Council had a target for Gershon efficiency savings as a component of its Grant-in-aid of £4million cashable and £4.6million non-cashable for 2006-07. It fully met this target by introducing a global finance and business system in four more regions and reducing posts and closing seven regional offices in the UK. 399 Lord Kinnock told us the Council was “reasonably proud of the fact that we have been reaching targets, and satisfaction has been expressed by external examiners at the way in which we have achieved that.”400

244. The Council now has what its memorandum described as a “more stretching target” of finding a further £4.4 million in efficiency savings in 2007-08. 401 Margaret Mayne expressed confidence that the Council would meet this target, arguing that the savings were “part of a planned programme of change”. She explained:

[...] the roll-out, for example, of our new IT software has already led to some efficiency savings, and it will lead to more next year. Likewise, on our IT programme, we have already, for example, implemented voice over internet protocol, which will save us quite a lot of money next year. So, it is an ongoing rolling programme, which, in a sense, comes to fruition year on year.402

245. However, Martin Davidson suggested that the FCO would have to be careful to ensure meeting its efficiency target did not impact on its effectiveness:

[...] as an organisation, we have been subject to such efficiency savings over such a long time, there is no longer the space simply to find a bit of money here and there to meet them. The disciplines that we are under mean that we have to shift substantially and radically the way in which we do our work. So, for example, the move from a large number of small-scale activities to a smaller number of large ones is part of the process of trying to get much more benefit out of a given level of expenditure. So, the move towards regionalisation is again about making a step change in the way in which we work, which gives us the capacity to draw efficiency savings. Of course, it also has an impact on effectiveness, and the critical thing for us is making sure that

398 British Council, Annual Report 2006-07, p 4
400 Ev 138
401 Ev 125
402 Ev 138
we are aware of the likely impact of any change on how effective we will be as an organisation.\textsuperscript{403}

246. \textbf{We recommend that in its response to this Report the FCO set out what safeguards are in place to ensure that the British Council meets its 2007-08 efficiencies target without reducing its effectiveness.}

247. In 2006-07, the Council employed an average of 1097 staff in the UK of a total workforce of 7925.\textsuperscript{404} We asked Margaret Mayne whether it was surprising that such a significant proportion of the Council’s staff were based in the UK. She replied:

It is not a surprise. A lot of our support services sit within the UK, and of course, the staff in the UK are a very important link between our stakeholders in the UK and our customers overseas. […]

She further argued that the Council had reduced its number of staff in the UK over past years, and that restructuring within UK operations would see a greater reduction in the number the following year.\textsuperscript{405} Lord Kinnock added that the regionalisation of some back-office operations might lead to those functions being transferred out of the UK and into those regions. However, he warned that the Council had to make these changes “carefully”, since it could not “afford to lose links in the chain when international connections and conformity to high standards are fundamental requirements.\textsuperscript{406}

248. In our \textit{Public Diplomacy} Report we recommended that the NAO urgently consider a value for money examination of the British Council.\textsuperscript{407} We received a positive response to this recommendation\textsuperscript{408} and look forward to reading the review’s findings.

\textbf{Strategic change}

\textbf{New objectives}

249. The British Council’s memorandum states that the new definition of public diplomacy (see paragraph 204 above) has provided it “with clarity about how our work relates to the Government’s international strategic priorities.”\textsuperscript{409} The Council also commits to setting out the contribution which its work makes to meeting these priorities.\textsuperscript{410} However, it also emphasises that it will fulfil and measure its work against its own purpose, which continues

\textsuperscript{403} Ev 138
\textsuperscript{404} Ev 139 [Margaret Mayne]
\textsuperscript{405} Ev 139
\textsuperscript{406} Ev 139
\textsuperscript{408} Foreign and Commonwealth Office, \textit{Response of the Secretary of State for Foreign and Commonwealth Affairs to the Third Report of the Foreign Affairs Committee Session 2005-06, June 2006}, Cm 6840, para 19
\textsuperscript{409} Ev 125
\textsuperscript{410} Ev 125
to be, “to build mutually beneficial relationships between people in the UK and other countries and to increase appreciation of the UK’s creative ideas and achievements.”\(^{411}\)

250. As we noted in our *Public Diplomacy* Report, this rationale has not changed since the British Council was instituted in 1934. In our Report we therefore recommended that the FCO should commission an independent review, as part of the CSR07 examining “what the British Council does, why it is doing it, what it should be doing, and whether any of its activity would be better conducted in other ways or by different organisations.”\(^ {412}\) The Government’s response disagreed, stating that this was not the time for such a review and that its top priority was to drive forward the recommendations of the Carter review.\(^ {413}\)

251. The Council’s memorandum stated that it was currently “undertaking significant strategic change”, restructuring its work around the following four objectives:

- inter-cultural understanding, with an emphasis on the Muslim world;

- increasing ties for the UK’s creative and knowledge economies;

- helping tackle climate change; and

- making the UK a strong multilateral partner in tackling agendas of common interest in Europe and its neighbourhood.\(^ {414}\)

Work under these objectives would include: a new Reconnect initiative, providing leadership training for 10,000 young people from the Muslim world; strengthening education reform work, particularly in the Near and Middle East, as well as in Pakistan; a multi-country project in Europe called European Islam aiming to raise awareness of the roots of European culture and explore the contribution made by Islam; strengthening the UK’s position in student recruitment and educational partnerships via the renewed Prime Minister’s Initiative; a new programme called Low Carbon options to be launched in 2008; three pilot projects on climate security; and partnership funding in Europe on areas of importance to the UK.\(^ {415}\)

252. We asked Lord Kinnock whether the latter two of the Council’s four new objectives fitted within its traditional raison d’être. He argued that the climate change programme was “utterly consistent” with the 1934 objective, since it generated “understanding and appreciation of expertise and the inquiring nature of British science and society”. Likewise, he argued that the Council’s activities in Europe and its neighbourhood were “completely consistent with the business of spreading appreciation, understanding and a mutuality of knowledge and values in the way that we have been trying to do for the past 73 years.”\(^ {416}\)

\(^ {411}\) Ev 125  
\(^ {414}\) Ev 125  
\(^ {415}\) Ev 125  
\(^ {416}\) Ev 133
253. We also asked the British Council whether by including the Middle East in its objectives, it was neglecting China and Russia. Lord Kinnock described the work the Council was doing in these two nations, but conceded that it was a bit odd that they were not included. Martin Davidson argued:

> With the statement, we were also giving an indication of some of the shifts of resource that we are making. While we have over the last few years made substantial shifts of money into the Middle East and central and south Asia, into those largely Islamic countries—we are making more shifts to deal with them—that does not underplay the importance of Russia and China to us in those two critical areas of intercultural dialogue and so on.

254. We welcome the fact that the British Council has further defined its aims beyond the 1934 objective. However, we conclude that China and Russia should be a major part of the British Council’s strategy and recommend that the British Council refers to these countries in its four objectives.

**Shifting resources out of Europe**

255. As part of its new strategy, the Council is shifting 30% of its Grant-in-Aid resources out of European operations to high priority regions for the UK. It moved £1 million from Europe in 2006/07 and it will move an extra £2 million into the Middle East, £2.5 million into the Near East and North Africa and £3 million into sub-Saharan Africa by early 2008.

256. When we expressed concern about resources being withdrawn from certain countries, Lord Kinnock explained that the Council was taking three different approaches in Europe. In countries like Bulgaria, Romania and Turkey, the Council’s front offices would remain open and “be very active, very obvious and very tangible”. In Western Europe, it would no longer have a high level of activity since “the level of capability there among our partner and potential partner operations, including the established international cultural organisations […] is now at a mature level”. Finally in those countries where it had strong English language teaching programmes which generated substantial revenue, it would retain these programmes. We asked Lord Kinnock in which category he placed the Balkans. He replied that they were taking a separate approach to the Balkans because the Council was strengthening and developing its activities in several of these countries. He assured us that they would be “beneficiaries of the transfer and reorientation strategy and are not countries in which commitment or presence will be reduced.”

257. The Council’s memorandum stated that its new approach to Europe would involve “building pan-European networks”, rather than traditional bilateral activity, except with

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417 Ev 134
418 Ev 134
419 Ev 134
420 Ev 125
421 Ev 134
422 Ev 135
the most important bilateral partners. It would aim to increase impact through partnership funding, focusing on areas of importance to the UK, as well as expanding web-based products and services to reach larger audiences, primarily targeting students, young professionals and young leaders, up to the age of 35.\footnote{Ev 125} Martin Davidson explained:

Rather than putting money into a particular arts visit or tour\[\ldots\] we will emphasise the knowledge, contacts and non-financial support that we can provide for that sort of activity.\footnote{Ev 135}

258. We asked the British Council how it would ensure it retained control of its activities when working with partners. Martin Davidson replied:

\[\ldots\] while we will have a partnership approach to those major organisations, the individual partnership will be on a project-by-project basis. It will be a clearly defined project, with a clearly defined set of inputs and outcomes, so that we ensure that we are putting resources into things that matter only to the UK rather than more generally.\footnote{Ev 135}

259. We welcome Lord Kinnock’s confirmation that the British Council’s shift in resources out of Europe will not involve a reduction in funding for activities in Bulgaria, Romania or Turkey and his reassurance that British Council operations in the Balkans will continue to receive increased resources. We recommend that in its response to this Report, the FCO clarify whether it has any concerns about the extent to which the Council will be able to achieve its objectives and retain control of projects when relying on partners.

260. As part of its shift in resources out of Europe, in certain European countries, the British Council will retain direct public access facilities, such as teaching facilities, only where services are paid for on a full cost recovery basis by individual users.\footnote{Ev 125} However, we were surprised to find that the British Council was charging for language teaching in Afghanistan, clearly a high priority area. When we questioned Martin Davidson about this, he replied that it was due to the Treasury requirement to ensure its commercial activities were not subsidised by public money. He added that the Council was trying to expand its English teaching work, first by establishing whether it could find the resources to find cheaper or free places for target audiences and second by working with countries’ public education systems. He told us that the Council collaborated “with virtually every Education Ministry” in the Middle East.\footnote{Ev 132}

261. We recommend that as part of its shift of resources into the Middle East, North Africa and South and Central Asia, the British Council should be aiming to expand its English language teaching work. We recommend that, as well as strengthening links with countries’ education systems, this expansion should include providing cheaper or
free places for English language lessons in the highest priority areas, such as Afghanistan.

**Closures**

262. In our last Report we recommended that the FCO should explain the basis for the proposed closures of the British Council’s teaching centres in Kosice, Varna, Chittagong, Istanbul and Tel Aviv, whether it had approved each closure and the assessment it had made of the effects of the Council’s withdrawal from these cities in terms of the benefit that language teaching brought to the overall public diplomacy effort. In response the FCO said that it had been consulted about the closures, which had been based on evaluation of commercial sustainability and the effectiveness of their contribution to wider public diplomacy objectives, as well as security.

263. We asked Lord Kinnock if the Council had assessed whether the closures had had an impact on public diplomacy or language teaching. He replied, “Yes, we have. I do not think that anybody could claim that it is even marginal.” He added:

> To take your Istanbul example […] The city has between 15 million and 20 million people […] We were offering teaching to about 500 or 600 individuals within Istanbul, and there was a huge diversion of our time and effort from management and other resources into doing that. We are now working with education authorities across all the major cities in Turkey on the use of English within the public education system.

264. Martin Davidson explained that the Council was expanding virtual educational services in order to reach a wider audience:

> We have, for example, a service now in Arabic, called Go4English […] in partnership with the BBC. We have more than 200,000 individuals using that service regularly. It is on a completely different scale from that which we can deliver through our direct teaching operations.

265. In November 2006, we were informed about the permanent closure of the Council’s library services in Jerusalem, in place since 1946, and the movement to shared office space in the city with “a trusted international partner”. The Council wrote:

> The need for reassessment and change arises from the reality that out West Jerusalem Office and its public access service […] are not well used. There are only

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429 Foreign and Commonwealth Office, Eight Report from the Foreign Affairs Committee Session 2005-06: Response of the Secretary of State for Foreign and Commonwealth Affairs, Cm 6791, January 2007, response to recommendation 23

430 Ev 135

431 Ev 136

432 Ev 136
690 members of our library of which only 380 can be considered “active”. 80% of our library members fall outside our target audience.433

Lord Kinnock explained that the library’s resources had now been shifted into the public library in Jerusalem and that the “initial indication” was that the material was getting more use there than it had when in the Council’s premises.434

266. On 1 July 2007, the Council also closed its library in Athens, citing the need to “release time/space/staff for the provision of new value-added services to our customers including online resources.”435 Martin Davidson told us that the library had:

[…] filled a very important role for many years, but it no longer does so. We are moving away from that style of work and recognising that a very large number of young people in Europe with whom we are seeking to work get their information in a variety of ways. I think that making that shift and taking the money out and putting it into other things is critical.436

267. We accept that in some circumstances it may not make financial sense to keep traditional library or teaching facilities open and we welcome the expansion of virtual educational services as a means of reaching a wider audience. However, we recommend that the British Council ensure that in any alternatives it provides to direct language training or library services, it is made clear that the British Council is the source of the material.

**Status in Russia**

268. Three years ago Russian police raided the British Council’s offices, claiming the Council was involved in illegal commercial activity on which no tax was paid. During our Public Diplomacy inquiry, the Council explained that it was operating in Russia under a cultural agreement signed when it first entered the country in 1994. The Russian government had indicated that it no longer considered the agreement to be an adequate framework, but the Russian Ministry of Foreign Affairs had repeatedly assured the Council that it would be able to negotiate its tax status with the tax authorities as soon as a new Cultural Centres Agreement was signed. The last assurance was made in May 2004, but the Russian authorities had carried out the raids nonetheless.437

269. In 2005, the Council settled all outstanding tax claims, totalling £1.4million and registered itself as a regular tax payer. The case was formally closed in December 2005, but the investigation was reopened the following month.438 The Council’s memorandum to our Global Security: Russia inquiry stated that it was being subjected to a further tax

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433 Ev 123
434 Ev 136
436 Ev 133
inspection.\textsuperscript{439} Lord Kinnock told us that other cultural organisations were facing some problems, but that the pressure on the Council was “unique in degree and intensity”.\textsuperscript{440}

270. In December 2006 the Council informed us that it was closing down all language teaching in Moscow.\textsuperscript{441} This was due to the imposition of a licence requirement, which the Council had previously been told it did not need. The Council has now also discontinued teaching in St Petersburg. Lord Kinnock told us:

It was a matter of great regret to us that because of an absolutely intolerable statutory environment, which suddenly came upon us, we were not able to continue our teaching English language in Moscow, and, for similar reasons, we had to cease our very well attended, over-subscribed classes in St. Peters burg a year before that.\textsuperscript{442}

On 15 June 2007, Russia demanded that the Council move out of one of its offices in Ekaterinburg.\textsuperscript{443}

271. As well as leaving the Council’s diplomatic and taxation status uncertain, the inability to conclude a Cultural Centres Agreement is also having consequences for the Council’s staff. Lord Kinnock explained to us that the failure to conclude the Cultural Centres Agreement left the migration and citizenship status of both British and locally-engaged staff in doubt.\textsuperscript{444}

272. The Council’s memorandum to our Global Security: Russia inquiry stated that it was “continuing to seek agreement on a new Cultural Centres Agreement, working closely with the Foreign and Commonwealth Office to achieve this”.\textsuperscript{445} Lord Kinnock told us that when the British Council heard, in early 2006, that Russia wanted to return to discussions on a near final draft, it thought this was “evidence of a fresh initiative from the relevant Russian minister”, although it did not “build […] hopes too high”. He added:

Those discussions continue. […] The impression is conveyed that there are only one or two small outstanding issues, and it could be concluded.

[…] We persist in our efforts. We are always ready to undertake fresh initiatives. Some of our interlocutors give us the impression that they are just as anxious as we are, but for reasons of what I will call superior political consideration in the Russian authorities, we have not yet been able to conclude that agreement.\textsuperscript{446}

273. We asked the Council what lessons it had learned from its experience in Russia. Martin Davidson told us that the Council was examining its status in all countries at present to ensure it matched “both the range of activity that we undertake and the shifts

\begin{flushleft}
\textsuperscript{439} Memorandum to be published with our forthcoming Global Security: Russia report. \\
\textsuperscript{440} Ev 137 \\
\textsuperscript{441} Ev 124 \\
\textsuperscript{442} Ev 136 \\
\textsuperscript{443} “British Council ordered out”, The Guardian, 15 June 2007 \\
\textsuperscript{444} Ev 136 \\
\textsuperscript{445} Memorandum to be published with our forthcoming Global Security: Russia report. \\
\textsuperscript{446} Ev 136
\end{flushleft}
and changes in the nature of cultural relations around the world.” He explained that many countries were finding this “curious, if not slightly uncomfortable”, but that because of its experience in Russia the Council had to seek this greater clarity.447

274. Despite its difficulties, the Council has been able to achieve some successes in Russia. Lord Kinnock told us:

\[\ldots h\]alf the primary schools in Russia are using British Council English language primers. We have huge programmes of cultural, economic and scientific activities that attract immense attention and strong commitment from Russians, especially young Russians.448

The Council also ran a successful Whistler exhibition in partnership with the Tretyakov Gallery in Moscow.449

275. We welcome the successful activities the British Council has been able to carry out in Russia, against a background of obstruction from the Russian authorities. We recommend that in its response to this Report, the FCO set out what representations it has made to Russia to urge it to conclude a Cultural Centre Agreement as soon as possible.

276. In October 2007, the British Council informed us that it was going to transfer its network of nine regional centres in Russia to local partners by the end of December 2007, retaining offices in Moscow, St Petersburg and Ekaterinburg only.450 We will consider this and other aspects of British Council’s operations in Russia further in our future Global Security: Russia Report.

**Comprehensive Spending Review 2007**

277. In June 2007, Lord Kinnock told us that the British Council was having “reasonable” negotiations with the Treasury on its CSR07 settlement. He argued that anything below a flat cash settlement would jeopardise the British Council’s operations, but that, “with difficulty”, the Council could accommodate a flat cash settlement.451 However, the Council was negotiating with the Treasury for additional sums in two particular areas. The first was for a “significant, but not huge, additional sum” with which, the Council argued, it would be able to get quicker returns from its shift in resources to the Middle East, in particular in terms of impact with young people. The second area was for additional investment in the Reconnect programme, which worked to reduce marginalisation and the possibility of alienation and radicalisation of Islamic youth. The British Council argued:

The reality is that, having undertaken very significant activities with success in several places in this programme, we know that if we could spend more we could

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447 Ev 137
448 Ev 134
449 Ev 125
450 Memorandum to be published in our future Global Security: Russia Report.
451 Ev 131
extend that success and we could do it particularly in what we can describe as high priority areas.\textsuperscript{452}

278. The Council received £4 million in 2005-06 and £6 million in 2006-07 from the Treasury to assist in upgrading the security of its estate.\textsuperscript{453} Lord Kinnock informed us that the Council had not asked for any additional sums specifically for security in the CSR07, but that it was “assisted by the fact that we know that if evident needs arise the Treasury and the Foreign Office are prepared to be helpful”.\textsuperscript{454} Martin Davidson added, “[…]we have spent something like £14 million over the past three years in upgrading security and at the moment we feel that we can manage the security environment that we are in.”\textsuperscript{455}

279. The British Council received the following settlement in CSR07:

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|}
\hline
& Baseline & Additions &  \ \\
\hline
2007-08 & 193 & 3 & 8 & 4 \\
\hline
Source: HM Treasury\textsuperscript{456}
\end{tabular}
\end{table}

As Figure 2 shows, the British Council’s allocation only increases from £194 million in 2007-08 to £198 million in 2010-11, an average real terms reduction of 2% per annum. However, CSR07 announced that the Council would receive an additional £3 million funding a year for its Reconnect initiative.\textsuperscript{457}

280. Given that the British Council is facing a real reduction in its total budget over the three year CSR07 period, we recommend that in its response to this Report the FCO set out whether the Council will now have to divert funding from more activities than previously planned in order to fund the additional investment in its Reconnect programme. We conclude that the Council should also have received additional funding for restructuring in this period so that it could achieve greater successes more quickly. We also recommend that the Government give a firm statement that it would be willing to give the British Council additional resources to further improve the security of its estates if it faced unexpected security issues during the SR07 period.

\textsuperscript{452} Ev 131
\textsuperscript{453} Ev 132 [Lord Kinnock]
\textsuperscript{454} Ev 132
\textsuperscript{455} Ev 132
\textsuperscript{456} HM Treasury, Meeting the aspirations of the British people: 2007 Pre-Budget Report and Comprehensive Spending Review, Cm 7227, October 2007, Table D15, p 236
\textsuperscript{457} HM Treasury, Meeting the aspirations of the British people: 2007 Pre-Budget Report and Comprehensive Spending Review, Cm 7227, October 2007, para D9.9, p 236
11 BBC World Service

Performance in 2006-07

281. The BBC World Service sent us a memorandum for this inquiry, as well as draft finance and PSA pages from its 2006-07 Annual Review. Like the British Council, it has also sent us memoranda over the last year explaining its ongoing work in regions relevant to our inquiries. We are grateful for this evidence.

282. In the financial year 2006-07, the Service received £239.5 million in grant-in-aid from the FCO for its public diplomacy activity. Its memorandum highlighted a number of projects which it had undertaken over the last financial year, including Generation Next, a week of programming across all 33 language services for under 18s; School Day 24, which linked up schools across international conflicts and divides; India Rising, which explored the winners and losers of India’s economy; Ghana at 50, which celebrated the nation’s independence anniversary; Iran in focus, a week’s programming in Iran; and Iraq week, which marked the fourth anniversary of the invasion. The memorandum also drew attention to BBC World Service Trust receiving recognition for its Darfur Lifeline project in Sudan and its Draw Your Place on Earth children’s programme.

283. The BBC World Service is required to report a number of PSA measures to the FCO. These mainly measure performance by audience size, reach and awareness using independently-produced surveys to capture statistics, although the Service also has to report performance against the criteria of objectivity and relevance. Nigel Chapman assessed the Service’s overall performance as follows:

There are things that we could do better, and there are parts of the world where audiences have gone down [...] However, where we have focused our energy, which is around the middle east, the wider Islamic world and Asia [...] it is a pretty well universal story of an improved impact, which is a very laudable achievement. Any organisation that could come along and tell you that would have to take a reasonable pat on the back for its performance over the past 12 months.

284. Overall, we agree that the BBC World Service performed well over the last financial year. Its total audience figures increased by 20 million a week to record levels of 183 million. Regionally, weekly audience figures were well above target in Africa and the Middle East and in Asia and the Pacific. There was also a 1 million increase in the Arabic Service audience, a 1.5 million increase in Pakistan, a near doubling of audience figures in Bangladesh, record levels in the US and a new audience in the Democratic Republic of

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459 Ev 140
460 Ev 140
462 Ev 148
463 Ev 140
Congo. In Iran audiences remained steady, despite difficulties with audibility. The Service scored more highly than its nearest international radio competitor on the percentage of the adult population aware of it and the percentage who listened to it weekly in all the surveyed countries, with only two exceptions.

285. The BBC World Service also performed well against its targets for online audiences. Its international facing news sites attracted 704.3 million page impressions in March 2007, compared to 546 million in March 2006, well above the target of 600. It also reached its target for the number of interactive forums by key language. The Service’s memorandum explained that it was “building partnerships with major portals to showcase its work better and increase traffic” and that this had proved particularly effective in competitive markets, such as Latin America, and in China where access to BBC news websites was blocked.

286. On the criteria of objectivity and relevance, the World Service scored more highly than its main competitors in all surveyed countries for objectivity and relevance.

287. However, there were areas where there was a decline in performance. The audience in Africa increased overall, but English language audiences for some parts of Africa dropped back, leading to a decline from 42 million to 38 million in the global English radio total. Nigel Chapman told us that this decline was due to the failure of a partnership with a local company:

In the past we had quite a major partnership with a company called Ray Power in Nigeria, but when we surveyed again this autumn, the programmes were no longer on the air and we had therefore lost something like 1.5 million listeners in Nigeria.

He added that the Service had “not focused hard enough” on making its Africa schedule coherent and that it also needed to “focus more energy” on marketing its English output in the continent.

288. Audiences also declined in Latin America and parts of Eastern Europe, such as Romania and Ukraine, leading to an overall decline in the Americas and Europe from 22.1 million to 17.9 million. The BBC World Service’s memorandum stated that this was due to the development of markets in those regions. Nigel Chapman also told us that the Service had had some problems with its key partners. We asked Nigel Chapman how he planned to increase audiences against these difficulties. He replied:

Only by finding different and better partners. Direct, short-wave listening in those markets is negligible, so it has to be through third parties, to some extent through

\[465\] Ev 140
\[466\] BBC World Service, Annual Review 2006/2007, p 28
\[467\] Ev 140
\[469\] Ev 140
\[470\] Ev 149
\[472\] Ev 140
\[473\] Ev 148
internet connectivity but mainly through radio stations carrying our content. That means that our business development people have to work really hard to find alternative means of distribution.474

289. The BBC World Service also has a target for shortwave audibility. It missed its quality rating target of 80 by one point, with low audibility (73) in Europe. Its Annual Review suggested that this was due to sunspot activity being at the minimum of its 11-year cycle. This meant that lower frequencies had to be used, causing congestion on these limited bands which could affect audibility.475 On its target for capital cities with BBC World Service FM presence, the Service increased the number by one to 151, missing its target of 152.476

290. We asked Nigel Chapman whether he thought the BBC World Service’s PSA targets were appropriate. He replied that they were “broadly” right since they matched up “volume and impact”:

You need to know how many people use the services, but the targets also measure well what people think of those services. We can then cut and dice the content into more niche segments, so that we can see whether, for example, within a capital city we are particularly effective with opinion formers and people of influence. […]

Nigel Chapman had one caveat, which was that it was more difficult to measure the impact of the web. He told us that the Service would therefore be working harder on developing measurements for the web over the next two or three years.477

291. We welcome the BBC World Service’s performance over the last financial year, in particular its record audience figures, achieved against increasing worldwide competition. However, there are areas where improvement is required, including scheduling and marketing in Africa and partnerships in Latin America and parts of Eastern Europe. We recommend that in its response to this Report, the FCO update us on the Service’s progress on these areas. We also recommend that the Service keep us informed of any new targets it develops for measuring the impact of the web.

Distribution

292. The BBC World Service’s memorandum reported that its output was available on 15 different platforms or technologies. New FM relays had come into operation in Helmand and Kunar provinces of Afghanistan, five of which were solar-powered to enable them to air independently of local supplies. A transmitter on Ascension Island, which served large parts of Africa, would also soon be wind-powered saving £500,000 annually.478 The Service’s largest expenditure on distribution was on the Content Delivery Programme, a series of projects to replace and enhance the existing distribution system. The Service told us that it spent a “significant” amount of the £28.5 million on capital expenditure in 2006-

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474 Ev 148
475 BBC World Service, Annual Review 2006/2007, p 29
477 Ev 150
478 Ev 140
07 on this programme.\textsuperscript{479} Alison Woodhams described the benefits of the Programme as: “better coverage”, “increased resilience”, “greater flexibility” and “more localisation and […] tailoring”.\textsuperscript{480}

293. We asked Alison Woodhams whether the BBC World Service had a framework by which it could measure the performance of the programme. She replied:

We will be able to measure a number of local stations that are taking different content, or a bigger variety of content, as a result. Where we have rolled it out, we have already started to do that. We will then be able see whether audiences have changed.\textsuperscript{481}

294. We conclude that the BBC World Service’s investment in improving its distribution system is to be welcomed.

\textbf{India}

295. In our \textit{South Asia} Report, we drew attention to the reporting restrictions in India on international companies broadcasting news on FM and urged the Government to set out the representations it had made to the Indian government on this issue.\textsuperscript{482} The Government told us that the BBC World Service had raised the issue at the highest levels, but that the High Commission had not done so and had not been approached by the Service to make such representations.\textsuperscript{483} In its memorandum to this inquiry, the Service told us that partnerships with Indian media group MidDay had enabled it to reach the growing Indian FM market.\textsuperscript{484} However, Nigel Chapman added:

[…] unfortunately, the thing we really want, which is a relaxation in relation to news content—that is, geopolitical news and current affairs; politics, if you like—is not on anyone’s agenda in India. The Indian stations are not even allowed to carry news about India […]

[…] it is perverse, in the sense that they have opened up the media market in India for television, so there are plenty of 24/7 television stations around […], but radio is a protected species, and it is All India Radio, in particular, that is a protected species, because it is the only one that is allowed to broadcast news.

296. Nigel Chapman suggested that the restrictions remained in place because the authorities were concerned about the high impact of radio in rural areas.\textsuperscript{485} He warned that

\textsuperscript{479} Ev 140
\textsuperscript{480} Ev 152
\textsuperscript{481} Ev 152
\textsuperscript{482} Foreign Affairs Committee, Fourth Report of Session 2006-07, \textit{South Asia}, HC 55, paras 296-297
\textsuperscript{483} Foreign and Commonwealth Office, \textit{Response to the Fourth Report of the Foreign Affairs Committee Session 2006-07}, Cm 7142, para 107
\textsuperscript{484} Ev 140
\textsuperscript{485} Ev 151
this way of thinking had a “risk of damaging the Indian radio industry significantly, because people will increasingly turn to television, which they can easily get.”

297. We recommend that the FCO should support the BBC World Service by also making representations to the Indian government about removing restrictions on FM broadcasts. We also recommend that both the FCO and BBC World Service should make representations to All India Radio about the potential weakening of radio as a medium if it is not liberalised.

**Russia**

298. The BBC World Service has lost FM services in Moscow and St Petersburg leading to a decline in audience of 1 million. The Service’s memorandum stated that it had developed a partnership with Voice of Russia for a joint FM radio station, Bolshoye, “without issues so far”. However, in August 2007, Russia’s media regulator ordered Bolshoye radio to remove the Service’s content or face being shut down.

299. Voice of Russia is the international arm of the Russian state broadcasting network. In evidence to the Global Security: Russia inquiry, we received a memorandum from a Russia citizen who had worked for the Service for 14 years, who argued that the BBC World Service was “inevitably” putting its reputation for impartial news at risk by forming such a partnership. The memorandum also claimed that BBC Russian Service’s reporting on Russia was “often weaker than the main BBC News”.

300. The Service told us that it had received complaints about its editorial policy, but that these emerged from a group of London-based Russian exiles and had been “found to be of no substance”. Nigel Chapman told us that the Service had been “painstakingly through the observations and criticisms in the letter, but the team could find no justification for them. […] The quotes are extremely selective, and the comparisons are not contemporaneous.” He added:

> [...] if the Russian service is so soft on the Russian authorities, why did the Russian authorities come down extremely hard on our partners in St. Petersburg and Moscow? Why did they do that, if we were so lily-livered and lacking in substance and fibre in relation to coverage of Russia?

The Service’s response to its correspondence with the complainants also argued:

> The audience of the BBC Russian Service] has a much better understanding of Russian stories than a British domestic audience would generally have, and therefore

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486 Ev 151
487 Ev 140
488 “BBC radio ordered off Russian FM” *BBC News Online*, 17 August 2007
489 Memorandum to be published in our forthcoming *Global Security: Russia* report.
490 Memorandum to be published in our forthcoming *Global Security: Russia* report.
491 Ev 151-152
it is expected that the way in which the Russian Service team covers the stories would have different levels of context and detail to that of domestic news outlets.\textsuperscript{492}

We have published copies of this correspondence with this Report.

301. \textbf{We conclude that we can find no evidence to support claims that the BBC Russian Service was weaker than the main BBC news. However, we also conclude that the development of a partnership with the international arm of a Russian state broadcasting network puts the BBC World Service’s reputation for editorial independence at risk.} We will consider the BBC World Service’s operations in Russia further in our Global Security: Russia Report.

\textbf{China}

302. In China, short wave broadcasts continue to be subject to persistent frequency interference, with BBC news online services also rigorously blocked. Only 0.1\% of the Chinese population listen to the World Service in any language.\textsuperscript{493} Our \textit{East Asia} report reported on the problem of jamming and urged the Government to make strong representations to China about this issue.\textsuperscript{494}

303. The Service has now decided to reallocate its resources in China, announcing changes in February 2007 to improve coverage of domestic Chinese issues and to broadcast programmes at times when they had most impact.\textsuperscript{495} Nigel Chapman further explained:

\begin{quote}
[...] it is about making a proportionate level of investment in broadcasting for China [...] we are going to maintain a strong presence, but it is proportionate. There is no point in putting out repeats of programmes on short wave that no one can access. It is just in the end a waste of resources.\textsuperscript{496}
\end{quote}

304. \textbf{We agree that it is sensible to focus resources in China on those media that are less subject to jamming. However, this must not be treated as a signal that the UK is giving up on persuading the Chinese government to make media more accessible. We reiterate our recommendation in our East Asia Report that the Government should make strong representations to China about this issue.}

\textbf{Efficiency savings}

305. The BBC World Service’s memorandum reported that over the past decade it had made greater efficiency savings than the targets set by the Treasury.\textsuperscript{497} It achieved £9 million of efficiency savings during the last financial year.\textsuperscript{498}
306. In 2006, the Service closed ten of its language services on radio in order to release a further £10 million of funds for reinvestment.\textsuperscript{499} In our \textit{Public Diplomacy} inquiry, we concluded that this was “regrettable” and recommended that the Service, in consultation with the FCO, should “review regularly its language services for impact and financial value but do its utmost to preserve and extend its language services upon which so many depend for its trustworthy news and information.”\textsuperscript{500} This year the Service told us that it was “likely to reduce the scale and scope of its non-news and information English programmes and re-examine its language services once again, with the view to reducing output in areas of low impact and declining audience need.”\textsuperscript{501}

307. We asked Nigel Chapman about this further possible reduction. He told us:

I do not close the door on further changes, but I do not think that they will be on the scale of the past. However, we have to judge all that against the 3% savings target that the Treasury is insisting on, which everyone that is part of the process has to meet across the three years of the spending review.\textsuperscript{502}

308. We questioned Nigel Chapman on the potential conflict between making efficiency savings and retaining high quality outputs. He replied:

I am not a salami slicer by temperament; I do not believe in making everybody save the same. If you do that to organisations, you end up with everything being less good than it needs to be and with no focus and concentration. One of the success stories of the World Service, in the past 10 years in particular, has been a greater sense of focus and energy on critical markets. As a result, we are doing the best that we have ever done in most of those places. […] the other way is just to hollow out everything at the same level, and that is not a good strategy in my view.\textsuperscript{503}

309. We agree. We recommend that any decision to close further language services should be driven by declining audience need and reduced impact, and not by an arbitrary savings target.

\subsection*{Strategy for the future}

310. In October 2005, the BBC World Service announced a significant strategic shift as part of its 2010 strategy. This included plans for an Arabic TV service (discussed further below), language service closures and increased investment in interactive services, FM transmission facilities, overseas news bureaux and marketing.\textsuperscript{504} In our \textit{Public Diplomacy} Report, we commended the Service’s decision to invest in digital services and argued that

\begin{itemize}
\item \textsuperscript{499} Foreign Affairs Committee, Eighth Report of Session 2005-06, \textit{Foreign and Commonwealth Office Annual Report 2005-06}, HC 1371, Ev 42
\item \textsuperscript{500} Foreign Affairs Committee, Third Report of Session 2005-06, \textit{Public Diplomacy}, HC 903, para 126
\item \textsuperscript{501} Ev 140
\item \textsuperscript{502} Ev 153
\item \textsuperscript{503} Ev 153
\item \textsuperscript{504} Foreign Affairs Committee, Eighth Report of Session 2005-06, \textit{Foreign and Commonwealth Office Annual Report 2005-06}, HC 1371, Ev 42
\end{itemize}
extra investment in new media would “be vital in the future if the Service is to see a growth in audiences”.505

311. The Service’s memorandum to our inquiry explained that a fundamental part of its strategy was to move from a radio broadcaster into a multimedia network.506 It argued that radio would continue to be the best way of reaching large audiences in much of Africa and rural Asia for many years, but that in developed markets more people would look to television for news. The Service was also responding to the increasingly bigger role played by broadband internet, mobiles, text and video services, launching broadband video news in six languages, as well as English, and new sites for downloading content to mobile devices.507

312. We asked Nigel Chapman what his vision was of the media the World Service would be using in the future. He replied:

In five years’ time, in many markets it will not even be radio and the web; radio alone will continue to be powerful. I am thinking of large parts of Africa, lifeline services for the Burmese and parts of Central Asia. In other markets there will be a full panoply of tri-media activity, of which Arabic will definitely be one, Farsi will be another, and I suspect that there will be two or three others by then. There will be some people in the middle who still have a radio and have some new media services alongside that. I do not accept the notion that watching or listening to a linear stream of content will suddenly go out of the window in five years’ time and that everyone will access content through the web as their only source. […]

He therefore argued that it would not be sensible for the Service to put all its “eggs into the broadband basket”,508 nor to invest heavily in putting cameras into the Service, although this would be a “definite possibility” in the future.509

313. Nigel Chapman further explained that internet activity was likely to include partnerships with major portals for cross-promotion.510 This had already been done very successfully in south America where “every major portal […] has some well-displayed BBC content on it and that drives new users to us […] like a great shop window for our content and is a big factor in why those sites have done rather well.”511

314. We asked Nigel Chapman how this increased use of other media like the internet would fit with the BBC’s other services.512 He answered:

At the end of the day, what audiences care about is that it is the BBC. They do not differentiate that much between the BBC World Service, BBC World or
315. We welcome the BBC World Service’s strategy to move from being a radio broadcaster into a multimedia network. However, this will require a joined-up approach with the rest of the BBC’s services. We recommend that in its response to this Report, the FCO set out what consultations it has had with the Service about this new strategy and what measures the Service is taking to ensure clear editorial lines and a coherent mix of services.

316. Another key aspect of the World Service’s strategy is the planned Arabic Service. The memorandum explained that preparations to launch BBC Arabic Television in the autumn are “well on track”, with its staff planned to be the first to occupy the new Broadcasting House Centre.514 We asked Nigel Chapman how preparations for its launch were progressing. He told us that they were currently “on time and on budget”, but that the critical time would not be until July – September 2007.515 We asked him how the BBC World Service would ensure the Arabic Service had consistent editorial lines with the rest of the BBC’s services. He replied:

First, all the services from the BBC—television, radio or any kind of service internationally and nationally—have to subscribe to the BBC editorial guidelines. There is no difference between the guidelines for Farsi and Arabic television and those for BBC World.

Secondly, the content generated by Arabic TV, particularly in terms of news gathering in the Middle East and the wider Islamic world, will be rather valuable to the BBC. Therefore one of the really critical things is to ensure really good coordination between BBC World, the BBC as a whole and the material generated by those television services. We are putting that into place, physically and editorially, so that we can make sure that we do not let excellent material in one place not be seen in another.516

We discuss the funding of the extension of the Service further below.

Comprehensive Spending Review 2007

317. Submitted in June, the BBC World Service’s memorandum made clear that it was at a crucial stage in negotiations on its CSR07 bid. It told us that it was focusing on two key areas of investment for 2008-2011. These were: building services to regions of geopolitical insecurity; and enhancing interactive digital services to engage with new influential audiences.517 It was asking for an overall increase of RPI (Retail Price Index) plus 1.3% of its
2006/07 baseline of £246 million. The Service argued that if it were asked to meet the 3% cashable savings per annum set out in the Chief Secretary to the Treasury’s CSR07 guidance, it would have to find at least £19 million per annum by 2010-11 and stated that it carried a particular risk of inflation as the majority of its cost base was made up of staff and related costs.518

318. When we began our inquiry, the £15 million annual funding for the daily eight-hour satellite Farsi language television service announced by the Chancellor last year had yet to be formally allocated. As part of the CSR07 negotiations, the Service was also continuing to ask for £6 million to extend BBC Arabic television to a full 24/7 service. The memorandum stated that this extra funding was very important “for the long-term credibility” of the service.519 Nigel Chapman told us:

[...] I think there is a total unity of purpose between ourselves and the FCO about that priority. It is, alongside Farsi, the highest priority of the bid and the case for it is very strong. I think that everybody accepts that.

[...] If you remember, the cost of the 12-hour Arabic service, which is £19 million a year, has already been found from the restructuring and reprioritisation of the eastern European language services and some money that was held back from the outcome of the spending review of 2004, so we are already effectively funding over two thirds of the cost of Arabic television from existing resources. That is as far as I can go. If we are serious about this project—and we need to be, for all sorts of very good reasons—the service needs to be 24/7 and needs to be funded accordingly.520

On 25 July 2007, in his statement on new counter-terrorism measures the Prime Minister confirmed funding for the BBC Arabic and Farsi TV channels.521

319. The Service’s memorandum also listed other planned new investments for which the Service wanted an extra £10 million. These included: £4 million for BBC television in Urdu for Pakistan through partner channels, £2 million for African English television service with local partners, and £4 million for other media developments, including expanding broadband video for key languages, enhancing the Global Conversation and using digital technology to connect UK diaspora communities with their countries of origin. On the investment for Urdu television, Nigel Chapman argued:

[...] It would have a huge audience because of the BBC’s brand and effectiveness in Pakistan, although not just in Pakistan, because it would, obviously, be available via satellite and terrestrially via partner stations. So there is an appetite for it, and in the context of what is going on in Pakistan at the moment, there is a very strong case for that sort of development.522

518 Ev 140
519 Ev 140
520 Ev 147
521 HC Deb, 25 July 2007, col 845
522 Ev 147
320. The Service was also seeking up to £9 million in one-off funding to help meet rising redundancy costs. Nigel Chapman told us that this was because most of its costs were around people and that it would therefore have to carry out redundancies to meet the Treasury’s 3% a year efficiency targets. He argued:

The Treasury is saying in principle that it will fund up to 50% of the restructuring costs that are brought about by cashable savings, and the World Service should be treated in the same way as the Foreign Office, the British Council or anybody else in that respect. In the past, we have not asked for that, because we have been able to absorb costs in our existing resources, but we have got to the point now where we cannot do that. […]

321. The BBC World Service received the following financial settlement in CSR07:

Figure 3: CSR07: BBC World Service baseline and additions

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<td>2010-2011</td>
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Source: HM Treasury

Figure 3 shows that the BBC World Service’s budget increases over the three year CSR07 period from £246 million to £271 million, an average real terms increase of 0.5% per annum. The CSR reiterates the Prime Minister’s commitment to increased investment to fund the Arabic and Farsi television services.

322. We welcome the confirmation of £15 million annual funding for the Farsi language television service and an extra £6 million to extend the BBC Arabic television service. We also conclude that the BBC World Service should have received additional funding in CSR07 for its planned new investments and redundancy costs and recommend that in its response to this Report the FCO set out what the outcome was of the Service’s discussion with the Treasury on this point.

523 Ev 140 and Ev 47 [Ms Woodhams]

524 Ev 148

525 HM Treasury, Meeting the aspirations of the British people: 2007 Pre-Budget Report and Comprehensive Spending Review, Cm 7227, October 2007, Table D15, p 236

526 HM Treasury, Meeting the aspirations of the British people: 2007 Pre-Budget Report and Comprehensive Spending Review, Cm 7227, October 2007, Table D15, p 234
Formal minutes

Wednesday 7 November 2007

Members present:

Mike Gapes, in the Chair

Mr David Heathcoat-Amory
Mr John Horam
Mr Eric Illsley
Mr Paul Keetch
Andrew Mackinlay
Mr Greg Pope
Sir John Stanley
Ms Gisela Stuart

The Committee deliberated.

Draft Report (Foreign and Commonwealth Office Annual Report 2006-07), proposed by the Chairman, brought up and read.

Ordered, That the Chairman’s draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 23 read and agreed to.
Paragraph 24 read, amended and agreed to.
Paragraph 25 read, amended and agreed to.
Paragraphs 26 to 29 read and agreed to.
Paragraph 30 read, amended and agreed to.
Paragraphs 31 to 38 read and agreed to.
Paragraph 39 read, amended and agreed to.
Paragraphs 40 to 49 read and agreed to.
Paragraph 50 read, amended and agreed to.
Paragraphs 51 to 68 read and agreed to.
Paragraph 69 read, amended and agreed to.
Paragraphs 70 to 75 read and agreed to.
Paragraph 76 read, amended and agreed to.
Paragraphs 77 to 94 read and agreed to.
Paragraph 95 read, amended and agreed to.
Paragraphs 96 to 108 read and agreed to.

Paragraph 109 read, amended and agreed to.

Paragraphs 110 to 122 read and agreed to.

Paragraph 123 read, amended and agreed to.

Paragraphs 123 to 132 read and agreed to.

Paragraph 133 read as follows:

“We conclude that the FCO’s rejection of the NAO’s recommendation to offer expert mediation to those individuals whose complaints initiated the review of grievance procedures sends the wrong message about its commitment to improving its procedures. We recommend that the FCO reverses this decision.”

Amendment proposed, to leave out from the first “procedures” in line 3 to “We” in line 4 and insert “is wholly unacceptable. We cannot overstate our concern at the apparent arrogance displayed by the decision to reject the NAO’s recommendation.”—(Andrew Mackinlay.)

Question put, That the Amendment be made.

The Committee divided

Ayes, 2  
Mr Paul Keetch  
Andrew Mackinlay

Noes, 5  
Rt Hon David Heathcoat-Amory  
Mr John Horam  
Mr Eric Illsley  
Mr Greg Pope  
Rt Hon Sir John Stanley

Paragraphs 134 to 161 read and agreed to.

Paragraphs (now paragraphs 162 to 166) brought up, read the first and second time, and inserted.

Paragraphs 162 to 170 (now paragraphs 167 to 175) read and agreed to.

Paragraph 171 (now paragraph 176) read, amended and agreed to.

Paragraphs 172 to 175 (now paragraphs 177 to 180) read and agreed to.

Paragraph 176 (now paragraph 181) read, amended and agreed to.

Paragraph 177 (now paragraph 182) read, amended and agreed to.

Paragraph 178 (now paragraph 183) read, amended and agreed to.
Paragraphs 179 to 212 (now paragraphs 184 to 217) read and agreed to.

Paragraph 213 (now paragraph 218) read, amended and agreed to.

Paragraphs 214 to 255 (now paragraphs 219 to 260) read and agreed to.

Paragraph 256 (now paragraph 261) read, amended and agreed to.

Paragraphs 257 to 274 (now paragraphs 262 to 279) read and agreed to.

Paragraph 275 (now paragraph 280) read, amended and agreed to.

Paragraphs 276 to 295 (now paragraphs 281 to 300) read and agreed to.

Paragraph 296 (now paragraph 301) read, amended and agreed to.

Paragraphs 297 to 317 (now paragraphs 302 to 322) read and agreed to.

Resolved, That the Report, as amended, be the First Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Several Papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House. —(The Chairman.)

The Committee further deliberated.

[Adjourned till Wednesday 21 November at 2.00 pm]
Witnesses

Tuesday 26 February 2007

Sir Peter Ricketts KCMG, Permanent Under-Secretary and Head of the Diplomatic Service, Dickie Stagg, Director-General Change and Delivery, Keith Luck, Director-General Finance, and David Warren, Director Human Resources, Foreign and Commonwealth Office

Wednesday 27 June 2007

Lord Kinnock, Chair, Martin Davidson, Chief Executive, and Margaret Mayne, Director of Finance, British Council

Nigel Chapman, Director, and Mrs Alison Woodhams, Chief Operating Officer and Director of Finance, BBC World Service

Tuesday 17 July 2007

Lord Ashdown of Norton-sub-Hamdon, GCMG KBE

Sir Ivor Roberts KCMG, Diplomatic Service (1968-2006)
### List of written evidence

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The following reports and evidence have been produced in the present Parliament.

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**REPORTS**

| First Report | Human Rights Annual Report 2005 | HC 574 (Cm 6774) |
| Second Report | Foreign and Commonwealth Office Annual Report 2004–05 | HC 522 (Cm 6791) |
| Third Report | Public Diplomacy | HC 903 (Cm 6840) |
| Fourth Report | Foreign Policy Aspects of the War against Terrorism | HC 573 (Cm 6905) |
| Sixth Report | Developments in the European Union | HC 768 (Cm 6914) |
| Seventh Report | East Asia | HC 860 (Cm 6944) |
| Eighth Report | Foreign and Commonwealth Office Annual Report 2005–06 | HC 1371 (Cm 7008) |

#### Session 2006–07

**REPORTS**

| First Report | The Work of the Committee in 2005 and 2006 | HC 206 |
| Second Report | Visit to Guantánamo Bay | HC 44 (Cm 7063) |
| Third Report | Human Rights Annual Report 2006 | HC 269 (Cm 7127) |
| Fourth Report | South Asia | HC 55 (Cm 7142) |
| Fifth Report | Visit to Turkey and Cyprus | HC 473 |
| Sixth Report | Foreign Policy Aspects of the Detention of Naval Personnel by the Islamic Republic of Iran | HC 880 (CM7211) |
| Seventh Report | Strategic Export Controls: 2007 Review | HC 117 |
| Eighth Report | Global Security: The Middle East | HC 363 (CM 7212) |
Oral evidence

Taken before the Foreign Affairs Committee

on Tuesday 26 June 2007

Members present:

Mike Gapes (Chairman)
Mr. Fabian Hamilton
Rt hon. Mr. David Heathcoat-Amory
Mr. John Horam
Mr. Eric Illsley
Mr. Paul Keetch
Andrew Mackinlay
Mr. Malcolm Moss
Mr. Greg Pope
Mr. Ken Purchase
Rt hon. Sir John Stanley

Letter to the Chairman from the Secretary of State, Foreign and Commonwealth Office

I have pleasure in enclosing an advance copy of the 2005–06 Annual Report for the FCO's Global Opportunities Fund (GOF) along with copies for each of your FAC colleagues. This Report will be laid before Parliament as a Command Paper at 1100 on 6 November. This Report is embargoed until then.

The Annual Report illustrates the innovative work our network has been doing with GOF in support of our international strategic priorities. Since its inception three years ago, GOF has developed into an increasingly important tool to support policy delivery. Using GOF resources, our overseas posts are able to work with governments, civil society and other key stakeholders to deliver projects that help develop policies, encourage reform or build institutional capacity in ways that support the UK's objectives. We have active GOF programmes in key areas such as Climate Change, Counter Terrorism, Human Rights and Engaging with the Islamic World.

GOF continues to develop. In 2006–07, we have brought our Drugs and Crime, Migration, Overseas Territories and Afghan Counter Narcotics programmes under GOF’s strategic umbrella thus extending the breadth and scope of our activities. Few other foreign ministries have a policy tool like GOF at their disposal. I am confident it provides us with significant added leverage and puts the FCO at the forefront of foreign ministries in our ability to work for the sort of strategic change we need to see.

I am delighted you are able to attend the reception I am hosting on 14 November at Lancaster House. I do hope as many of your FAC colleagues as possible will be able to attend. The reception will provide an excellent opportunity to meet representatives from many of the organisations and individuals we work with through GOF as well as Ambassadors and High Commissioners of countries where we run projects.

I commend this Annual Report to you and look forward to seeing you on 14 November.

Margaret Beckett
31 October 2006

Letter to the Chairman from The Lord Triesman of Tottenham, Minister of State, Foreign and Commonwealth Office

On 15 November, the FCO laid before Parliament an un-numbered Command Paper giving notice of a new FCO contingent liability. I am writing to you personally to apologise for the FCO needing to accept this liability prior to Parliament having the usual fourteen days' notice and to explain the reasons for this.

Part of the FCO’s responsibilities is to facilitate the British Council’s access to the government’s arts indemnity scheme. Through this scheme, high-value British Council exhibitions overseas are underwritten by the Treasury. (The contingent liability is accepted by the FCO in return for a letter of comfort from the Treasury.) Without the support of the FCO and Treasury, the British Council’s ability to organise such exhibitions would be severely restricted by the high cost of commercial insurance.

The contingent liability will cover the estimated insurance value of the British Council exhibition “Whistler in Moscow”. This exhibition, based around paintings owned by the Tate, will be a major element of the UK’s public diplomacy activity in Russia. The exhibition will be hosted in the Tretyakov Gallery in Moscow and will open on 6 December 2006 and will leave the UK on 17 November. It is the second part of a major cultural exchange with Russia which has previously involved the Tretyakov Gallery exhibiting its art in the UK.
The British Council complied fully with all of the Treasury’s rules and requirements for accessing the government arts scheme. This included receiving clearance in 2004 from the Public Diplomacy Strategy Board (which set the UK’s public diplomacy strategy and priorities at that time) and seeking sponsorship. Treasury approval was also granted. Regrettably, bureaucratic errors at official level led to a delay in final approval being sought and Parliament being notified.

As the exhibition was on the verge of cancellation, I decided that it was appropriate to use “reasons of urgency” to enable the FCO to accept this liability prior to the expiry of the normal period of Parliamentary notice. However, the bureaucratic error is clearly not acceptable and I have instructed officials in the FCO and British Council to ensure that fresh procedures are put in place to ensure that this can not happen again.

David Triesman
The Lord Triesman of Tottenham
15 November 2006

Letter to the Clerk of the Committee from the Parliamentary Relations & Devolution Team, Foreign and Commonwealth Office

Please find attached a copy of the FCO Winter Supplementary Estimate 2006–07.

Richard Cooke
Parliamentary Relations and Devolution Team
20 November 2006

Foreign & Commonwealth Office Winter Supplementary Estimate 2006–07 Memorandum for the Foreign Affairs Committee

SUMMARY OF CHANGES

1. The 2006–07 Winter Supplementary Estimate for the Foreign & Commonwealth Office (FCO) provides for the drawdown of end year flexibility (EYE) and Departmental Unallocated Provision (DUP); changes arising from a number of transfers to and from other government departments and internal transfers; transfers from Central funds and internal departmental corrections. These are reflected in changes to the Departmental Expenditure Limit and to the Administration and Capital budgets.

2. A list of all changes is shown in Table 1. Those changes requiring further explanation are detailed below.

RfR1

3. The FCO has drawn down £14.755 million from administration near cash EYF to meet additional forecast pressures on budgets. The main pressure is the implementing of the FCO IT strategy, which is expected to cost in the region of £13 million.

4. The FCO has drawn down £4.5 million in programme DUP (shown in section A3) to be used to fund additional expenditure on the Better Basra project.

5. The FCO has switched £1.6 million from capital to capital grant to enable the FCO to make its capital contribution to the Government Secure Zone from resource. Previously such funds would have been moved via a budget transfer from capital. However, latest HM Treasury guidance is that the government department providing such a service should invoice the department paying for the service. It is therefore necessary to move the funds available for such expenditure to resource.

6. Budget transfer of £117,000 for police pensions costs for 2006–07 and 2007–08. This is in relation to police officers on secondment to the FCO and is split into three different RfR1 transfers to reflect the precise activities the officers are deployed on. There are two similar transfers for RfR2 (see below).

RfR2

7. On peacekeeping, the FCO is drawing down £50 million from the Main estimate provision in this Winter Supplementary split equally between Africa and Global peacekeeping.

8. Budget transfer of £1,411 million for police pensions costs for 2006–07 and 2007–08. This is in relation to police officers on secondment to the FCO working on peacekeeping activity. It is split into two different RfR2 transfers to reflect the number of officers working on Africa and Global peacekeeping activities respectively.
The sale of part of the Bangkok compound has realised net receipts of £49 million. This will be reinvested in capital as part of Asset Recycling Agreement. This represents a £39 million increase on the previous figure for Asset Recycling of £10 million.

Detailed List of Changes

10. Table 1 lists the individual changes included in the Winter Supplementary Estimate. The changes are shown in descending value within each category.

Table 1 Detailed Explanation of Changes

<table>
<thead>
<tr>
<th>Amount (£m)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>End Year Flexibility</td>
<td></td>
</tr>
<tr>
<td>14.755</td>
<td>RfR1 Drawdown from EYF to meet increased expenditure on IT strategy (A1, admin)</td>
</tr>
<tr>
<td>14.755</td>
<td>Changes to Resource DEL</td>
</tr>
<tr>
<td>Transfers from non-voted Departmental unallocated Provision (DUP)</td>
<td></td>
</tr>
<tr>
<td>4.500</td>
<td>RfR1 Programme DUP (Section A3, grants)</td>
</tr>
<tr>
<td>0.000</td>
<td>Changes to Resource Del Transfers between section within the Estimate</td>
</tr>
<tr>
<td>1.600</td>
<td>Transfer from RfR1 capital to RfR1 capital grant (Sections A7 &amp; A3)</td>
</tr>
<tr>
<td>0.000</td>
<td>Changes to Resource Del</td>
</tr>
<tr>
<td>0.000</td>
<td>Changes to Capital DEL</td>
</tr>
<tr>
<td>Transfer from Other Government Departments</td>
<td></td>
</tr>
<tr>
<td>3.000</td>
<td>RfR2 Transfer to Section B3 (grants) from DEID for GCPP activity</td>
</tr>
<tr>
<td>1.270</td>
<td>RfR2 Transfer to Section D3 (grants) from Home Office for police pensions costs for Global Peacekeeping activity</td>
</tr>
<tr>
<td>0.141</td>
<td>RfR2 Transfer to Section C3 (grants) from Home Office for police pensions costs for Africa Peacekeeping activity</td>
</tr>
<tr>
<td>0.073</td>
<td>RfR1 Transfer to Section A1 (admin) from cabinet Office for payments to Parliamentary Counsel Office</td>
</tr>
<tr>
<td>0.052</td>
<td>RfR1 Transfer to Section A2 (other current) from Home Office for police pensions costs for GOF Counter Terrorism &amp; Economic Governance activity</td>
</tr>
<tr>
<td>0.052</td>
<td>RfR1 Transfer to Section A3 (grants) from Home Office for police pensions costs for GOF Drugs &amp; crime activity</td>
</tr>
<tr>
<td>0.013</td>
<td>RfR1 Transfer to Section A1 (admin) from Home Office for police pensions costs for Consular activity</td>
</tr>
<tr>
<td>4.601</td>
<td>Changes to Resource Del Transfers to Other Government Departments</td>
</tr>
<tr>
<td>−7.075</td>
<td>RfR1 Transfer from Section A2 (other current)</td>
</tr>
<tr>
<td>−7.075</td>
<td>Changes to Resource Del</td>
</tr>
<tr>
<td>Transfer to Other Government Departments</td>
<td></td>
</tr>
<tr>
<td>−7.075</td>
<td>RfR1 Transfer from Section A2 (other current)</td>
</tr>
<tr>
<td>−7.075</td>
<td>Changes to Resource Del</td>
</tr>
<tr>
<td>Transfers from Central Funds</td>
<td></td>
</tr>
<tr>
<td>25.000</td>
<td>RfR2 African peacekeeping drawdown (Section C3, Grants)</td>
</tr>
<tr>
<td>25.000</td>
<td>RfR2 Global peacekeeping drawdown (Section D3, Grants)</td>
</tr>
<tr>
<td>50.000</td>
<td>Changes to Resource DEL</td>
</tr>
<tr>
<td>Increase in gross spending offset by Appropriations in Aid</td>
<td></td>
</tr>
<tr>
<td>39.000</td>
<td>RfR1 Additional income Asset Recycling Agreement</td>
</tr>
<tr>
<td>11.000</td>
<td>RfR1 Additional income from Home Office biometrics</td>
</tr>
<tr>
<td>8.5000</td>
<td>RfR1 Additional income from MOD for Afghan Delivery Plan</td>
</tr>
<tr>
<td>6.000</td>
<td>RfR1 Additional income from Home Office for Afghan Delivery Plan</td>
</tr>
<tr>
<td>0.000</td>
<td>Change to Resource DEL</td>
</tr>
<tr>
<td>0.000</td>
<td>Change to Capital DEL</td>
</tr>
<tr>
<td>62.281</td>
<td>Net total change to Resource DEL</td>
</tr>
<tr>
<td>0.000</td>
<td>Net total change to Capital DEL</td>
</tr>
</tbody>
</table>
11. The tables below show the effect of changes to the FCO’s DEL (table 2); and a comparison of the 2005–06 DEL (table 3) and Administration (table 4) budgets with the 2004–05 outturn, 2005–06 outturn and plans for 2007–08 and 2008–09.

**Table 2 Changes to Departmental Expenditure Limit in 2006–07 (£m)**

<table>
<thead>
<tr>
<th></th>
<th>Voted</th>
<th>2006–07</th>
<th>Total DEL</th>
<th>2007–08</th>
<th>Total DEL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Non-voted</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resource</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main Estimate Figure</td>
<td>1,747.428</td>
<td>70.713</td>
<td>1,818.141</td>
<td>1,680.678</td>
<td></td>
</tr>
<tr>
<td>Winter Supplementary Change</td>
<td>66.781</td>
<td>-4.500</td>
<td>62.281</td>
<td>1.526</td>
<td></td>
</tr>
<tr>
<td>Current Resource DEL</td>
<td>1,814.209</td>
<td>66.213</td>
<td>1,880.422</td>
<td>1,682.204</td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main Estimate Figure</td>
<td>149.003</td>
<td>1.000</td>
<td>150.003</td>
<td>148.003</td>
<td></td>
</tr>
<tr>
<td>Winter Supplementary Change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Capital Del</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation at start or year</td>
<td>116.624</td>
<td>35.000</td>
<td>151.624</td>
<td>166.624</td>
<td></td>
</tr>
<tr>
<td>Winter Supplementary Change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Departmental Expenditure Limit</strong></td>
<td>1,846.588</td>
<td>32.213</td>
<td>1,878.801</td>
<td>1,663.583</td>
<td></td>
</tr>
</tbody>
</table>

**Table 3 DEL Comparison (£m)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource Del²</td>
<td>1,786.890</td>
<td>1,889.410</td>
<td>1,880.422</td>
<td>1,728.645</td>
</tr>
<tr>
<td>Capital DEL</td>
<td>77.533</td>
<td>94.490</td>
<td>150.003</td>
<td>109.203</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation³</td>
<td>70,043</td>
<td>86,446</td>
<td>151.624</td>
<td>184.624</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,794,380</td>
<td>1,897,454</td>
<td>1,878,801</td>
<td>1,653,244</td>
</tr>
</tbody>
</table>

**Table 4 Administration Budget Comparison (£m)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>752.907</td>
<td>790.962</td>
<td>891.442</td>
<td>920.013</td>
</tr>
</tbody>
</table>

12. There has been a reclassification of £14.5 million of Departmental Unallocated Provision (DUP) from Programme to Administration, as agreed by the Chief Secretary to the Treasury, to correct a previous legacy error. The remaining £4.5 million of 2006–07 RfR1 programme DUP has been drawn down in the Winter Supplementary Estimate. This has left £59.5 million of unallocated resource provision and £1 million unallocated capital provision which is broken down as follows:

**Table 5 2006–07 Departmental Unallocated Provision (£m)**

<table>
<thead>
<tr>
<th></th>
<th>Admin</th>
<th>Programme</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>RfR1 Ringfenced Impairments DUP (non-cash)</td>
<td>35.0</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>RfR1 DLIP to meet unforeseen requirements arising in-year</td>
<td>14.5</td>
<td>—</td>
<td>1.0</td>
</tr>
</tbody>
</table>

¹ The term “disaster” will be used in this document to cover both terrorist attacks, major catastrophes and other multiple casualty situations.

² Resource DEL figures for 2007–08 are understated because they do not include conflict prevention expenditure, which will be transferred at the time of the 2007–08 Main and Supplementary Estimates.

³ Depreciation, which forms part of Resource DEL, is excluded from the total DEL, since Capital DEL includes the purchase cost of capital assets. To add on the depreciation of those assets would double count their cost.
13. The FCO is currently reviewing whether to draw down these unallocated provisions in the Spring Supplementary.

END YEAR FLEXIBILITY (EYF)

14. The Public Expenditure Outturn White Paper published in July 2006 showed a total figure of £136.9 million to carry forward of 2005–06 DEL underspending into 2006–07 under the DEL EYF scheme. Table 6 below shows how this figure was made up from a mixture of adjustment for 2004–05 final outturn, forecast 2005–06 underspend and unused 2005–06 EYF entitlement.

<table>
<thead>
<tr>
<th>Table 6 Accumulation of EYF (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RfR1 Admin</td>
</tr>
<tr>
<td>2005–06 EYF Entitlement</td>
</tr>
<tr>
<td>EYF Drawn down in 2005–06</td>
</tr>
<tr>
<td>Adjustment for final 2004–05 outturn</td>
</tr>
<tr>
<td>2005–06 Provisional Eligible Underspend</td>
</tr>
<tr>
<td>2006–07 EYF Entitlement PEOWP</td>
</tr>
<tr>
<td>Adjustment for Final Outturn</td>
</tr>
<tr>
<td>EYF drawn down in Winter Supplementary</td>
</tr>
<tr>
<td>FCO Accumulated EYF</td>
</tr>
</tbody>
</table>

IMPACT ON PSA TARGETS

15. Changes to the FCO’s budget provision relate to planned activity and so will not impact our public service agreements.

D R Todd
Finance Director
November 2006

Letter to the Chairman from Rt Hon Geoff Hoon MP, Minister for Europe

Your Committee has consistently taken a close interest in sales and purchases of property by the Foreign and Commonwealth Office, and we currently report these to you on a quarterly basis. It will be some time before a particular sale now in preparation is completed and, hence, reported to the Committee. I therefore thought that I would write to tell you that we plan to place the former Ambassador’s Residence in Lisbon on the market on 25 November.

There are essentially two reasons for the sale. A thorough intrusive survey has confirmed that the building’s timbers—it is timber-framed—are seriously infected by wet rot, dry rot and termites. Estimates prepared for us suggest that it would cost more to refurbish than its market value. More fundamentally, the house is badly exposed to terrorist attack, with no stand-off at all on two sides from the open street and little underlying structural strength. Refurbishing the building would not improve the basic security position. There have been plans over the years to redevelop the house or site. These were not successful, for differing reasons, and would in any event now fail on security grounds.

British Ambassadors to Portugal lived in the Lapa Residence from the 19th century until 2003. However, our Ambassador is now living in a leased Residence in the Alcantara and Belem quarter of Lisbon, which is working well. We shall all be sorry to see the Lapa house go. But with the twin imperatives of cost and security, I do not think we can or should seek to keep it.

Geoff Hoon
20 November 2006
Letter to the Chairman from The Lord Triesman of Tottenham, Minister of State, Foreign and Commonwealth Office

FCO/DCMS FRAMEWORK FOR GOVERNMENT PROVISION OF SUPPORT AND AFTERCARE FOR VICTIMS OF DISASTER, INCLUDING ACTS OF TERRORISM, OVERSEAS

I am writing to share with you the attached document, which sets out the framework within which the FCO and Department for Culture, Media and Sports (DCMS) will work together to support British people caught up in major emergencies overseas.

Both Departments play a vital role in ensuring that British people have the information and practical support they need to help them cope with being bereaved, injured or traumatised overseas. We are in touch with many people who have been affected in this way and have been listening to the feedback they have generously given about their experiences and what more Government can do to support them.

We recognise that arrangements have not always worked well in the past, which is why we have drawn up this framework for ensuring that arrangements do work better in the future.

While developing the approach set out in this document we were able to use it successfully to support those affected by the Bahrain boat sinking and the terrorist incidents in Dahab, Marmaris and Amman this year. We will continue to listen to bereaved families and survivors and to seek to improve our support of them.

Tessa Jowell is writing in similar terms to the Culture, Media and Sports Committee and I am copying this letter to her and to John Whittingdale. Copies of the Framework document have been placed in the Libraries of both Houses.

David Triesman
The Lord Triesman of Tottenham
21 November 2006

A Framework for Government Provision of Support and Aftercare for Victims of Disaster, including Acts of Terrorism, Overseas Guidance on the Roles and Responsibilities of the Foreign and Commonwealth Office (FCO) and the Department for Culture, Media and Sport (DCMS)

BACKGROUND

1. Work continues across Government to review and co-ordinate the provision of aftercare for victims of disasters both within the UK and overseas. Within that context this note is liable to change and the content will evolve as tasks continue to be identified and roles and responsibilities clarified.

2. This document is not intending to be legally binding upon the FCO and DCMS. However, each organisation accepts the principles and roles described within and is committed in the public interest to shared efforts to respond to an International Incident. Each organisation agrees to commit resources commensurate with its functions and general responsibilities within its own operational priorities.

3. The FCO’s Consular Guide (launched by the then Foreign Secretary on 21 March 2006) includes information on what additional consular assistance the FCO may offer to British Nationals in the case of a terrorist attack or major disaster. Where this support is offered to a British National, the question arises as to whether additional assistance ought to be offered to that individual on his or her return to the UK. The FCO’s remit does not extend to providing support for those British Nationals once they return to the UK. This document sets out

(1) how DCMS and FCO will work together, with other key Home Departments, to ensure that British Nationals affected by major emergencies overseas and in receipt of the FCO’s additional consular assistance receive appropriate support on return to the UK;

(2) the method by which relevant information relating to victims and their families will be transferred from the FCO to Home Departments;

(3) what components of a UK aftercare package Home Departments may wish to consider extending to British Nationals on their return to the UK;

(4) division of responsibility between the FCO ministers and ministers from the Home Departments in relation to press handling, parliamentary handling, contact with bereaved families and survivors and acts of remembrance.

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4 See definition of “British National” in Consular Assistance Guide.

5 The term “disaster” will be used in this document to cover both terrorist attacks, major catastrophes and other multiple casualty situations.
“Trigger” Mechanism

4. In the event of a disaster occurring overseas, the FCO will first determine the scale of the disaster, the number of British Nationals affected and the assistance they are likely to need. In addition the following steps may be taken by the FCO:

(i) activation of the Emergency Response Team (London-based call handling operation);
(ii) deployment of Rapid Deployment Teams (RDTs) to the affected areas;
(iii) request that the police open a casualty bureau;
(iv) request that the police deploy Family Liaison Officers to potentially bereaved families;
(v) request a member of DCMS’ Humanitarian Assistance Unit (HAU) is embedded within the FCO’s Crisis Management Team.

5. The FCO will also have to make a determination as to whether the additional support outlined in the Consular Assistance Guide will be offered to those British Nationals who have been affected. If it is decided that it is appropriate to offer this element of this additional support to victims and their families, the embedded DCMS person within the Crisis Management Team will take responsibility for informing other relevant Home Departments of this development.

6. This trigger mechanism is designed to allow DCMS and other Home Departments, in partnership with key agencies, to assess what victims needs will be and which of those needs are likely to be met and then decide:

(i) whether it is appropriate to provide victims and their families with support in the UK;
(ii) what components of a Reception Centre should be set up at relevant airports/ports and by whom;
(iii) what other aspects of aftercare may be needed from voluntary or local sources.

7. The Crisis Management Team will then be able to provide details of any assistance on offer in the UK to those supporting victims and their families. It is important that these decisions are taken within 48 hours and in any event before any victims start returning to the UK.

Transmission of Information

8. To enable DCMS to undertake its co-ordinating role once victims and their families start to return to the UK, the HAU will need the following information (gathered by the FCO Crisis Management Team, of which HAU will have provided a temporary member):

(i) Name of victim:
(ii) Location of victim:
(iii) Condition of victim:
(iv) Details of any family members also affected:
(v) Details of any family members who have come to the affected area (plus dates of travel):
(vi) Details of any family in the UK (plus whether FLO has been assigned):
(vii) Details of repatriation of body (where applicable):
(viii) Details of return flights to the UK:
(ix) In so far as known, immediate needs on return to the UK (eg. medical attention):
(x) In so far as known, long term needs on return to the UK (eg. incapacity benefit):

Possible Support in the UK

9. The FCO’s operational responsibility for the victims of an overseas disaster will end once they have returned to the UK (or their place of residence if overseas). The DCMS will assume responsibility for co-ordinating support for victims returning to the UK. There will need to be close co-operation between FCO and DCMS to ensure the handover is seamless. It is vital therefore that a DCMS official joins Crisis Management Team in Consular Directorate (or Incident Unit) during the emergency response phase at a time to be decided between DCMS and FCO.

On arriving in the UK

10. FCO Crisis Management Team, after consulting DCMS, the DCA, the Home Office and the Police, will take the decision as to whether Reception Centres are likely to be required at Heathrow or Gatwick airports, where Travelcare currently operate. DCMS and FCO will look at how to develop the capability for provision of Reception Centres at sites—other airports, train stations and so on—where Travelcare does not currently operate.
Support for returning victims once they have landed in the UK

11. The DCMS will co-ordinate UK aftercare working with key Home Departments, relevant agencies such as the 7 July Assistance Centre and voluntary sector organisations. Components of the aftercare might include:

(i) A permanently available source of help, advice and signposting to specific services;

(ii) Counselling by bereavement or trauma specialist where appropriate. Counselling should be provided through the NHS, via individuals’ GPs or a specialist screening programme where one is established. However, where appropriate support cannot be accessed sufficiently speedily through the NHS, and the voluntary sector (organisations such as Cruse Bereavement Care, the Red Cross, Victim Support and Disaster Action may be able to provide counselling services) is going to provide the counselling prior consideration must be given to:

(a) who pays for it and

(b) that the counsellors with voluntary organisations are using the recognised, techniques recommended by NICE;

(iii) A self-help support group or network to remain in contact with others affected by the same disaster;

(iv) Provision of details of pro bono lawyers (it will be made clear to all recipients of this information that HMG do not in any way vouch for the quality or integrity of the legal advice);

(v) Ongoing physical medical treatment (NHS);

(vi) Assistance to obtain financial support/compensation—for example with access to social security benefits, and to any available provision from charitable funds or other compensation schemes and pro bono financial advice;

(vii) Help with day to day needs in liaison with the Association of Directors of Social Services;

12. Neither the FCO or DCMS will be responsible for the aftercare of British citizens who do not return to the UK.

Division of Responsibility Between FCO and DCMS in Relation to Press, Parliament and Remembrance Ceremonies

13. In addition to the above elements, where the disaster has been of a nationally significant scale for Ministers to agree there should be a national service of remembrance or other commemorative event the DCMS will organise, and finance, it. British Nationals affected by the disaster who are not resident in the UK will be invited to any service of remembrance organised by Government but travel to the UK will normally be at the expense of the individual.

14. The DCMS will also, consulting the FCO if the event is overseas, organise any domestic anniversary events linked to the disaster, including the administrative arrangements for the survivors and bereaved to attend.

The roles of Ministers

15. Once British citizens killed in a disaster occurring overseas have been positively identified, the Secretary of State for Culture, Media & Sport will normally sign letters of condolence to the family.

16. At a later date, if it has been determined that a service of remembrance will be organised, the Secretary of State for Culture, Media and Sport will write a letter of invitation to attend the service.

17. The Secretary of State for Culture Media and Sport and an FCO Minister will endeavour to attend any Government organised service of remembrance. Depending on the scale of the memorial other Ministers and members of the Royal Family may also attend.

18. Ministerial correspondence and PQs relating to factual aspects of disasters occurring overseas and consular services to victims will be directed to the FCO in the first instance. The DCMS will contribute to all correspondence and Parliamentary answers. Where appropriate, (for instance where questions relate to services for victims or bereaved families on return to the UK) correspondence and PQs will be transferred to the DCMS. In such circumstances the FCO and possibly the Home Office will contribute to the replies.

19. Where there are requests for Ministerial interviews or statements relating to the treatment of victims of an overseas disaster, FCO and DCMS press offices will liaise to agree arrangements for ensuring appropriate Government representation.

20. When an interview or statement is requested relating to the specific circumstances of the occurrence overseas, the FCO will lead.

21. FCO and DCMS press offices will liaise on all media handling issues arising from disasters.

21 November 2007
Letter to the Chairman from The Lord Triesman of Tottenham, Minister of State, Foreign and Commonwealth Office

I wrote to you on 28 June with an update on the FCO’s work to implement the recommendations of the National Audit Office’s major review of our Consular Services published in November 2005. I promised then to send you a further update in the autumn. This is attached.

I hope that the Committee find this further update useful, and would welcome any feedback you have on it. I plan to send you a further, final update in early March, which will also cover the future of our overseas passport-issuing operation.

As you will know, the NAO, working with the Zito Trust (a specialist charity), published on 30 November a separate report on victims’ experiences of the Government’s response to the Asian tsunami. The Department for Culture, Media and Sport, with its responsibility for aftercare for the victims of major incidents, is preparing the Government’s response to this report and will issue this within six months. I will of course share that with the Committee when it is available.

David Triesman
The Lord Triesman of Tottenham
12 December 2006

The Foreign & Commonwealth Office: Consular Service to British Nationals update on Implementation of NAO Recommendations

Influencing and Changing Behaviours of Travellers (Recommendations 1 and 2)

Management Information (Recommendations 1a, 1b, 9d)

1. We have conducted a detailed analysis of the current use and the future requirements for management information (MI) across our consular operation. This has produced recommendations for the way forward: our emerging vision is of a centralised management information reporting system available to London and to posts that will, as far as possible, collect data automatically from source systems.

2. An improved MI system will enable us better to understand trends in demand for our consular services, and to allocate our resources accordingly in a more flexible way including on a seasonal basis where this is possible and appropriate.

Travel Advice (Recommendation 1c)

3. Since September 2006 all country travel advice pages include in their summaries advice on the most common causes of assistance cases in that country, in line with the NAO’s recommendation.

Communications (Recommendation 1d)

4. We are concentrating more resources on key audiences identified as most at risk when overseas. This work includes:
   — new media campaigns targeted at people from ethnic-minorities and older travellers. Our research shows for example that travellers from ethnic minorities visiting friends and family outside the UK are one-third as likely to take out travel insurance as the national average: our campaigns to promote safe travel to these audiences have included advertising on London buses in key areas and in the ethnic press. Meanwhile we have produced a new guide to safe travel aimed at the older traveller, working with Lonely Planet;
   — 12 in-resort communication campaigns, principally aimed at central and Eastern Europe, to promote responsible tourism. They include beer mats with travel safety messages in bars frequented by British groups;
   — publicising case studies to demonstrate eg the dangers of retiring overseas without proper planning.

Consular Strategy Programme (Recommendation 2b)

5. We have introduced a new change management programme, the Consular Strategy Programme, whose aim is “the delivery of support to British nationals abroad to the highest possible levels of quality, consistency, professionalism and efficiency”. As part of this we plan to implement a risk-based framework for our posts based on the public statement of our consular assistance in our “Guide to Support for British Nationals Abroad” and designed to monitor the consistency of service across our network.
EU Cooperation (Recommendation 2b)

6. We are establishing a framework to improve joint EU consular crisis response. We have received positive feedback from the EU consular working group (COCON) on a paper jointly drafted by us and the French. We have set up virtual working groups with EU partners on key issues affecting consular work within the EU such as psychiatric cases and the repatriation of bodies.

Moving Towards a More Consistent Frontline Service to Individuals (Recommendations 3–7)

Post Reviews: Implementation Plans (Recommendation 3b)

7. As recommended by the NAO, we now produce implementation plans (based on those used by the FCO’s Internal Audit Department) at the end of each overseas consular review. These help us monitor progress against the review’s recommendations.

Disseminating Best Practice (Recommendation 3b)

8. The internal newsletter for the consular network, the Real World, is a key tool in spreading best practice. In addition our Communications team is rolling out the use of intranet fora as a place for staff to provide feedback and share best practice. We will complete by February a project to bring all our internal guidance to staff together in a single consolidated version. We have set up a regular programme of regional strategy conferences around our network to share best practice.

Review of Emergency Plans (Recommendations 4a, 4c, 4e)

9. We have established a list of twenty priority posts on which we are concentrating our testing and exercising of emergency plans. We are also checking to see what extra emergency equipment they may need.  

10. All posts are now required to test and update their plans at least once a year, and where practical more frequently. We have helped several posts (eg Ankara, Belgrade, Budapest, Panama, Toronto and Zagreb) to test their plans in tabletop exercises. We have organised three live tests (Paris, Berlin—in advance of the World Cup—and an Avian Flu exercise in Hanoi). Quality standards have been set to enable posts to judge where improvements or changes are needed. We are exploring with commercial companies the possibility of externally auditing this process.

Crisis Management Staffing (Recommendation 4b)

11. Having reviewed our staffing requirements on the planning side, we have created an Emergency Planning Unit as part of the Crisis Management Team.

Heads of Mission Objectives (Recommendation 4d)

12. The NAO recommended that the FCO should ensure that crisis planning training is included in the objectives of senior officials at post, against which their performance is assessed. As part of the successive Heads of Mission Crisis Days, we have impressed on all concerned the need to include a Consular Crisis Management Objective in their Post Objectives.

RDT Developments (Recommendation 4f)

13. Our consular Rapid Deployment Teams (RDTs) are a crucial part of our response to a major incident affecting British nationals abroad. We have made RDT training more intensive. We have set up a regional RDT network in the US, building on the success of the first such team in Hong Kong: together these regional teams allow us to offer a quicker response to crises occurring far from London. The US RDT is based in Washington, with further support available from Miami, and covers North and Central America and the Caribbean. They have dedicated equipment for deployment. We are also considering how best to provide additional surge capacity to deal with consular crises, which may include developing further regional RDTs.

14. At home, we now have weekly rosters drawn from 80 volunteers on standby (more than twice the number available during the 2004 Tsunami). Both the US and Hong Kong RDT networks have 30 volunteers available.
Cross Government Response to Incidents Overseas (Recommendations 5a, 5d)

15. Since the tsunami we have worked closely with the Civil Contingencies Secretariat in the Cabinet Office to develop triggers for close liaison when a crisis happens. We have also negotiated an agreement with the Department for Culture, Media and Sport on exactly how a transfer of responsibility will take place when victims of incidents overseas eventually return to the UK. It sets out the “trigger” mechanism to decide:

— when the relevant home departments will be informed by the FCO that a disaster affecting British nationals has taken place abroad;
— the method by which relevant information relating to victims and their families will be transferred from the FCO to the home departments;
— upon components of the UK aftercare package which home departments may wish to consider extending to British nationals on their return to the UK;
— upon the division of responsibility between FCO Ministers and Ministers from the home departments.

Review of Undertaking to Repay (UTR) Policy (Recommendation 5b)

16. When British nationals abroad find themselves without funds, our first step is to try to help them to help themselves. Our posts will issue a loan only as a last resort, when all other options have been fully explored. If a loan is issued, the British national must sign an Undertaking to Repay (UTR), which commits the signatory to repaying to HMG the amount advanced. We are considering how to strengthen our recovery procedures.

17. The NAO’s report identified some cases where strict adherence to our UTR policy had worsened the plight of a British national, taken up more FCO staff time, or presented the UK in a poor light with local groups or authorities. We are working on new, more detailed guidance for posts to take these factors into account.

Cooperation with Other Partners (Recommendation 5c)

18. We have strengthened our relationship with the charity Prisoners Abroad (PA), who provide a range of services to British Nationals in prison overseas. We continue to work closely with Reprieve, a human rights organisation which (like PA) we co-fund, on death penalty cases involving British nationals in countries such as the USA, Malaysia, Thailand and Vietnam.

19. In addition we have negotiated bilateral agreements with a number of other partners:

— Police—we have developed relationships with a number of police forces, beyond our traditional relationship with the Metropolitan Police: we now have arrangements where call-handling during a major crisis abroad can be shared around police forces across the UK.
— International SOS—providing for the deployment of medics with our Rapid Deployment Teams (RDTs), where necessary.
— British Red Cross have deployed with RDTs on every occasion since the Tsunami.
— Department of Culture, Media and Sport—providing aftercare for those affected overseas when they return to the UK.
— Victim Support—we are working on an arrangement whereby they would assist us to help those who have been victims of crime overseas.
— Age Concern providing support to elderly members of British Communities overseas, especially in Spain: Age Concern now have caseworkers working out of our Consulate in Palma, Majorca.

Consular Career Opportunities (Recommendations 6a, 6b)

20. We have taken advantage of the requirement that new policy (fast-stream) entrants undertake a service delivery job in their second year in the FCO by pro-actively encouraging them to bid for consular jobs. At a more senior level, we are creating new network manager positions and providing new opportunities for officers to undertake consular jobs in the overseas network at middle/senior management level.

21. In recruiting new members of the country casework team, managers have made a point of identifying and selecting staff who possess a better mix of experience, so that they bring relevant skills and knowledge to the job. In addition, a number of the country caseworkers are also members of the RDT teams, and therefore have had the opportunity to gain overseas consular experience during deployments.
Out of Hours Arrangements (Recommendations 6c)

22. The FCO operates a system of “duty officers” at our posts overseas to handle consular and other enquiries made outside of normal office hours, backed up by a 24/7 Response Centre in London. The NAO recommended that we consider the benefits of a system where all calls made to posts outside office hours are automatically routed to a central office in London.

23. We have now conducted a formal review and concluded that such a system could reduce the demands on consular staff overseas and introduce a better and more consistent (professional) level of out of hours service. We know this is a change that most staff would welcome. However, the review highlighted a number of wider questions (eg resources) that we need to consider in more detail before we can make a decision on how and when to take this forward.

Equipping Consular Service to Meet Emerging Change (Recommendations 8–10)

Compass (Recommendations 9a, 9b)

24. Compass is our consular casework management system—the IT that enables us to manage, and share information on, each individual consular case. Its consistent use by posts is crucial for us to manage cases well and collect effective management information.

25. The NAO recommended that we reinvigorate Compass through more detailed training, improved functionality and enforcing compliance in posts. A key part of addressing this recommendation is the rollout of a new version of the software—Compass NG—which will be easier to use than the current version. We have used a long testing phase as the original version of Compass was not tested widely or long enough before full roll out. The target end-date for the Compass NG rollout is 31 March 2007.

26. Monitoring posts’ use of Compass will form part of our approach to improving management information and implementing a consistency framework across the network, mentioned earlier in this update.

Letter to the Chairman from Dr Kim Howells MP, Minister of State, Foreign and Commonwealth Office

I am pleased to enclose 20 copies of the Global Partnership Annual report for 2006. I would be grateful if you could make these available for the members of your committee and any other interested parties.

Through the Global Partnership, the UK continues to work to improve national and global security. The threats from terrorism and weapons of mass destruction remain pressing, and the costs of failure would be enormous.

In 2006, we have:

— Completed to time and cost a £21 million nuclear facility at Atomflot, Murmansk, which was opened by His Royal Highness, Prince Michael of Kent. This facility will secure some three tonnes of highly enriched nuclear fuel for up to 50 years, until a technical solution is available for its long-term disposal or reprocessing.

— Completed to time and to cost the dismantling of a third Russian nuclear submarine, with some of the work carried out in partnership with Norway.

— Commissioned an evaluation of the UK’s Global Partnership programme by Chatham House (Royal Institute of International Affairs). This found that the UK programme was well focused and making a significant impact on addressing the priorities identified by leaders at the G8 Kananaskis summit.

— Completed a review of the future management of the UK programme and implemented new governance arrangements, including the establishment of the Global Threat Reduction Programme with a Ministerial Oversight Board. This will provide overall strategic direction for UK co-operative threat reduction work.

Kim Howells
15 January 2007

Letter to the Chairman from Sir Peter Ricketts, KCMG, Permanent Under-Secretary of State, Foreign and Commonwealth Office

I enclose a copy of the National Audit Office’s recent report on handling staff grievances at the Foreign and Commonwealth Office.6 We have already placed it in the Library of the House in response to a question from a Member.

6 Not printed.
The NAO reviewed the Department’s procedures for handling grievances, following the receipt in 2005 of three complaints from employees of the FCO on this issue. We welcomed the review. It found that our arrangements for handling grievances before 2004 were deficient in a number of respects, particularly the length of time taken to investigate and resolve grievances, although the reports themselves were rigorous and thorough. The FCO revised its grievance procedures in September 2004, in line with statutory requirements under the Employment Act 2002 (Dispute Resolution) Regulations 2004, and the NAO finds that our revised written procedure complies with good practice in most aspects, and in some respects exceeds minimum statutory requirements. The NAO’s report identifies a number of opportunities further to refine our written procedure, as well as ensuring more consistent compliance with it, as well as tighter central monitoring and case tracking. We have accepted all these recommendations, and are putting in place an action plan to implement them.

The NAO have made clear to us that it is the FCO management, having considered the arguments, to decide whether to implement the recommendations in their report. We have declined to accept the NAO’s recommendations No. 5 which suggests that the FCO should offer independent expert mediation to the three employees who complained about the Department’s handling of grievances under the pre-2004 procedures. Our view is that we have done as much as any employer could reasonably be expected to do to resolve outstanding issues related to any cases that predate our current procedures, and that we do not believe that any further action would be appropriate.

This was a useful review, which will help enhance our procedures in this area.

I am sending a similar letter to the Chairman of the Public Accounts Committee.

19 January 2007

Letter to the Chairman from the Secretary of State, Foreign and Commonwealth Office

I am writing to let you know about our decision to close our small residual post in Kingstown, St Vincent & the Grenadines, at the end of this financial year. As you may recall, we carried out a review of our representation of the Caribbean in late 2003, which led to the difficult decision not to replace our Resident Representative in St Vincent & the Grenadines.

When we implemented this decision, on the departure of the incumbent the end of 2005, we retained a residual administrative office in Kingstown to answer enquiries and handle the small amount of straightforward consular work, with colleagues from Barbados coming in to handle more difficult cases. We decided to review this operation after a while to see whether it offered best value for money.

Various practical factors have led to an early review of the situation. We retained an office building, which we own, and 2.5 local members of staff in Kingstown. We have been told that the building is likely to cost us around £250,000 in the near future for essential work to meet health and safety standards and to preserve the building. There are very few alternative properties. Of our remaining staff members, two have employment contracts which expire on 31 March 2007, one of whom is due to retire.

Much of the staff time in Kingstown is taken up with running the office. Additionally they handle enquiries, carry out consular work and support visits by staff from Bridgetown. The number of British tourists is fairly low since there are no international long-haul flights and few hotel rooms. In the last year, Kingstown has issued two emergency passports, had one consular incident, and had one arrest that led to the imprisonment of a British national. DFID does not have any bilateral programmes operating in St Vincent and the Grenadines.

Given the very low workload of the office, and it’s correspondingly small contribution to the UK’s international priorities, we believe it is in the UK’s best interests to close the office and appoint an Honorary Consul to deal in the first instance with consular cases.

This decision will save operating costs in the region of £76,000 pa, expenditure of around £250,000 on essential building work, and will result in revenue from the sale of the building. It will have little impact on our operation in St Vincent. The High Commissioner and other accredited staff will continue to visit from Barbados and we will appoint Honorary Consul to cover immediate consular emergencies.

I will be happy to let you have any further details you may require.

Margaret Beckett

2 February 2007
FOREIGN AND COMMONWEALTH OFFICE: MANAGEMENT ISSUES

1. When he appeared before the Committee last year, Sir Michael Jay undertook to provide more regular updates on FCO Management issues to the FAC. I have been considering, in consultation with our Ministers, how best to fulfil this commitment. We have decided to offer the Committee an account of the main developments roughly halfway between Departmental Reports. We will be submitting our next Departmental Report on the full financial year in May.

2. I should first bring the Committee up to date on senior staff appointments relating to the FCO’s management. As a result of an open competition, a new Director General Finance, Keith Luck, joined the FCO on 2 January, having been Finance Director for the Metropolitan Police. He will take on the responsibilities of the current Finance Director, Ric Todd, with the addition of responsibility on the FCO Board for FCO Services and Estates and Security issues. We have also recruited through open competition a Chief Information Officer, Tony Mather who will be joining the FCO and the Board soon from BOC With the departure of a number of other Board Members some further changes to Board portfolios are underway. We will send the Committee a revised organigram as soon as this is available.

3. As the Committee knows, the Capability Review of the FCO is expected to be published in late March together with our implementation plan. I will send this to the Committee as soon as possible.

CHANGE IN THE FCO

4. The FCO is implementing a number of major change programmes to help it deliver against the ten strategic international priorities. It became clear during 2006 that the FCO Board needed an effective coordinating body to make sure the main change activities were clearly defined, coherent and achievable. We have therefore established a Change Committee under the Chairmanship of the Director General Corporate Affairs.

HUMAN RESOURCES ISSUES

5. The FCO is committed to reducing its headcount in the period 2005–08 by 310. Halfway through the financial year 2006–07, we were nine short of the 1 April 2007 full time employees target of 100 reductions. Revenue-funded consular and visa services, expanding to meet growing demand, are not covered by the headcount target.

6. The FCO moved to rolling recruitment in Bands A and B, in order to attract the best candidates and meet workforce planning targets throughout the year. FCO outreach has included participation in large-scale regional careers events, an in-house open day attended by 3,000 people, and four work experience schemes, including programmes for 16 and 17 year olds from inner city London schools, undergraduates from across the UK, and (through the Cabinet Office) students from minority ethnic communities, and with disabilities.

7. More Assessment and Development Centres for the Senior Management Structure (SMS) were held. 72 places will be offered during FY 06–07. This will accelerate the process of diversifying the SMS. A diversity audit of the FCO was launched in June; the results will be published shortly. Race Relations (Amendment) Act reports for the FCO from 2002–05 were published in June. An FCO staff survey revealed that 87% understood the importance of promoting diversity.

8. From 1 April, nine managers were allowed to interview candidates in the Delegated Grades for home jobs. We plan to extend to overseas jobs in 2007. Take-up is increasing. Central Selection Boards continue to deal with jobs for which interviews are not held.

9. Training courses were designed and introduced to over Professional Skills in Government requirements in people, finance and project management. 80 officers enrolled for the Open University’s Certificate in Business Administration. The Performance Management Programme for senior staff continues in London, with the piloting of overseas workshops in Madrid and Brussels.

10. The FCO anticipated the age discrimination legislation that came into effect on 1 October 2006 by abolishing the retirement age for all grades other than the Senior Management Structure. where the retirement age rises across Whitehall to 65.

11. The FCO welcomed the National Audit Office review of grievance procedures, and worked closely with the NAO on this report which has subsequently been finalised and sent to the Committee. Three employment tribunal claims were lodged during this period, two of which have since been dismissed and one settled on legal advice. Eleven internal grievances were raised, of which four were upheld fully or partly and one is continuing. Of 16 misconduct cases upheld, one of which was later overturned on appeal, three led to dismissal.
Consular

12. During the first half of 2006–07 Consular Directorate continued to take an innovative and proactive approach. The summary below sets out key activities.

13. We have increased the number of regional training courses for locally engaged staff from six to eight and in September we introduced obligatory pass/fail pre-posting for all consular officers.

14. In the summer we created the role of “Internal Communications Officer” within Consular Directorate to improve the flow of internal information and best practice.

15. We have continued our programme of regional consular strategy conferences to ensure network-wide consistency in our service levels, encourage the sharing of best practice and to develop relationships and communication between Posts themselves and between London and Posts. In the period 1 April to 30 September we held conferences in Nairobi and Amman.

16. In July we published an update to our consular strategy for 2004–07. This document communicated to posts overseas progress against strategy objectives and the priority areas for further action.

17. We improved the effectiveness of our consular post review capability by expanding the Consular Review team to include four full-time reviewers and two ad hoc reviewers. Following a review posts are now required to produce implementation plans. These plans set out what actions are required to improve the performance of the post’s consular operation, the officer responsible and the proposed timescale for implementation.

18. To meet the US and EU requirements for biometric passports we reduced the number of passport issuing posts to 91. We rolled out the necessary IT facilities to all these posts between March and August on time and within budget.

19. In May 2006 we launched work to conduct a strategic and detailed analysis of the current use and the future needs to management information both in London and in posts, in order to design and implement a centralised management information reporting system.

20. We recently completed a pilot of an updated version of the computer software we use to record consular cases, Compass. We aim to roll out the new software to all posts by 31 March 2007.

21. We adopted an innovative approach to deal with the anticipated high demand for consular services during the Germany World Cup, by establishing temporary consulates in the cities where England was playing.

22. During the Lebanon crisis we made use of consular staff within the region to assist with the evacuations, as well as deploying the Rapid Deployment Team (RDT) from London.

23. We created regional RDTs in Hong Kong and the US, allowing us to respond more quickly to emerging crises in distant locations.

24. To provide consular assistance to British nationals in areas where we lack official representation we appointed an additional 26 Honorary Consuls in 2006. In several cases, East Timor for example, the appointment of an Honorary Consul following post closure has maintained an adequate level of consular service at a much reduced cost.

Faster Closure of the Accounts

25. The Resource Accounts for 2005–06 were signed off by my predecessor on 13 July 2006 (4 months earlier than the previous year). The C&AG (NAO) signed the Accounts on 18 July and they were laid before Parliament on 20 July, prior to the recess and in accordance with the HMT target. The Accounts received an unqualified opinion from the NAO. Close interest was taken on by the Board in the Faster Closure exercise, additional resources were devoted to the task and a Project Manager was appointed to oversee the production. We intend to achieve the same faster closing target this year.

FCO Services

26. FCO Services became an Executive Agency on 1 April 2006, with the aim of launching as a Government Trading Fund on 1 April 2008. Greater autonomy to operate on a business-like basis enables FCO Services to realise efficiency gains, deliver service enhancements while retaining FCO ownership and a close working relationship. This partnership enables the FCO to concentrate on its core business, confident of security of supply of mission-critical products and services delivered by a competitive service provider at best value for money.

27. Arrangements are in place to support this new relationship. As well as a robust business plan for the Agency, a Framework Document defines the corporate governance of FCO Services and its constitutional relationship with the FCO.

28. FCO Services aims to deliver specific outputs measured against formal targets covering Return on Capital Employed, income from non-FCO customers, efficiency gains through increased productivity and customer satisfaction.
29. In preparation for FGO Services’ launch as a Trading Fund, the FCO’s Trading Fund Programme, supported by specialists from Avail Consulting, is developing a business case to confirm the future direction of the organisation. Key stakeholders, including the Cabinet Office, HM Treasury and the National Audit Office (NAO) are closely involved in this process.

30. Internally, FCO Services is working to develop its commercial capability and is taking forward projects including finance, HR/culture change as part of its Corporate Action Plan Programme. FCO Services is working with specialists from Corporate Value Associates and PA Consulting to develop a business-focused organisational strategy, identify skill and knowledge gaps and develop a more commercial mindset. In the FCO, changes are also underway to support the new relationship, with work to professionalise procurement and develop contract management capability.

31. As an Agency and Trading Fund, FCO Services will be audited and will report to Parliament as a discrete entity. The organisation therefore has two important milestones en route to Trading Fund status; an NAO audit of its 2006–07 accounts and a “Fit to Trade” review in the second half of 2007.

FRAUD

32. The only significant, identified fraud against the FCO in the first half of the financial year was the accounting fraud at our Embassy in Santa Domingo, where we believe the Accountant stole £190,000 over a period of about two years. The FAC was informed of this on 29 August 2006. The District Attorney in Santo Domingo is currently investigating. We do not know when the case will go to court, but our lawyers have advised that it may take up to three years. It is unlikely that there will be any recovery of money in advance of the case coming to court as the civil and criminal cases are tied together. We are considering whether there is a case for disciplinary action against members of FCO staff.

INFORMATION AND TECHNOLOGY

33. The Future Firecrest Programme (delivering our next generation global IT infrastructure and information management systems) is making good progress, with an Amber rating from an external Gateway Review in September 2006. We have substantially increased the effort devoted to both information management and preparation for change. Working with Hewlett Packard, we completed a necessary re-design of the new infrastructure in response to central government decisions on future security requirements, while seeking to minimise the impact this inevitably had on both cost and timetable. The Future Firecrest Data Centre (the heart of the new system) was delivered on time in September 2006.

34. We have also focused on improvements to the performance of our existing IT systems. Within our existing budget, we have been able to make adjustments which have improved the speed of our system at overseas posts by up to 100%, enabling all staff to operate more efficiently. Further improvements are in hand, particularly for posts with satellite connections which have suffered the poorest performance.

35. Through our partnerships with the private sector, we have reduced our telecommunications charges by 39%, completed the roll-out of biometric passports overseas, and are working on improvements to our high classification communications and our web platform, where we are procuring a new partner to deliver the next generation system.

PRISM

36. The global rollout of Prism, the FCO’s Enterprise Resource Planning system, was completed in May 2006. Although some performance problems persist, a user survey in September showed that staff recognised where improvements had been made. Further surveys will check that improvements remain visible to staff. The Board continues to monitor progress closely.

37. Prism enabled the FCO account to be closed in July, as noted above, and the FCO Board is now receiving better management information than ever before. Posts’ accounts are monitored from the centre, giving important information to our internal auditors and ensuring those who need help receive it.

38. Work is in hand to move Prism into a “business as usual” operating model, with parts of the Prism Programme moving into existing FCO Departments.

MANAGEMENT INFORMATION

39. With Prism rollout complete, the quality and timeliness of management information has improved significantly. A revised reporting format was approved in Autumn 2005. Since then improvements in the speed, accuracy and completeness of data produced by the FCO’s financial systems have underpinned further progress. The Board now has a comprehensive, up-to-date review of the FCO’s position, supporting more effective prioritisation of budgets to meet operational requirements and monitoring progress/position against targets, eg headcount. This supports management and decision-making more widely. Information is also available to Directors General, Departments and Posts, enabling more effective oversight of the resource position at a local level.
Protocol

40. During 2006, Protocol Directorate played an active part in the FCO’s Simplification Plan in support of the Government’s commitment to reducing administrative burdens on their customers—in Protocol’s case the foreign diplomatic community in the UK. We did this by introducing more user-friendly forms for reclaiming taxes, which in turn led to a simpler internal process for HMRC. The initiative has resulted in time-savings for Protocol’s customers as well as FCO and HMRC frontline staff who process the monthly claims from 220 Diplomatic Missions and International Organisations covering 10,000 diplomats.

41. As part of the plan, the Directorate up-dated its comprehensive Protocol Guide (a copy is enclosed for ease of reference) which serves to inform the London Diplomatic Corps of its entitlements, immunities and privileges and to explain the administrative procedures in place in UK, which enable the FCO to meet its international obligations under the Vienna Convention. By making the guide accessible electronically, via a dedicated password protected website, we have given our customers an easy and user-friendly way to access the information. The website also provides on-line access to the forms needed by diplomats throughout their stay in UK. Creating the website has streamlined procedures and reduced costs and burdens on frontline staff whose responsibility it had been to produce and distribute forms. A saving in staff time (answering telephone queries) was achieved and irritants for stakeholders were reduced.

42. Although the website’s principal use is to enable easy access to information, we have also found it a useful means to communicate sensitive information to the diplomatic community during times of heightened national tension; eg in August last year during the airline terror plot. It is for this reason that website is password protected.

Review of the FCO’s Discretionary Programme Budgets

43. We have put in considerable effort over the course of the financial year to improve the management of the FCO’s discretionary programme budgets. This follows FCO Board consideration in July 2006 of a review of the FCO’s programme budgets. The review looked at the benefits derived from the FCO’s programme funds and the relative added value of our strategic, bilateral and public diplomacy programmes. The review found plenty of evidence that our Global Opportunities Fund (GOF) programmes are supporting the delivery of our strategic priorities, and that they are becoming an increasingly important tool in our diplomatic arsenal. The review also identified areas where further work is required. Financial Planning and Performance Department’s Programme Office is leading this work. By the end of September, the Finance Committee had agreed new procedures to improve the reporting on and monitoring of bilateral programme budgets. These procedures have now been implemented.

SRO4 Efficiency Savings

44. The FCO continues to make good progress in delivering its 2004 Spending Review commitment of efficiency savings of more than 2.5% year on year. This equates to £120 million by the end of 2007–08. £33 million of the savings will be delivered by the British Council and BBC World Service and £86.7 million will be delivered by the FCO. In both 2004–05 and 2005–06 the FCO exceeded the savings set out in the initial project plan.

45. Halfway through the financial year, the British Council and BBC World Service had delivered £5.8 million and £8.7 million respectively. At the same time the rest of the FCO had delivered £46 million, just over half its final target of £86.7 million. The FCO Board has also agreed that the FCO should develop new efficiency projects, so as to provide additional contingency in the event of other projects under-delivering or delivering their benefits after the end of the SRO4 period, and to counteract the effect of changes to OGC methodology on FCO reported savings.

46. As a result of these projects and because of enhanced savings from some of the existing efficiency projects (in particular savings from improved procurement), the FCO’s efficiency forecasts now demonstrate a small contingency reserve.

47. UKvisas received over 2.5 million visa applications in 2005–06, processing over 90% of all straightforward applications within 24 hours.

48. UKvisas now collects biometric data from a number of posts, and are on target to complete the global roll out of biometrics by 2008. By the end of September 2006, around 200,000 fingerscans had been collected.

49. Risk Assessment Units (RAUs) were introduced in 2006, and now cover around 90% of all applications. RAUs will be rolled out across the network during 2007. As they develop, RAUs will become more strategic, focusing on disrupting criminal networks, developing arrest programmes, working with communications teams to deter fraudulent applicants, and analysing new risk trends to refine profiles.

50. To address decision quality issues, we have improved training courses for relevant staff, established a helpline to answer questions from decision-makers, and enhanced the role of the Independent Monitor. We have issued guidance on refusal notices and the handling of appeals, which includes standard wordings
for refusal, so that we can support decisions better at appeal. Senior Presenting Officers visited a number of posts between February and July 2006 to assist Entry Clearance Managers with decision reviews, and improve success rate at appeal—more are planned for 2007.

51. Framework agreed for relationship with main e-Borders programme. From 2,600 visa applications, 122 alerts sent to Amsterdam, detailing adverse immigration histories of visa applicants (including visa and port refusals).

52. UK visas introduced a new management structure in April 2006 organised around ten programmes to support overseas network delivery. We also introduced our Mission Statement and a Balanced Scorecard to drive our business and manage performance.

THE ESTATE

53. In the first half of the financial year, we completed a major security-driven project to build new offices in Rabat, Morocco. The new offices provide modern fit-for-purpose accommodation, and allow the visa section previously located in Casablanca to co-locate with the new Embassy. The Commercial section will remain in Casablanca, the business centre of Morocco. We completed the refurbishment of the fourth floor of the main FCO Building, providing 3,160m² of modern, open-plan offices. This will be occupied by UKvisas, allowing them to end their lease on offices in Albert Embankment. We also finished a major refurbishment of our offices in Buenos Aires. We have started to build new offices in Harare. The new offices will increase our ability to pursue our political objectives in Zimbabwe and the delivery of visa and consular services in secure premises.

54. Since 2004, we have reported to the Committee on a quarterly basis details of properties sold, and (more recently) purchased. Further reports listing the properties sold (Table A) and those purchased (Table B) in the second quarter of the Financial Year 2006–07 are attached. As with previous tables, the figures shown are the gross sales proceeds. Transaction costs vary, but can be expected to average 6–8%. For completeness, Table C lists properties sold in the first quarter of the Financial Year 2006–07; there were no purchases.

55. In July 2006, we informed the Committee of the sales in 2005–06 of the Residence in Asuncion and the old offices in Lima where in both cases an element of the proceeds was outstanding. These sales have now been completed, and gross sale proceeds total £187,000 and £56,000 respectively.

56. Two of the properties sold in the reporting quarter—Kingston and Nassau—were the Residences of a Head of Mission. The property in Bordeaux was the Residence of the Consul-General. The sale of the properties in Nassau and Bordeaux follow the changes to the FCO overseas network announced in the House by the Foreign Secretary in December 2004.

Table A

<table>
<thead>
<tr>
<th>Post</th>
<th>Type of property</th>
<th>Gross sales receipts £</th>
</tr>
</thead>
<tbody>
<tr>
<td>13 July 2006</td>
<td>Tel Aviv</td>
<td>Residential</td>
</tr>
<tr>
<td>16 August 2006</td>
<td>Kingston</td>
<td>Residence</td>
</tr>
<tr>
<td>25 August 2006</td>
<td>Bordeaux</td>
<td>Residence</td>
</tr>
<tr>
<td>26 September 2006</td>
<td>Nassau</td>
<td>Residence</td>
</tr>
</tbody>
</table>

Gross Sales Proceeds: £1,590,000

Table B

<table>
<thead>
<tr>
<th>Post</th>
<th>Type of property</th>
<th>Gross sales receipts £</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 July 2006</td>
<td>Palma</td>
<td>Office</td>
</tr>
</tbody>
</table>

Gross Sales Proceeds: £517,000
Table C

FCO PROPERTY SALES FOR THE PERIOD 1 APRIL TO 30 JUNE 2006

<table>
<thead>
<tr>
<th>Post</th>
<th>Type of property</th>
<th>Gross sales receipts £</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 April 2006</td>
<td>Montreal</td>
<td>693,000</td>
</tr>
<tr>
<td>11 April 2006</td>
<td>Wellington</td>
<td>124,000</td>
</tr>
<tr>
<td>27 April 2006</td>
<td>Wellington</td>
<td>105,000</td>
</tr>
<tr>
<td>15 May 2006</td>
<td>Bangkok</td>
<td>49,927,000</td>
</tr>
<tr>
<td>19 May 2006</td>
<td>Kampala</td>
<td>2,106,000</td>
</tr>
<tr>
<td>12 June 2006</td>
<td>Ottawa</td>
<td>129,000</td>
</tr>
<tr>
<td>14 June 2006</td>
<td>Asuncion</td>
<td>106,000(^7)</td>
</tr>
<tr>
<td>21 June 2006</td>
<td>Stanley</td>
<td>90,000</td>
</tr>
<tr>
<td>26 June 2006</td>
<td>Rio de Janeiro</td>
<td>264,000</td>
</tr>
<tr>
<td>30 June 2006</td>
<td>Stockholm</td>
<td>386,000</td>
</tr>
</tbody>
</table>

Gross Sales Proceeds: £53,930,000

9 February 2007

Letter to the Clerk from UK Trade & Investment

ESTIMATES MEMORANDUM (REVISED)

HM Treasury guidance in PES(2004)14 is specified that departments are required to provide an “Estimates Memorandum” to their Select Committee explaining the changes sought in Supplementary Estimates and how these link to the department’s published targets.

I enclose UK Trade & Investment’s Estimate Memorandum for the forthcoming Spring Supplementary. Should the Committee require any additional information, I would be happy to expand the Memorandum appropriately.

Whilst the timetable for the presentation and publication of the forthcoming Spring Supplementary is not fixed, it is likely that presentation to the House of Commons will be on Tuesday, 20 February 2007.

I am also sending a copy of this letter and enclosure to the Clerk of the Trade and Industry Committee.

Andrew Cahn
Chief Executive

1 February 2007

Further letter to the Clerk of the Committee from UK Trade and Investment

AMENDMENT TO ESTIMATES MEMORANDUM

Following my letter to you of Thursday 1 February 2007, in respect of the Estimates Memorandum for the 2006-07 Spring Supplementary, I should like to take the opportunity to inform you of the following change to UK Trade and Investments Spring Supplementary Submission for 2006-07.

HM Treasury have informed UK Trade and Investment that they (HMT) have changed the submission by a token £1k in favour of increased Resource DEL. This was necessary because appropriations offset gross resources and without a token increase in expenditure there is no justification for increasing appropriations, in accordance with Chapter 11 of Government Accounting.

I attach the revised Estimate Memorandum, covering letter and Estimate document for the forthcoming Spring Supplementary. Should the Committee require any additional information, I would be happy to expand the Memorandum appropriately.

Andrew Cahn
Chief Executive
UK Trade and Investment

14 February 2007

\(^7\) Figure represents 55% deposit received—the balance is due later in the financial year.
UK TRADE & INVESTMENT

Spring Supplementary 2006-07—Estimate Memorandum

1. Summary of changes sought in the 2006–07 Spring Supplementary Estimate

The total effect of the changes proposed in the Spring Supplementary is that the Resource DEL increases by a token £1k from £95.328 million to £95.329 million. The token net increase is necessary to enable an increase in appropriations-in-aid, in accordance with chapter 11 of Government Accounting.

<table>
<thead>
<tr>
<th>Resource and Capital DEL</th>
<th>Increase £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource DEL: voted</td>
<td>0.001</td>
</tr>
<tr>
<td>Resource DEL: non-voted</td>
<td>0</td>
</tr>
<tr>
<td>Total Resource DEL</td>
<td>0.0001</td>
</tr>
<tr>
<td>Capital DEL: voted</td>
<td>0</td>
</tr>
<tr>
<td>Capital DEL: non-voted</td>
<td>0</td>
</tr>
<tr>
<td>Total Capital DEL</td>
<td>0</td>
</tr>
</tbody>
</table>

The Net Cash Requirement has increased by £2 million from £96.588 million to £98.588 million.

2. Explanation of the Changes

This Supplementary Estimate is for the purpose of:

(i) Facilitating an increase in UK Trade & Investment’s Appropriations-in-Aid of £328,000 from £1,502,000 to £1,530,000, with a corresponding increase to UK Trade & Investment’s Gross Resource of £329,000 from £96,830,000 to £97,159,000. These changes will lead to a net change of £1,000 from £95,328,000, to UK Trade & Investment’s Resource DEL.

(ii) Utilising £4,373,000 from the balance of UK Trade & Investment’s End-Year Flexibility entitlement, which will be immediately transferred via Supplementary Estimate to the Department of Trade & Industry, to aid the restructuring of the organisation to deliver the new strategy. The drawdown and subsequent transfer will lead to no further change to UK Trade & Investment’s Resource DEL than stated above.

(iii) Increasing UK Trade & Investment’s Net Cash Requirement by £2,000,000 from £96,588,000 to £98,588,000. This increase is mainly due to a decrease in the value of year-end creditors originally forecast in the 2006–07 Main Supply Estimate. The change in year-end creditors has no impact on UK Trade & Investment’s Resource DEL.

Specific items are shown in the following tables:

<table>
<thead>
<tr>
<th>Resource DEL</th>
<th>Increase £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-up of EYF to aid restructuring of the organisation to deliver the new strategy</td>
<td>4,373</td>
</tr>
<tr>
<td>Transfer from UK Trade &amp; Investment to the Department of Trade and Industry to aid restructuring of the organisation to deliver the new strategy</td>
<td>* -4,373</td>
</tr>
<tr>
<td>Increase in Appropriations-in-Aid due to take-up of UK Trade &amp; Investment chargeable services being higher than estimate in the Main Estimate</td>
<td>** -0.328</td>
</tr>
<tr>
<td>Increase to UK Trade &amp; Investment’s Gross Resource DEL to off-set the increased Appropriation in Aid</td>
<td>0.329</td>
</tr>
<tr>
<td>Total Resource DEL</td>
<td>0.0001</td>
</tr>
</tbody>
</table>

* Transfer from UKTI to DTI shown as a negative to balance the EYF drawdown, leading to a net Resource DEL impact of nil.

** Appropriations-in-Aid (or Income) shown as a negative figure to balance the increased Gross Resource DEL.

The additional £2 million cash required is to cover a decrease in year-end creditors, which is higher than originally forecast in the Main Estimate.
3. Impact on the Department’s Public Service Agreements (PSAs)

The drawdown of additional resources under this Supplementary Estimate is to facilitate additional restructuring of the organisation consequent upon implementation of the new strategy “Prosperity in a Changing World” (UK Trade & Investment, July 2006, London). The drawdown will not affect the discharge of the Department’s current Public Service Agreement target, which is as follows:

“By 2008, deliver a measurable improvement in the business performance of UK Trade & Investment’s international trade customers, with an emphasis on new-to-export firms; and maintain the UK as the prime location in the EU for foreign direct investment.”

4. Impact on Aggregate End Year Flexibility

<table>
<thead>
<tr>
<th></th>
<th>Resource</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>EYF at start of 2006–07</td>
<td>12,776</td>
<td>1,384</td>
</tr>
<tr>
<td>EYF drawn down in Winter Supplementary Estimates</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>EYF drawn down in Spring Supplementary Estimates</td>
<td>4,373</td>
<td>0</td>
</tr>
<tr>
<td><strong>Current EYF balance</strong></td>
<td><strong>8,403</strong></td>
<td><strong>1,384</strong></td>
</tr>
</tbody>
</table>

5. Departmental Expenditure Limit (DEL)

Figures for resource and capital DEL for 2000–01 to 2005–06 were published in the Supplementary Budgetary Information in April 2006. The 2004 Spending Review settlement announced figures for 2005–06 to 2007–08 as shown below:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource DEL</td>
<td>100.5</td>
<td>95.5</td>
<td>89.5</td>
</tr>
<tr>
<td>Capital DEL</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
</tr>
</tbody>
</table>

These figures can be subject to other adjustments before the start of the years in question.

UK Trade & Investment
Central Finance Team
Corporate Affairs Group

February 2007

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Letter to the Chairman from Sir Peter Ricketts, KCMG, Permanent Under-Secretary of State, Foreign and Commonwealth Office

SENIOR CIVIL SERVICE STAFF SURVEY: FOREIGN AND COMMONWEALTH OFFICE RESULTS

Last October, the Cabinet Office asked senior civil servants what they thought about working in the Senior Civil Service (SCS), leadership in the Senior Civil Service and what improvements needed to be made. The equivalent grade to SCS in the Foreign and Commonwealth Office is our Senior Management Structure (SMS), all of whom were given the chance to participate in the survey.

I thought the Foreign Affairs Committee would be interested to see the results for the FCO section of the Civil Service survey. I enclose a copy for your information. I am not satisfied with the response rate of 31% and will want to do more next time to encourage FCO staff to take part. The full survey will be available on the Cabinet Office website later this afternoon (www.civilservice.gov.uk/reform/leadership/scssurvey). I am arranging for the FCO section to be published on FCO Net later today.

15 February 2007

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FOREIGN & COMMONWEALTH OFFICE SPRING SUPPLEMENTARY ESTIMATE 2006–07

MEMORANDUM FOR THE FOREIGN AFFAIRS COMMITTEE

Please find attached a copy of the FCO Spring Supplementary Estimate 2006–07.

Richard Cooke
Parliamentary Relations and Devolution Team
19 February 2007

Summary of Changes

1. The 2006–07 Spring Supplementary Estimate for the Foreign & Commonwealth Office (FCO) provides for the drawdown of end year flexibility (EYF) and Departmental Unallocated Provision (DUP); changes arising from a number of transfers to and from other government departments and internal transfers; transfers from Central funds and Internal departmental corrections. These are reflected in changes to the Departmental Expenditure Limit and to the Administration and Capital budgets.

2. List of all changes is shown in Table 1. Those changes requiring further explanation are detailed below.

RfR1

3. The FCO has drawn down £14.6 million from the Consolidated Fund departmental programme provision (shown in section A2) for its share of Consular Premiums collected by the Home Office.

4. The FCO has drawn down £12.849 million from the Resource Reserve (shown in section A7) as part of its cost sharing agreement with the Treasury for increased subscriptions for International Organisations.

5. There are transfers to the DEL Reserve of £6.611 million Administration Costs (shown in section A1), £3.837 million programme (shown in section A2) and £0.318 million Capital (shown in section A7) to reflect favourable exchange rate movements for UK missions overseas since the Overseas Pricing Mechanism (OPM) baseline for FCO was set. A transfer from the DEL Reserve of £0.821 million in respect of the British Council (shown in section C3) reflects unfavourable exchange rate movements since the Overseas Pricing Mechanism (OPM) baseline for the British Council was set.

6. We have transferred £8.5 million from RfR2 Global Peacekeeping (shown in section D3) to fund the FCO’s contribution to the Afghan Delivery Plan (shown in section A7) in line with the practice adopted in 2005–06 Spring Supplementary Estimate.

7. The FCO has taken up £12m from its agreed £35 million 2006–07 non-cash Departmental Unallocated Provision that has been specifically set aside to cover the costs of Impairments. FCO buildings overseas are more likely to suffer from impairments owing to the need for specific investment, such as on enhanced security, that is unlikely to be recoverable should the building be subsequently released onto the local market. This is an administration cost shown in section A1.

8. Sales into Wider Markets have been increased by £16.6m (sections A1 and A5) from the position shown at Main Estimates.

RfR2

9. On peacekeeping, the FCO drew down £60.5 million (section C3) from the Main estimate provision in this Spring Supplementary for Africa and £46.5 million (section D3) for global peacekeeping.

10. The FCO also made a small claim on the Reserve of £0.95 million for global peacekeeping (section D3).

11. The FCO has also taken up £4 million in End Year Flexibility and £10 million from Departmental Unallocated Provision for global conflict prevention (section B3).

12. The above increases in RfRs provision are offset by a transfer of MoD of £53 million for peacekeeping operations in the Balkans (section D3).
Capital

13. The FCO has drawn down £9.094 million from the Capital Reserve (shown in RfR 1 section A7) as part of its cost sharing agreement with the Treasury for increased subscriptions for International Organisations.

Detailed List of Changes

Table I lists the individual changes included in the Spring Supplementary Estimate. The changes are shown in descending value within each category.

Table I Detailed Explanation of Changes

<table>
<thead>
<tr>
<th>End Year Flexibility</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4.000 RfR2 Section B3 Take up of 2005–06 GCPP underspend for planned programme activity.</td>
<td></td>
</tr>
<tr>
<td>4.000 Net total change to Resource DEL</td>
<td></td>
</tr>
<tr>
<td>Transfers from non-voted Departmental unallocated Provision</td>
<td></td>
</tr>
<tr>
<td>12.000 RfR1 Section A1 take up from 2006-07 Impairment DLJP.</td>
<td></td>
</tr>
<tr>
<td>10.000 RfR2 Section B3 take up of DUP for planned programme activity and budgetary transfers.</td>
<td></td>
</tr>
<tr>
<td>Transfers between RfRs</td>
<td></td>
</tr>
<tr>
<td>8.500 RfR 1 Transfer from RfR2 Section A3 for contribution to Afghan Delivery Plan.</td>
<td></td>
</tr>
<tr>
<td>Transfers from Other Government Departments</td>
<td></td>
</tr>
<tr>
<td>5.000 RfR2 Section A3 Budgetary Transfer from DFID for Africa Conflict Prevention Activity (Sudan).</td>
<td></td>
</tr>
<tr>
<td>5.000 RfR2 Section A3 Budgetary Transfer from DFID for Africa Conflict Prevention Activity (Humanitarian).</td>
<td></td>
</tr>
<tr>
<td>5.000 RfR2 Section A3 Budgetary Transfer from DFID for Africa Conflict Prevention Activity (Peacekeeping).</td>
<td></td>
</tr>
<tr>
<td>0.875 RfR2 Section A3 Budgetary Transfer from DFID for Quick Intervention Programmes (QIPS).</td>
<td></td>
</tr>
<tr>
<td>0.190 RfR2 Section A3 Budgetary Transfer from SIA for Africa Conflict Prevention Activity.</td>
<td></td>
</tr>
<tr>
<td>0.341 RfR2 Section A3 Budgetary Transfer from DFID for Africa Conflict Prevention Activity.</td>
<td></td>
</tr>
<tr>
<td>16.406 Net total change to Resource DEL.</td>
<td></td>
</tr>
<tr>
<td>0.000 Net total change to Capital DEL.</td>
<td></td>
</tr>
<tr>
<td>Transfers to Other Government departments</td>
<td></td>
</tr>
<tr>
<td>−53.000 RfR2 Section D3 budgetary transfer to MOD for Peacekeeping (Balkans).</td>
<td></td>
</tr>
<tr>
<td>−4.200 RfR2 Section B3 budgetary transfer to MOD for Planned Programme Activity.</td>
<td></td>
</tr>
<tr>
<td>−0.200 RfR1 Budgetary transfer to SIA Section A2 for Planned Programme Activity.</td>
<td></td>
</tr>
<tr>
<td>−0.074 RfR1 Budgetary transfer to SIA Section A2 for Planned Programme Activity.</td>
<td></td>
</tr>
<tr>
<td>−57.474 Net total change to Resource DEL.</td>
<td></td>
</tr>
<tr>
<td>Transfers from Central Funds</td>
<td></td>
</tr>
<tr>
<td>60.500 RfR2 Section C3 drawdown balance of Africa Peacekeeping Main Estimate Provision.</td>
<td></td>
</tr>
<tr>
<td>46.500 RfR2 Section D3 drawdown balance of Global Peacekeeping Main Estimate Provision.</td>
<td></td>
</tr>
<tr>
<td>14.600 RfR1 Section A2 Reserve Claim for Consular Premiums collected in the UK.</td>
<td></td>
</tr>
<tr>
<td>12.849 RfR1 Section A3 DEL Reserve Claim for FCO/HMT International organisations cost sharing agreement.</td>
<td></td>
</tr>
<tr>
<td>9.094 RfR1 Section A7 Capital DEL Reserve Claim for FCO/HMT International org’s cost sharing agreement.</td>
<td></td>
</tr>
<tr>
<td>0.950 RfR2 Section D3 Reserve Claim for GCPP (Peacekeeping).</td>
<td></td>
</tr>
<tr>
<td>0.821 RfR1 Transfer from the DEL Reserve Section C3 for Overseas Pricing Mechanism (OPM).</td>
<td></td>
</tr>
<tr>
<td>136.220 Net total change to Resource DEL</td>
<td></td>
</tr>
<tr>
<td>9.094 Net total change to Capital DEL Transfers to Central Funds</td>
<td></td>
</tr>
<tr>
<td>−6.611 RfR1 Section A1 transfer to the DEL Reserve for Overseas Pricing Mechanism (OPM).</td>
<td></td>
</tr>
<tr>
<td>−3.837 RfR1 Section A2 transfer to the DEL Reserve for Overseas Pricing Mechanism (OPM).</td>
<td></td>
</tr>
<tr>
<td>−0.318 RfR1 Section A7 transfer to the DEL Capital Reserve Overseas Pricing Mechanism (OPM).</td>
<td></td>
</tr>
<tr>
<td>−10.448 Net total change to Resource DEL</td>
<td></td>
</tr>
<tr>
<td>−0.318 Net total change to Capital DEL.</td>
<td></td>
</tr>
<tr>
<td>Increases in gross spending offset by Appropriations in Aid</td>
<td></td>
</tr>
<tr>
<td>16.600 RfR1 Sections A1 and AS for Wider market sales.</td>
<td></td>
</tr>
<tr>
<td>10.000 RfR1 Sections A2 and AS for Consular A in A.</td>
<td></td>
</tr>
<tr>
<td>7.600 RfR1 Section A7 and A8 for Asset Recycling Agreement.</td>
<td></td>
</tr>
<tr>
<td>4.830 RfR1 Sections A2 and AS Invoice from FCO to HO for Afghan Delivery Plan.</td>
<td></td>
</tr>
<tr>
<td>3.789 RfR1 Sections A1 and AS Invoice from FCO to DFID for FTN Services.</td>
<td></td>
</tr>
<tr>
<td>3.413 RfR1 Sections A1 and A2 for reclaimable VAT</td>
<td></td>
</tr>
<tr>
<td>1.766 RfR1 Sections A1 and AS Invoice from FCO to DFID for FTN Services.</td>
<td></td>
</tr>
<tr>
<td>1.210 RfR1 Sections A1 and AS Invoice from FCO to SOCA for FTN Services.</td>
<td></td>
</tr>
<tr>
<td>1.087 RfR1 Section A7 and A8 for Asset Recycling Agreement.</td>
<td></td>
</tr>
<tr>
<td>0.439 RfR1 Sections A3 and AS Invoice from FCO to HO for Migration fund.</td>
<td></td>
</tr>
<tr>
<td>0.432 RfR1 Sections A1 and AS Invoice from FCO to DFID for FTN Services.</td>
<td></td>
</tr>
</tbody>
</table>
Ev 24  Foreign Affairs Committee: Evidence

0.168 RfR1 Sections Al and AS Invoice from FCO to HMRC for FTN Services.
88.704 Net total change to Resource DEL.
8.776 Net total change to Capital DEL.

DEPARTMENTAL EXPENDITURE LIMIT (DEL) AND ADMINISTRATION BUDGETS

14. The tables below show the effect of changes to the FCO’s DEL (table 2); and a comparison of the 2005–06 DEL (table 3) and Administration (table 4) budgets with the 2004–05 outturn, 2005–06 outturn and plans for 2007–08 and 2008–09.

Table 2 Changes to Departmental Expenditure Limit in 2006–07 (£m)

<table>
<thead>
<tr>
<th></th>
<th>Voted</th>
<th>2006–07 Total Del</th>
<th>2007–08 Total Del</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non-Voted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resource</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main Estimate Figure</td>
<td>1,747,428</td>
<td>70,713</td>
<td>1,818,141</td>
</tr>
<tr>
<td>Winter Supplementary Change</td>
<td>66,781</td>
<td>-4,500</td>
<td>62,281</td>
</tr>
<tr>
<td>Spring Supplementary Change</td>
<td>110,704</td>
<td>-22,000</td>
<td>88,704</td>
</tr>
<tr>
<td>Current Resource DEL</td>
<td>1,924,913</td>
<td>44,213</td>
<td>1,969,126</td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main Estimate Figure</td>
<td>149,003</td>
<td>1,000</td>
<td>150,003</td>
</tr>
<tr>
<td>Winter Supplementary Change</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Spring Supplementary Change</td>
<td>8,776</td>
<td>—</td>
<td>8,776</td>
</tr>
<tr>
<td>Current Capital DEL</td>
<td>157,779</td>
<td>1,000</td>
<td>158,779</td>
</tr>
<tr>
<td>Less Depreciation at start of year</td>
<td>116,624</td>
<td>35,000</td>
<td>151,624</td>
</tr>
<tr>
<td>Winter Supplementary Charge</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Spring Supplementary Charge</td>
<td>110,244</td>
<td>23,000</td>
<td>133,244</td>
</tr>
<tr>
<td>Total Departmental Expenditure Limit</td>
<td>1,972,448</td>
<td>22,213</td>
<td>1,944,661</td>
</tr>
</tbody>
</table>

Table 3 DEL Comparison (£m)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource DEL</td>
<td>1,786,890</td>
<td>1,889,410</td>
<td>1,969,126</td>
<td>1,728,645</td>
</tr>
<tr>
<td>Capital DEL</td>
<td>77,533</td>
<td>94,490</td>
<td>158,779</td>
<td>109,203</td>
</tr>
<tr>
<td>Less: Deprecation</td>
<td>70,043</td>
<td>86,446</td>
<td>133,244</td>
<td>184,624</td>
</tr>
<tr>
<td>Total</td>
<td>1,794,380</td>
<td>1,897,454</td>
<td>1,994,661</td>
<td>1,653,244</td>
</tr>
</tbody>
</table>

Table 4 Administration Budget Comparison (£m)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration Budget</td>
<td>752,907</td>
<td>790,962</td>
<td>884,831</td>
<td>920,013</td>
</tr>
</tbody>
</table>

8 Resource DEL figures for 2007–08 are understated because they do not include conflict prevention expenditure, which will be transferred at the time of the 2007–08 Main and Supplementary Estimates.
9 Depreciation, which forms part of Resource DEL, is excluded from the total DEL since Capital DEL includes the purchase cost of capital assets. To add on the depreciation of those assets would double count their cost.
10 Resource DEL figures for 2007–08 are understated because they do not include conflict prevention expenditure, which will be transferred at the time of the 2007–08 Main and Supplementary Estimates.
11 Depreciation which forms part of Resource DEL is excluded from the total DEL since Capital DEL includes the purchase cost of capital assets. To add on the depreciation of those assets would double count their cost.
DEPARTMENTAL UNALLOCATED PROVISION (DUP) 2006–07

15. £10 million has been taken onto the Vote from programme DUP for Global Peacekeeping Activity and £12 million non-cash impairment DUP has also been taken onto the Vote. This has left £37.5 million of unallocated resource provision and £1 million unallocated capital provision which is broken down as follows:

Table 5 2006–07 Departmental Unallocated Provision (£m)

<table>
<thead>
<tr>
<th></th>
<th>Admin</th>
<th>Programme</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>RfR1 Ringfenced Impairments DUP (non-cash)</td>
<td>23.0</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>RfR1 DUP to meet unforeseen requirements arising in-year</td>
<td>14.5</td>
<td>—</td>
<td>1.0</td>
</tr>
<tr>
<td>RfR2 Global Conflict Prevention Pool</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>37.5</td>
<td>—</td>
<td>1.0</td>
</tr>
</tbody>
</table>

16. The Public Expenditure Outturn White Paper published in July 2006 showed a total figure of £136.9 million to carry forward of 2005–06 DEL underspending into 2006-07 under the DEL EYF scheme. Table 6 below shows how this figure was made up from a mixture of adjustment for 2004–05 final outturn, forecast 2005–06 underspend and unused 2005–06 EYF entitlement.

Table 6 Accumulation of EYF (£m)

<table>
<thead>
<tr>
<th></th>
<th>RfR1 Admin</th>
<th>RfR1 Prog</th>
<th>RfR2 Prog</th>
<th>Total Resource</th>
<th>o/w Near</th>
<th>RfR1 Capital</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005–2006 EYF Entitlement</td>
<td>51,694</td>
<td>3,000</td>
<td>26,000</td>
<td>80,694</td>
<td>57,602</td>
<td>31,297</td>
<td>111,991</td>
</tr>
<tr>
<td>EYF Drawn down in 2005–06</td>
<td>(28,092)</td>
<td>—</td>
<td>(6,812)</td>
<td>(34,904)</td>
<td>(11,812)</td>
<td>(10,000)</td>
<td>(44,904)</td>
</tr>
<tr>
<td>Adjustment for final 2004–05 outturn</td>
<td>(20,602)</td>
<td>—</td>
<td>(19,188)</td>
<td>(39,790)</td>
<td>(39,790)</td>
<td>2,866</td>
<td>(36,924)</td>
</tr>
<tr>
<td>2005–06 Provisional Eligible Underspend</td>
<td>39,886</td>
<td>11,643</td>
<td>14,338</td>
<td>65,867</td>
<td>14,123</td>
<td>40,872</td>
<td>106,739</td>
</tr>
<tr>
<td>2006–07 EYF Entitlement PEOWP</td>
<td>42,886</td>
<td>14,463</td>
<td>14,338</td>
<td>71,867</td>
<td>20,123</td>
<td>65,035</td>
<td>136,902</td>
</tr>
<tr>
<td>Adjustment for Final Outhurn</td>
<td>(5,825)</td>
<td>5,357</td>
<td>(10,147)</td>
<td>(10,615)</td>
<td>(1,177)</td>
<td>1,335</td>
<td>(9,280)</td>
</tr>
<tr>
<td>EYF draw down in Winter Supplementary</td>
<td>(14,755)</td>
<td>—</td>
<td>—</td>
<td>(14,755)</td>
<td>(14,755)</td>
<td>—</td>
<td>(14,755)</td>
</tr>
<tr>
<td>EYF draw down in Spring Supplementary</td>
<td>—</td>
<td>—</td>
<td>(4,000)</td>
<td>(4,000)</td>
<td>(4,000)</td>
<td>—</td>
<td>(4,000)</td>
</tr>
<tr>
<td>FCO Accumulated EYF</td>
<td>22,306</td>
<td>20,000</td>
<td>0,191</td>
<td>66,370</td>
<td>108,867</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

IMPACT ON PSA TARGETS

17. Changes to the FCO’s budget provision relate to planned activity and so will not impact our public service agreements.

D R Todd
Finance Director

19 February 2007

Letter to the Parliamentary Relations and Devolution Team from the Clerk of the Committee

The Committee yesterday considered the response to its Report on the FCO Departmental Report for 2005–06. I have been asked to write on several matters arising.

1. The response to the recommendation made in paragraph 28 mentions participation by members of the Board in various development events, including those listed in Annex 3. The Committee wishes to know how many Board members participated in each such event.
2. The response to the recommendation made in paragraph 38 lists a number of posts recently filled through open competition. The Committee wishes to know what professional qualifications are held by each of the recently appointed individuals.

3. The response to the recommendation made in paragraph 48 states that the NAO report on financial controls is expected in “early 2007.” The response is silent on the Committee’s request that it be provided with the outcomes of this and other exercises. The Committee requests a copy of the NAO report on financial controls.

4. With reference to the response to the recommendation made in paragraph 69, the Committee wishes to receive a confidential oral briefing about progress on the 2008–11 PSA, before it has been agreed.

5. The response to the recommendation made in paragraph 89 suggests that the Committee will be informed of adjustments to the configuration of the diplomatic network “at the earliest opportunity”. The Committee notes the recent announcement of the expansion and upgrading of the Posts in Kabul and in Lashkar Garh. It also notes that the Board has discussed the implications of this “step change” for the FCO’s operations elsewhere and the possible need for additional resources. The Committee wishes to receive a full note on these implications.

6. The response to the recommendation made in paragraph 96 suggests that, taking into account the £50 million receipts from the Bangkok estate sale, the FCO will need to find about £15 million of sales annually in order to meet Treasury targets over the period 2004–05 to 2010–11. What consequences does the FCO anticipate meeting this target will have on its operations?

7. With reference to the response to the recommendation made in paragraph 100, the Committee wishes to receive a confidential oral briefing about progress towards meeting the FCO’s capital requirements for security-related expenditure in the CSR period.

8. The Committee wishes to receive a fuller response to its recommendation made in paragraph 112, with more information on the pilot project to relate public diplomacy work to the international strategic priorities.

9. The Committee feels the response to the recommendation made in paragraph 122 does not provide the “full assessment” of the British Council’s performance requested, and wishes to receive such an assessment.

I recognise that it might take some time to gather together the responses to these various points, and will of course be ready to accept the response on each point as and when it is ready. I hope, however, you will have been able to provide a response on all these points by 21 March.

Steve Priestley
Clerk of the Committee
22 February 2007

Letter to Sir Peter Peter Ricketts, KCMG, Permanent Under-Secretary of State for Foreign and Commonwealth Office from the Chairman of the Committee

Thank you for your letter of 9 February, on FCO management issues.

You are quite correct to recall that your predecessor “undertook to provide more regular updates on FCO Management issues to the FAC.” I have looked at Sir Michael’s evidence to the Committee, and I note that when he first floated the proposal he suggested “a report for publication on the main management issues that have been at the top of our agenda in the previous three months.” In a subsequent letter, Sir Michael was even more precise: “I would therefore like to restate the offer I made during the Evidence Session on 28 June that we should let you have a quarterly report, for publication, on the main management issues that have been at the top of our agenda in the previous three months.”

Your letter of 9 February, while welcome, does not deliver on the commitment given by your predecessor. An annual letter, between Departmental Reports (which have not hitherto discussed management issues in any depth) falls a long way short of what I and my colleagues were expecting. It is far from clear to us why the FCO has now decided to withdraw its previous offer to the Committee.

I know that you share the view of your predecessor that Parliamentary scrutiny of the FCO is valuable and worthwhile. As you and Ministers are well aware, the Standing Orders of the House require the FAC to scrutinise the “expenditure, administration and policy” of the FCO. Sir Michael appeared to recognise this when he told us last June that “We have undertaken to put systems in place which will enable you to get information on a more systematic basis and in particular you should be able to see key management papers which are of interest to you because of your role in overseeing the management of the Office.”
The Committee would be grateful to know why the previous offer of quarterly reports on management issues has been withdrawn; and whether the FCO still accepts that the FAC should see key management papers as part of its role of scrutinising the administration of the Office.

We may wish to return to this issue when you give oral evidence on the Departmental Report for 2006–07.

Mike Gapes MP
28 February 2007

Letter to the Parliamentary Relations and Devolution Team from the Clerk of the Committee

FCO Autumn Performance Report 2006

The Committee has considered a paper on the FCO’s Autumn Performance Report prepared by the Scrutiny Unit of the Committee Office and has asked me to write with the following questions.

1. The FCO has rated indicator A9 on PSA 3 (conflict prevention in Sudan) rather more optimistically than either the MoD or DfID, giving an assessment of “amber–on course”. What evidence is there to support the change in the FCO’s assessment of this indicator from “red” at the time of the Departmental Report in 2006 to “amber” in the Autumn Performance Report?

2. The assessment of “red–slippage” for indicator B3 on PSA 7 (governmental accountability in Islamic countries) does not appear to flow logically from the evidence provided in the text, which has a more positive tone. What additional information has been taken into account in reaching the assessment of “red” and why has this not been included in the Autumn Performance Report?

3. The Committee is pleased to observe the level of detail provided on the Efficiency Programme in the table on page 38 of the Autumn Performance Report.

However, the Report does not provide all the relevant information on efficiencies required by the Treasury’s guidance on Autumn Performance Reports (PES (2006) 9). In particular the Report gives very little detail on how efficiencies have been achieved and, although there is some reference made to quality measures, there is nothing to indicate what these quality measures are showing.

The Committee requests that in future reports information on progress against the Efficiency Programme is presented in a form which fully complies with the Treasury’s guidance to enable a full appraisal of the FCO’s progress and prospects of meeting overall efficiency targets.

Steve Priestley
Clerk of the Committee
1 March 2007

Letter to the Secretary of State, Foreign and Commonwealth Office from the Chairman of the Committee

The Committee has noted recent press reports about a possible transfer of Ministerial responsibility for SIS and GCHQ. If such a change were to be made, it would have important consequences for the work of the FCO as a whole, and not just for the two agencies. I and my colleagues would certainly expect to be informed of any such change before it was agreed.

I would be grateful if you could confirm whether such a transfer of responsibilities is being or has been considered.

8 March 2007
Letter to the Chairman from Sir Peter Ricketts, KCMG, Permanent Under-Secretary of State, Foreign and Commonwealth Office

FOREIGN AND COMMONWEALTH OFFICE: UPDATE ON THE FRAUD IN THE BRITISH EMBASSY IN SANTO DOMINGO

I wrote to you on 29 August 2006 to inform you of a fraud at our Embassy in Santo Domingo. I now enclose a paper to update you following the completion of the internal inquiry. You will see that the report is classified as “RESTRICTED”. This is because the case is subject to court proceedings in the Dominican Republic.

I am copying this letter to the Chairman of the Public Accounts Committee.

Peter Ricketts
12 March 2007

Letter to the Clerk of the Committee from the Parliamentary Relations and Devolution Team, Foreign and Commonwealth Office

FCO Autumn Performance Report 2006

Thank you for your letter dated 1 March on the Autumn Performance Report asking for more information on PSA and efficiency reporting. The answers to your questions are detailed as follows.

Q1: The FCO has rated indicator A9 on PSA 3 (conflict prevention in Sudan) rather more optimistically than either the MoD or DfID, giving an assessment of “amber—on course”. What evidence is there to support the change in the FCO’s assessment of this indicator from “red” at the time of the Departmental Report in 2006 to “amber” in the Autumn Performance Report?

FCO response:

Significant positive developments in the international mediation effort in the course of 2006 meant that we considered a reassessment of the indicator from red “slippage” to amber “on course” appropriate. In May 2006 the African Union (AU) Abuja mediation process was successfully concluded and the Darfur Peace Agreement (DPA) was signed by the Government of Sudan and the faction of the Sudan Liberation Movement led by Minni Minawi. The UK played an instrumental role in helping the AU to conclude the DPA, including personal ministerial engagement in the closing stages of the negotiation. UK effort then focussed on engaging the two factions who did not sign the DPA (the faction of the Sudan Liberation Movement led by Abdul Wahid Noor and the justice and Equality Movement) in the implementation of the provisions of the agreement and on encouraging recovery in Darfur. A further positive development came in the shape of UNSCR 1706 on 31 August, which authorised a UN peacekeeping mission to take over from the AU force (AMIS) in Darfur.

Q2: The assessment of “red-slippage” for indicator B3 on PSA 7 (governmental accountability in Islamic countries) does not appear to flow logically from the evidence provided in the text, which has a more positive tone. What additional information has been taken into account in reaching the assessment of “red” and why has this not been included in the Autumn Performance Report?

FCO response:

The geographical extent of the Islamic World is wide—extending from Bosnia to Indonesia. Whilst substantial progress has been made towards this PSA in a number of countries and on a wide range of topics, it is not possible to state that in all Islamic countries there is evidence of increased governmental accountability. In many Islamic countries, there is limited free media and restrictions on civil society organisations. For example in Bangladesh although the constitution guarantees press freedom, journalists are subject to regular harassment from the police and political activists. Media rights organisation Reporters Without Borders says journalists are targeted by officials and politicians. In 2006, Reporters Without Borders added Egypt to its “enemies of the Internet”, a list of countries which censor what their people can see online and harassing those who publish views considered unacceptable by the state. The group says a court ruling, which gave the Egyptian government the right to shut down any Internet site deemed a threat to national security could open the way to extensive online censorship. Our assessment of red slippage was intended to reflect this while emphasising a number of positives.

12 Not printed.
Q3: The Committee is pleased to observe the level of detail provided on the Efficiency Programme in the table on page 38 of the Autumn Performance Report. However, the Report does not provide all the relevant information on efficiencies required by the Treasury’s guidance on Autumn Performance Reports (PES (2006) 9). In particular the Report gives very little detail on how efficiencies have been achieved and, although there is some reference made to quality measures, there is nothing to indicate what these quality measures are showing. The Committee requests that in future reports information on progress against the Efficiency Programme is presented in a form which fully complies with the Treasury’s guidance to enable a full appraisal of the FCO’s progress and prospects of meeting overall efficiency targets.

FCO response:

We are glad to learn that the Committee was pleased with the level of detail provided on the efficiency programme. The section was shown in draft to the Treasury’s efficiency team, who drafted the guidance for the Autumn Performance Report (reference PES/2006/9). They commented that the draft was very good and adequately covered the areas required by HMT guidance.

Nevertheless, we will expand the section on efficiency in future Autumn Performance Reports so that more attention is given to how efficiency savings are being delivered, particularly with respect to new or modified efficiency projects. At the same time we will be able to provide additional information on quality measures to ensure that efficiency projects are not impacting on our ability to deliver services to the public.

Richard Cooke
14 March 2007

Letter to the Chairman from The Lord Triesman of Tottenham, Minister of State, Foreign and Commonwealth Office

I wrote to you on 12 December with an update on the FCO’s work to implement the recommendations of the National Audit Office’s major review of our Consular Services published in November 2005. I promised then to send you a final update in March. This is attached.

We have taken action on all of the NAO’s recommendations to our own deadline of February 2007. But we know that we need continually to improve our overseas consular operation. In April we are launching a new three-year strategy setting out our approach to raising the quality, consistency, professionalism and efficiency of consular services. This builds on the work we have been doing over the last three years, much of which is covered in the attached report. To implement this strategy we are establishing two major change programmes. These will drive improvements across the consular network and ensure our overseas passport operation meets international requirements for second generation biometrics. We will send a copy of our new strategy to the Committee when it is ready. Please let me know if the Committee would like an annual progress report on our change programmes.

I hope that the Committee find this update useful, and would welcome any feedback you have on it.

David Triesman
The Lord Triesman of Tottenham
15 March 2007
**NAO recommendation**  Action taken

**INFLUENCING AND CHANGING BEHAVIOURS OF TRAVELLERS**

1. There is scope to better understand the root causes of assistance cases, and to target hard hitting messages at traveller groups which do not prepare adequately, or those which have historically required more consular assistance.

OUTCOME: Increasing public awareness: use of hard hitting messages, using wider media and targeting the messages towards key risk areas should lead to a greater awareness of risks and better behaviour by Britons when overseas. Ultimately aimed at achieving reductions in the number of assistance cases (proportional to the number of trips abroad).

(a) Undertake structured analyses of previous assistance cases, building on other on-going research, to better identify key risk traveller groups which are less likely to access and digest the full text of existing, extensive travel advice.

We now conduct benchmarking research to establish which groups are least likely to read our Travel Advice or obtain travel insurance. We have identified the “mature” market, travellers from ethnic minorities, young C2DE (lower social grouping) travellers, students, lone travellers, and sports fans as the groups most at risk. To spot any changing trends we conduct this benchmarking every six months. In addition, we have commissioned independent research to examine the travel habits of particular groups, such as British ethnic minority groups and British emigrants.

The new version of our consular casework software, COMPASS, allows us to identify better the groups of travellers most likely to get into difficulty and the types of case concerned. We use this information to identify posts who report high levels of potentially avoidable consular incidents so as to target our messages by resort. We have set up a “challenge fund” for our posts which allows them to bid for activity to promote in-resort campaigns with particular messages.

(b) Increase the use of trend analysis, international passenger surveys and future modelling techniques to forecast the likely future demand for assistance.

We obtain the bulk of our management information through the Consular Annual Return process. Staff in each post provide statistics on consular cases dealt with during the preceding year. The quality of the information is not sufficiently high to allow us to accurately analyse trends but it does partly enable us to analyse future demand. We validate the conclusions drawn from this data with external sources—discussing future trends with key travel industry partners through our Consular Stakeholder Panel and commissioning specialist research to assist our planning. We have explored the possibility of using existing regular independent surveys, such as the International Passenger Survey, but they proved insufficiently detailed for our purposes.

In our work in following up on the NAO’s recommendation we have produced a Strategy for Management Information. This recognises that our existing systems do not provide sufficiently robust information to enable the effective use of trend analysis. We will develop and implement a new system to capture management information as part of the Consular Strategy Programme.

This was completed in September 2006.

(c) Ensure that all country travel advice pages include in their summaries advice on the most common causes of assistance cases in that country.
The NAO’s recommendations are at the heart of our communications strategy. The success of our campaigns has been recognised by numerous prestigious awards, including a National Travel Advertising award and the Civil Service Communications award. Our innovative campaigns use a diverse range of media sources including:

- partnership marketing, including with Lonely Planet, First Choice, Western Union, Sainsbury’s and Last Minute.Com;
- student ambassadors in 15 of the UK’s biggest universities to promote our safe travel messages to students;
- award-winning TV fillers (information films) which have gained £2 million in free airtime over the past year;
- the generation of extensive press, radio and TV coverage through research-based stories on key travel themes, such as Hen/Stag parties and sporting events (the latest being the launch of our “Don’t Get Caught Out” campaign for the Cricket World Cup);
- a full-page advert in the Sun’s first-ever travel supplement;
- in-resort communication campaigns to promote responsible tourism, including using beer mats with travel safety messages in bars frequented by British groups;
- case studies to demonstrate, for example, the dangers of retiring overseas without proper planning which have been used on the radio, in podcasts and in the national press;
- a sixth form schools tour;
- advertisements aimed at the British Ethnic population on London buses in key areas;
- advertisements, free editorial, TV and radio interviews in the ethnic media;
- launch of a new radio filler in October 2006 aimed at people retiring abroad, currently playing on 57 stations (including seven in Spain), which has gained £230,000 free airtime in its first three months.

2. In developing a consular customer guide for assistance work, the FCO should consider the key criteria it should use to establish levels of assistance which are appropriate for the country and individual circumstance.

OUTCOMES:
Increasing public awareness: A clear consular guide should increase public awareness regarding their own responsibilities, and will be a tool for managing the expectations of others.

More consistent quality of service/Targeting of resources to need: A clearer framework for providing assistance should also assist Posts in providing a level of service which is targeted to local circumstances, but which is defensible and consistent.

More efficient delivery: Increased international co-operation could reduce time spent by the FCO on consular cases, or make finite resources go further.

(a) The consular guide should make clear: The then Foreign Secretary launched the “Support for British Nationals Abroad: A Guide” in March 2006. The Guide meets all of the NAO’s recommendations in this area. It has been widely disseminated both in its full form and in a summary leaflet, and is available on our website.
<table>
<thead>
<tr>
<th>NAO recommendation</th>
<th>Action taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>The minimum level of support which the public can expect to receive in all cases, whether for terrorist atrocities, or other murders overseas or other circumstances. This may result in the need for flexible resourcing to provide short term assistance to Posts during more exacting cases. The principles, such as the vulnerability of individuals, which will be considered when assessing whether to provide an enhanced level of assistance for particular cases. (b) The guide should be underpinned by: A central set of criteria on risks and appropriate assistance levels, to assist posts in setting—and justifying if challenged—an appropriate level of assistance.</td>
<td>We are in the final stages of producing a new set of comprehensive, user-friendly guidance to assist staff in carrying out their duties and in determining appropriate levels of assistance, in line with the Guide. In addition we are developing a “Consistency Framework” as part of our Consular Strategy Programme. This will be a risk-based framework against which we can measure the levels of assistance provided by each post in order to assist them in matching their services levels to those set out in the Guide. We have issued instructions to all posts to stop providing “lifestyle” assistance to British nationals resident abroad, such as help with queries about residency, employment, local jobs or schools. We have pursued a number of initiatives to work more closely with other nations on consular work: — we share consular premises with EU partners in Almaty, Ashgabat, Dar es Salaam, Pyongyang, Quito, Reykjavik, Minsk and Chisinau; — we have established EU “virtual” working groups to exchange views and best practice on consular issues (deaths overseas, psychiatric cases and child abduction); — EU member states have agreed best practice guidelines, produced by the UK, on co-operation between EU posts in third countries; — with the French we have drafted a well-received paper on improving joint EU consular crisis response; — we have produced internal guidance on international consular co-operation. In addition we have existing reciprocal arrangements with EU and Commonwealth states for the provision of consular service where we, or they, lack representation.</td>
</tr>
<tr>
<td>Increased emphasis on sharing the burden of consular services by working closely with other nations, services, including pooling of staff resources and accommodation, and driving forward ideas such as European Union consular space.</td>
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</tbody>
</table>

MOVING TOWARDS A MORE CONSISTENT FRONTLINE SERVICE TO INDIVIDUALS

3. Both increasing the breadth and depth of coverage of the Post review system, and collecting fuller management information, would assist the FCO in ensuring that posts provide a consistent level of service, appropriate for the country circumstance.

OUTCOMES: Better, more consistent quality of service: A strengthened review function and better management information would help the FCO to identify instances where variations in service between Posts may need further investigation or resolution.

(a) Post reviews should be extended to cover the following areas in more depth: We have brought our post reviews in line with this recommendation.
NAO recommendation | Action taken
--- | ---
The appropriateness and consistency of the level of assistance provided; | The appropriateness and consistency of the level of assistance provided; The accuracy of performance and management information and performance against targets; Customer care, including enquiry handling, complaints, and facilities; The use made of the Compass assistance software tool; Opportunities to work with other embassies to routinely provide joint information or consular assistance in remote locations, as well as cooperation in crisis situations; and The quality of decisions being taken on the handling of applications of passports.

In October 2005, a Nationality & Passports Best Practice Unit (BPU) was set up, with a remit to undertake a rolling programme of visits to the main passport-issuing posts, and to other posts as the need arose. The BPU reviews all aspects of passport work (such as management of the operation, staffing levels and quality of decisions) and disseminates guidance to posts we are not able to visit.

(b) Following reviews, the team should maximise impact by encouraging Posts to agree action plans linked to specific and measurable achievements, and by developing more formal mechanisms to disseminate lessons learned.

Recommendations flowing from reviews cover an 18 to 24 month period. We issue implementation plans (based on those used by the FCO’s Internal Audit Dept) at the end of each review to help posts monitor progress against recommendations. Implementation plans set out what actions are required to improve the performance of the post’s consular operation, the officer responsible and the proposed timescale for implementation. Posts are asked to return completed implementation plans within two weeks of receipt and, where necessary, the Review Team undertakes a follow-up visit six to twelve months after the report has issued. This enables the Review Team to determine what benefits have been realised as a result of the review and address any areas where action has not been taken.

Following the NAO’s recommendations we developed an internal communication strategy and appointed an Internal Communications Officer with responsibility for implementing it. This officer is focusing on developing new and more effective ways to disseminate best practice and lessons learned in London and between Posts. A particularly useful tool is the internal newsletter for the consular network, the Real World. We are also developing the use of intranet fora as a place for staff to provide feedback and share best practice.

We carry out a regular programme of Regional Strategy Conferences to: discuss consular strategy and implementation of the Consular Guide, share experiences and best practice, discuss consistency of service, work together on crisis management issues and learn about the latest developments in biometrics. We have held conferences in London (for EU posts), Amman (for North Africa and the Middle East), Nairobi (for sub-saharan Africa), New Delhi (for the Indian sub-continent), Hong Kong (for E and SE Asia) and will shortly be holding one in Mexico City (for Latin America).

We are now looking at introducing regional managers into the global consular network, whose remit will include a closer scrutiny of resources and how they are matched to workloads, in between formal reviews from the centre.
<table>
<thead>
<tr>
<th>NAO recommendation</th>
<th>Action taken</th>
</tr>
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<tbody>
<tr>
<td>(c) Post reviews and subsequent management action could be better informed by: More rigorous collection and analysis of customer satisfaction measures, including more comprehensive analysis of complaints and other correspondence. Better methods of reviewing and comparing workload, including the reassessment of the potential for using a basic method of time recording, particularly for assistance cases, using the capabilities of Compass.</td>
<td>In financial year 2005–06 we set a PSA target of 75% for customer satisfaction with our service. We measure this through a survey conducted at overseas posts and in the UK (for clients who have returned here). Posts which devote more than two staff years to consular work also conduct regular customer satisfaction surveys of their own. We have strengthened central collection and analysis of the information which these provide. In May 2006 we produced a new internal complaints manual to guide desk officers in processing complaints in order to meet our public commitments from the Consular Guide (p 33) and to ensure consistent practice. We maintain a database recording the details of complaints, such as how quickly they were responded to, as well as the source or geographical region of the complaint to identify where follow up action is required. We have established a searchable database to log MPs letters. This enables us to track their process and more effectively analyse their content. We issued the first detailed guidance on using COMPASS (the Consular database with e-mail facility) in December 2006 to encourage consistent use of the system and improve the data it supplies. The new version of COMPASS, which will be fully rolled out by 31 March 2007, has an improved reporting function, which generates more useful data. The need to use it consistently and fully is a key message in Consular Directorate’s communications with posts. Currently we are piloting its time-recording facility in our Spanish network. Once we have reviewed this, we will consider whether to extend time recording to other posts.</td>
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4. The FCO should continue to work on ensuring that crisis management and emergency planning at Posts is robust, and should complete its action plan arising from lessons learned from the Indian Ocean tsunami.

OUTCOMES: Better, more consistent quality of service: Developed, robust emergency plans across the world should allow quicker and more organised consular responses by Posts to major emergencies, drawing on a wide range of skills. Extending the role of RDTs should lead to quicker responses on the ground following a crisis.

(a) Continue to refine a risk-based assessment to:
Prioritise feedback to Posts on the quality of their crisis management plans according to key factors such as the number of British visitors and expatriates, the likelihood of civil unrest, natural disasters and terrorist activity. Agree with Posts the frequency with which they should test crisis plans.

All posts maintain an emergency plan to deal with consular emergencies. Posts review and test their emergency plans every year. Consular Crisis Group has expanded to include a new team dedicated to assisting posts to plan for emergencies overseas. This team manages, audits and regularly provides expert advice on posts’ plans. The planning team maintains a record of when post emergency plans have been updated and tested. Advice is also provided on how to effectively exercise an emergency plan to test the key elements of the Consular crisis response. Following an exercise, posts incorporate any lessons learnt and identify any further training needs. We are delivering, in phases, a comprehensive risk assessment for all posts. For the last financial year, we developed an indicative list of 20 high risk posts (in terms of known threats and impact on British Nationals) that we prioritised for extra crisis training, exercising and equipment resources. In January 2007, we launched a new and improved framework for Civil Contingency Planning. This prioritises the provision of crisis expertise and planning to posts in countries with the greatest risk of a crisis that may require the evacuation of British Nationals. By the end of May 2007, we will have a more developed risk assessment framework covering all civil contingency planning for all posts. We will use this to prioritise our crisis resources for the financial year 2007–08. We intend to further develop risk assessment tools over the next year.
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<td>(b) Experience shows that, understandably, the need to respond to successive crises has detracted from progress in reviewing emergency plans. The FCO should review the level of its staffing commitment to these areas to ensure that crisis planning is given sufficient attention, and maintains the momentum towards completion by the date the FCO has set itself of October 2005.</td>
<td>Having reviewed our staffing requirements on the planning side, we have created a permanent Emergency Planning Team as part of the Consular Crisis Group.</td>
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<td>(c) United Kingdom based and overseas senior management should regularly review achievement against agreed dates for submitting and testing emergency plans, and respond to any failures to comply.</td>
<td>See 4a.</td>
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| (d) The FCO should ensure that the crisis planning and training is included in the objectives of senior officials at Post, against which their performance is assessed. | As part of the Heads of Mission Crisis Course (which is obligatory for all Heads of Mission and their deputies), we have impressed on all Heads of Mission the need to include a Consular Crisis Management Objective in their post objectives. We have further improved the training provided by the Consular Crisis Group (distinct from general Consular training). This includes:  
- a Crisis Management training course for all Heads of Mission and Deputy Heads of Mission;  
- Crisis Management training for Consular Officers, Duty Officers, Management Officers, Security officers and Community Liaison officers;  
- Crisis Group participation in a training video for DFSA/Community Liaison officers;  
- training for Emergency Response Team call handlers in London;  
- distance learning material for call handlers at posts overseas (to be in place from summer 2007);  
- a professionalised RDT course involving a scenario-based deployment for London and regional RDTs; and  
- the inclusion of crisis management training in regional consular conferences for overseas staff.  
See 4a. |
| (e) The FCO should establish a system for ongoing review and enhancement of emergency planning and testing, including establishing baselines from which to monitor improvements in quality. | |
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(e) The FCO should establish a system for ongoing review and enhancement of emergency planning and testing, including establishing baselines from which to monitor improvements in quality.

(f) Expanding and extending the role of Rapid Deployment Teams to promote faster responses. Giving regional rapid deployment teams such as that being developed in Hong Kong for South East Asia the responsibility for providing a regional source of crisis management expertise to assist Posts in testing their plans.

Our consular Rapid Deployment Teams (RDTs) are a crucial part of our response to a major incident affecting British nationals abroad. We have made RDT training more intensive and set up a regional RDT network in the US, building on the success of the first such team in Hong Kong. Together these regional teams allow us to offer a quicker response to crises occurring far from London. The US RDT is based in Washington and covers North and Central America and the Caribbean. We are considering how best to provide additional surge capacity to deal with consular crises, which may include developing further regional RDTs.

At home we now have weekly rosters of 20 team members on standby drawn from 80 trained volunteers (more than twice the number available during the 2004 Tsunami).

NAO recommendation | Action taken
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See 4a.
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<td>Following the publication of the IPPR Report “Brits Abroad” we have begun to engage other government departments on addressing some of the cross-governmental challenges it raises. This work is at an early stage and we have to overcome the same difficulties of regionality within other government departments, such as the fact that the Department of Health no longer has an “international” team. A Conference held at the FCO in February, at which around 60 stakeholders gathered to discuss the IPPR report, provided a useful opportunity to make contacts and explore possible future work. One example is joining up with other government departments, such as DWP, to provide better signposting to UK public services for Britons resident abroad. The momentum we have generated in this area has encouraged Age Concern International (ACI) to recruit someone to specifically cover this portfolio and our interest has empowered them to call a “summit” meeting in May of all relevant NGOs and charities (with FCO as a partner). This event will explore the needs of ageing British residents abroad and examine ways in which ACI can help deliver appropriate assistance via partners on the ground. We are also considering a joint venture with the Treasury to promote better take up of travel insurance. And planning, in partnership with the Economic and Social Research Council (ESRC), a project to discover the size and whereabouts of the British community in Spain. The DirectGov website has been expanded to give advice to British Nationals overseas. Work on this has been temporarily postponed while the Cabinet Office lead an exercise to rationalise Government website procedures. We conducted a survey of posts to gauge the extent of the problem highlighted by the NAO. As a result we are finalising a risk-based framework of guidance, allowing posts to weigh the potential cost of issuing a loan against the risks of not doing so. We will also be updating and strengthening our procedures for recovering loans issued. These improvements will be delivered before the summer season 2007. We have strengthened our relationship with the charity Prisoners Abroad (PA), who provide a range of services to British Nationals in prison overseas. We also continue to work closely with Reprieve, a human rights organisation, on death penalty cases involving British nationals in countries such as the USA, Malaysia, Thailand and Vietnam. We co-fund both PA and Reprieve. In addition to these partnerships we continue to work closely with other stakeholders including Fair Trials Abroad, SAMM Abroad [support for victims of murder and manslaughter], REDRESS [victims of torture], REUNITE [international child abduction], Veterans Association, Travelcare [support for people at Heathrow and Gatwick] and the Missing Persons Helpline. In the case of Travelcare we have funded extra human resources for their operation at Heathrow. We have recently negotiated new bilateral agreements with a number of other partners:  — International SOS—providing for the deployment of medical assessors with our Rapid Deployment Teams (RDTs), where necessary;</td>
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<td>(b) Implement more flexible arrangements for allowing Posts to use some discretion in issuing loans to individuals as Undertakings to Repay once all other sources of funding have been explored, to reduce costs and to avoid unnecessary deterioration in the individual’s circumstances.</td>
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(d) For significant emergency situations, a clear trigger point should be established to ensure a co-ordinated cross-governmental response, including clear understanding of respective managerial and budgetary responsibilities by all stakeholders.

Since the tsunami we have worked closely with the Civil Contingencies Secretariat in the Cabinet Office to develop triggers for close liaison when a crisis happens. We have also negotiated an agreement with the Department for Culture, Media and Sport on exactly how a transfer of responsibility will take place when victims of incidents overseas eventually return to the UK. It sets out the "trigger" mechanism to decide:

- when the relevant home departments will be informed by the FCO that a disaster affecting British nationals has taken place abroad;
- the method by which relevant information relating to victims and their families will be transferred from the FCO to the home departments;
- upon components of the UK aftercare package which home departments may wish to consider extending to British nationals on their return to the UK;
- upon the division of responsibility between FCO Ministers and Ministers from the home departments.

In addition we are working closely with MoD: to clarify budgetary responsibilities between FCO and MoD in the event of MoD assistance being required to evacuate British nationals overseas; update doctrine for evacuation operations and improve co-operation on Civil Contingencies Planning in high risk countries.

(e) Ensure that Post crises plans include consideration of the scope for and benefits of cooperation with others such as local staff and volunteers in emergency situations.

We engage the Diplomatic Service Families Association on crisis planning, and provide crisis training for Posts' Community Liaison Officers, to ensure that spouses and partners are better equipped to assist in a crisis. Where there is a high likelihood spouse/partners and Chancery staff will be used in our consular response to crises or peaks in demand we organise tailored training events. We trained some 80 spouses, partners and Embassy staff who volunteered for the World Cup call-handling centre in Germany and we did the same for the Olympics in Athens. To reach more volunteers, we have asked posts to encourage any pre-selected volunteers to participate in their crisis training. This will familiarise family members with the procedures in place for when a crisis occurs and will enable them to understand their potential role in crisis situations. We are encouraging posts to keep a list of volunteers and their skills and to involve those volunteers in any planning exercises.

Posts' emergency plans take account of all existing resources, including LE staff.

6. The FCO has made good progress in enhancing the professionalism of its consular staff but still needs to use training and innovative approaches to further improve the quality of its service.

OUTCOME: More efficient delivery of services: Improved training and opportunities would allow continued improvement in the professionalism and expertise of consular staff, contributing to a more consistent quality of service to customers.

(a) Consider scope for extending the range of career opportunities in consular work to encourage high quality staff to embed consular skills into their portfolios, and to engage in consular work at different points throughout their careers.

The higher profile of consular work in recent years has meant we attract more high quality staff at all grades from across the FCO. To embed consular work as a key career anchor we have taken advantage of the requirement for new policy (Fast Stream) entrants to spend a year in a service delivery role by creating several such slots across the Directorate. We have also identified greater opportunities to provide overseas experience to all consular staff.

We have established National Directors of Consular Services in Washington, Madrid, New Delhi, Canberra and Paris. This gives scope for more middle management staff to engage in consular work. We plan to build upon this by establishing further regional manager posts in the overseas network.
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<td>Consular Directorate, UK Visas and Human Resources Directorate have established a “workforce planning” group, which is examining ways in which to increase the number of staff gaining service delivery experience early in their careers. Senior officials need to lead the way and we are encouraging the strongest possible fields for senior level consular jobs. All Head and Deputy Head of Mission designates are now required to attend consular crisis management training before departing for their posts. In recruiting new members of the country casework team, hiring managers have made a point of identifying and selecting staff who possess a better mix of experience, bringing relevant skills and knowledge to the job. The current cadre of caseworkers has wider and more appropriate experience than hitherto, enabling them to perform well in these roles. In addition, a number of the country caseworkers are also members of the RDT teams, and therefore have had the opportunity to gain overseas consular experience during deployments (eg in Lebanon and Cyprus during the evacuation in summer 2006). As mentioned in 6a we also now recruit a wider range of staff, at all levels, to both Consular Directorate and the overseas consular network. We have conducted a review of our existing duty officer arrangements for dealing with consular queries outside of office hours. We concluded that there could be a number of benefits to the FCO in changing the existing system but that several wider factors (especially resource implications) need to be examined before we can make concrete recommendations on how and when to do so. We will be taking this work forward as part of our Consular Strategy Programme. Attendance at core consular training courses has been made mandatory for all LE staff (including Hon Cons) and duty officers. This forms part of our new Training Strategy, which was shaped by the NAO report. We maintain a spreadsheet to monitor ongoing training for all staff. Training is valid for four years, so the spreadsheet tells us who has been trained across the overseas network, whether their training is still current and when they require refresher training. We have established a Training Forum within the Directorate. This ensures accurate and consistent messages are delivered through training by keeping the training team up to date with the latest issues and projects that other Groups are working on. It includes all trainers substantively involved in the courses with external participation from the Head of Prisoners &amp; Assistance Policy Section. It covers both operational training issues, policy issues and plans for the future development of courses. We have produced a distance learning package for duty officers. This was tested on participants in the London duty officer course in December 2005 and is now used in posts to quickly train any officers that will take on consular duty. We have increased regional training events for LE staff from 6 to 8 and have introduced specific regional training courses for Honorary Consuls. All our training courses have been structured to facilitate sharing of experience and best practice between individuals and posts. To meet these new demands we have recruited an additional trainer.</td>
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(b) Developing a better mix of experience of consular staff, including widening opportunities for less experienced London-based casework officers to do consular work overseas in addition to familiarisation visits.

(c) Pilot a scheme to evaluate the costs and benefits of introducing a United Kingdom based system for “out of normal hours” assistance, similar to that used by the Canadian foreign ministry.

(d) Make attendance at core consular training courses mandatory for all locally engaged consular staff (including Honorary Consuls), and duty officers.

(e) Increase the number of regional training events and make specific provision in these to share lessons between Posts.
In September 2005 we launched the “Consular Training Challenge Fund” which allows posts to bid for specific consular training. This has included training for duty officers, on customer care and other consular skills training. Twenty posts have already made successful bids to the fund and further posts will benefit over the course of 2007–08.

7. Passport applicants overseas should be given greater choice to obtain their passports from the United Kingdom or from the FCO, subject to meeting basic security requirements.

OUTCOMES: Better quality of service: Latitude for Britons overseas to obtain a lower cost through slower service from the UK. This should result in greater choice between incurring additional time or additional cost.

More efficient delivery of services: Possible releasing of staff time which can be spent on assistance cases, which have previously been overstretched.

(a) Agree with the United Kingdom Passport Service that overseas citizens should be able to obtain their passports directly from the United Kingdom Passport Service if they desire, with immediate effect; where they have travelled back to the United Kingdom, can attend any necessary interviews there and can provide a verifiable address. The United Kingdom Passport Service believes that this can be made to work, particularly for renewals, given adequate arrangements to ensure applicants’ eligibility and identity.

(b) Align Consular and United Kingdom Passport Service security checking and quality assurance processes for the issue of passports.

With IPS we have put in place a number of measures to improve our joint working and ensure closer alignment. These include:

— holding away days for the FCO passports team at IPS in Peterborough to improve understanding and working relations;
— hosting IPS attachments in posts to increase their awareness of our processes;
— bi-monthly bilateral meetings between Director of Consular Services and IPS Executive Director of Service Delivery;
— holding regular formal and informal meetings to improve understanding of our respective processes and to align where practicable and appropriate;
— setting up a Standards Working Group to cover working-level issues and review the impact of proposed arrangements to meet the demands of second-generation biometric passport procedures;
— officials from Consular Directorate have a seat on IPS project board meetings to discuss passport related issues, for example the Biometric Matching & Storing Project Board and the Passport Design & Production Board.
With the introduction of Authentication by Interview (AbI) we have agreed with IPS to work together closely on establishing how fraud might be perpetrated and whether current processes provide adequate protection. Consular Directorate sends representative to IPS’s Security, Fraud and Resilience Board and the Identity Authentication Working Group.

Within the FCO we have also introduced changes to improve our capacity to deal with passport fraud:

- passports team have appointed two new officers (one full time, one part time) dedicated to fraud and security issues in passports;
- Consular Directorate’s Best Practice Unit works to ensure that best practice developed by the best passport-issuing posts and IPS is shared around the network;
- we have appointed a joint FCO/UKVisas funded officer in Islamabad to work on fraud in visas and passports.

Overseas residents applying for a British Passport in the UK are required to give a UK address so it is not currently possible for IPS to identify how many applications they receive from them. Posts monitor passport demand but issuing, and particularly on the level of demand cannot always identify the precise reasons for changes in trends. IPS predict that their figures for 2006–07 will show quite a significant downturn in applications, mainly thought to be as a result of demand reaching a plateau. FCO’s figures continue to show a slight upward trend (3%) for all except passports issued in Hong Kong (the downturn here of around 50% is specifically related to the international acceptability of the SAR passport). We do not therefore believe there has been any major impact on the number of applications being received overseas (as yet at least).

We will continue to review the number of applications we receive overseas, along with the issue of security and speed of issuing. As the price of a passport issued overseas continues to rise, we could see an increase in eligible applications being submitted in the UK. But possibly more significantly, in terms of overall numbers, we may see a drop in the numbers of dual nationals willing to pay a higher price, where their second passport is well accepted around the world (eg Canadian, US, Australian, EU). This would be in line with the trend in Hong Kong. The future requirement to attend our offices for biometric data enrolment and interview might reduce the attractiveness of our passport yet further for those who have access to other (potentially quicker and cheaper) passport options.

Second generation biometric passports require changes that will mean slower delivery times. We will ensure robust arrangements are in place so that we can issue interim travel documents for those who cannot wait. We are aware of complications/legal prohibitions related to sending passports through the postal system in some countries. As part of our Passports Next Generation Programme we will consider how best to overcome this problem.

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**EQUIPPING CONSULAR SERVICES TO MEET EMERGING CHANGE**

8. Given the radical changes required for the passport operation, the FCO should change its current business model for issuing passports overseas.

**OUTCOME:** Addressing future challenges: Responding to tighter security requirements. Also identification of opportunities for greater efficiency in deliver of the service, with closer association with UKPS.

To secure greater economies of scale to pass onto applicants through lower fees, to enhance standards of security and to enable systematic quality review of award decisions.
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<td>In response to our findings the FCO has already commenced the process of the fundamental review through a report from consultants CapGemini. We consider that the future direction of the Passport operation should include:</td>
<td>Already with the roll out of BRIT, our First Generation biometric passport production facility, there has been some reduction in the number of passport issuing posts, from over 100 to 91 with 36 smaller posts now acting as spokes. Spoke posts check applications and remit them to a larger neighbouring post for nationality determination and book production.</td>
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<td>— Production of passports should be based in far fewer locations than at present. Specifically, a passport network based on production capability mainly in the United Kingdom, but with the option to maintain several regional “hubs” where there are major concentrations of British passport holders (such as Spain and North America),</td>
<td>For secondary biometrics we have decided to repatriate all book production to the UK. However existing spoke posts will still receive applications and will need to interview first time applicants and capture secondary biometric data. To provide the shortest travel time for customers, some posts not previously involved in passport work will also be required to capture biometric data (fingerprints) and host interviews on behalf of hub posts.</td>
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<td>— A clear definition and service standard for those residual functions that need to be retained in the country of residence of the applicant. This should focus on maintaining the capability at Posts to issue non-biometric emergency travel documents or temporary passports to assist emergency travel, and to undertake local checks on passport entitlement, such as interviews, biometric enrolment and the inspection of local records. Since a relatively small number of emergency passports will be issued, unit costs will increase but fees should be set to recover full cost.</td>
<td>We are considering on a county by country and region by region basis possible future business models, taking account of three other major change processes in the FCO (UKVisas, Shared Services and UKTI). And of course the Comprehensive Spending Review is reshaping the landscape of our network, both in terms of locations and staffing levels.</td>
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<td>— To build up capability in passport productions hubs to take on tasks such as the authorisation of passport decisions made by Posts, and to advise Posts on their decisions on nationality. Once the nature of the next stage of biometric passports is clear the FCO should reconsider whether further work should be consolidated to “hubs”, to obtain lower costs and more consistent standards.</td>
<td>We recognise that the new processes we will be introducing will mean slower delivery times for customers. We will therefore ensure robust arrangements are in place in relation to interim travel documents (currently Emergency/Temporary Passports) for those who cannot wait the required amount of time for a full passport.</td>
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NAO recommendation

9. The FCO should ensure that existing consular information technology systems are fully utilised and new systems are developed to enable it to allocate its resources where they are most needed.

OUTCOMES: Targeting resources to need: Better utilisation of the Compass case management system will enable the FCO to manage its allocation of staff resources to best effect and identify shortfalls.

More efficient delivery: Resolving underlying infrastructure problems would result in significant savings in staff time.

(a) Re-invigorating Compass, the consular assistance software programme, with more detailed training and a staged rollout of its functions; including its planned improved functionality.

(b) Monitoring whether posts are using the Compass system, including enforcing compliance through linking any staffing bids to case workloads shown on the systems.

(c) Regular and proactive investigations of common infrastructure problems and frustrations with the system reported by Posts to the centre.

(d) Better generation of management and performance information from the key information technology systems.

Action taken

Full rollout of our new version of Compass, Compass NG, will be completed by 31 March 2007. As suggested by the NAO we conducted a staged rollout to ensure staff received sufficient training and to evaluate and refine the process as the rollout progressed.

We actively encourage posts to use Compass and monitor its use. In the summer of 2006 we issued an egram instructing each Consul to include a Management Information objective in their performance appraisal. The Directorate’s senior staff also raise Compass use on overseas visits.

In the future we may consider encouraging consistent Compass use within the network by linking staffing bids to Compass statistics. However, this will depend on how we decide to tackle time recording. At present Compass records the details of cases but does not give a clear indication of how long each case takes. Some cases are relatively straightforward, others may take several days or weeks to resolve. Compass NG has the facility to record how staff spend their time but it is not currently used. We are piloting its use in the Spanish network and will decide whether to introduce this to all posts after evaluating the pilot. In the absence of such data it is not practical to link resource allocation to Compass statistics.

Consular Directorate shares a common IT platform with the rest of the FCO. To address problems with this platform an Information, Communication and Technologies Operations Team was created in February 2005. This team is responsible for an Infrastructure Performance Improvement Taskforce programme focused on improving our current system, 2G Firecrest. This works on improving the infrastructure and with the application owners to address particular performance-related issues with their applications.

Consular Directorate has a representative on the Infrastructure Performance Improvement Taskforce Board who ensures our IT-related issues are addressed by the Programme. We co-ordinate with the FCO IT helpdesk, FCO Services and IPS to ensure we receive regular reports of problems with consular IT systems and are able to investigate and resolve them.

The FCO is developing a new IT platform, Future Firecrest, which should address many of the infrastructure problems we face with the existing system.

We launched work in May 2006 to conduct a strategic and detailed analysis of the current use and future needs for management information both in London and in posts, in order to design and implement a centralised management information reporting system.
To understand the specific needs of Consular Directorate and posts, as well as the issues around collection of source data, we have conducted a series of workshops with the different groups within Consular Directorate, and have visited a representative sample of posts to understand their needs.

We have a Strategy for Management Information. Our vision is for a centralised management information reporting system available to both London and posts. We will collect data partly through automatic source systems and partly through manual returns. Work on implementing this new management information system will be taken forward as part of our Consular Strategy Programme.

NB—Management information generated from BRIT represents a significant improvement over its predecessor (Genie). Further reports are being developed which will enable easier monitoring of performance against targets on passport-related work.

10. The FCO should, in conjunction with HM Treasury, regularly review the basis of funding for consular assistance work and should reconsider the range of consular activities covered by its internal and external targets.

OUTCOMES: Addressing future challenges: Linking the amount of the consular premium to the number and type of overseas visits should better enable the FCO to respond to changes in demand.

Better, more consistent quality of service: Ensuring that targets provide feedback on the full range of consular services will enable the FCO to monitor and improve the delivery of its service.

(a) Regular reviews to assess the adequacy of funding levels should consider:
Changing patterns of travel and the observed level of demand;
Projected trends in the issue of passports; and
The case for linking the consular premium to the number and type of overseas visits as well as the number of passports issued.

To meet growing demand within tight resource levels, we need to continue to raise the efficiency of our operation. Our Consular Strategy for 2007–10, to be launched in April, will set out the approach we will take to identify and realise continuing efficiencies. This will include:

— reducing demand on our services through the “Know Before You Go” campaign and other public information;
— improving our management information to help us make better decisions about our resources, and to predict and plan for the future evolution of demand;
— reducing “over-servicing” through a more consistently applied service standard;
— increasing the flexibility and mobility of our staff to help us to get the right resources in place at the right time;
— making greater and more effective use of our Honorary Consuls;
— establishing a network of regional managers to oversee our global operation and manage the flexible allocation of resources so as to respond to changing needs and demands.

According to IPS’ data, passport demand fluctuates according to a regular 10-year cycle. Our income from the consular premium (the part of the passport price which funds consular assistance) is under pressure since the demand cycle is currently in a period of reduction. This is one of the reasons for increasing the premium in this present fees round. IPS is also concerned that their recent passport fee increase has contributed to further reductions in demand since people are replacing them when they need to rather than automatically. This trend may increase when the consular premium goes up in April.

ID cards will start to issue in 2009, building up through 2009–10. Market research by the Identity and Passport Service (IPS) suggests there will be a switch away from passports to ID cards (which allows the holder to travel freely across national borders in the EU) of about 11%. This has serious implications for our future funding, due to Ministers’ decision that ID cards will not carry a consular premium.
NAO recommendation | Action taken
--- | ---
Increasing the consular premium on passports to cover this shortfall is not an option the Treasury will support as it would mean any consular assistance offered to ID card holders would be subsidised—indeed entirely paid for—by passport holders. We have therefore been exploring what other options there would be in future years for maintaining our income when ID cards are introduced. We have discussed the idea of a tax on travel with the Treasury; and while we did not rule this option out, we agreed that it would be difficult to apply. The Treasury also expressed a reluctance to consider reverting to funding consular services from general taxation. While no alternative to the current fee-funded arrangements is immediately attractive or easy, solutions clearly need to be found over the coming years so as to ensure we can continue to provide consular assistance to the levels which Ministers have decided. We will continue to work closely with the IPS and Treasury to come up with a workable solution before ID cards are introduced in 2009.

(b) A hierarchy of targets should be established under the existing Public Service Agreement and underlying targets, to develop more detailed working level targets in areas where none currently exist. For example, targets for travel information and crisis management could include:
The level of public awareness of, or a number of visits to, traveller information;
The number of Posts who have current, reviewed and tested emergency plans;
The speed of deployment in response to crises, and level of continuing support during crises.

For the next Spending Round Period, covering 2008–09 to 2010–11, all PSA targets are to be cross-governmental with a lead department for each target. As a result, Treasury has decided to reduce the overall number of PSA targets. We do not expect to have any specific consular service PSA targets but we will contribute to PSA targets led by other departments.

Departments’ overall performance will instead be monitored against their Departmental Strategic Objectives (in our case the Strategic Priorities). In order to ensure consistent delivery of SP9 (consular services) we propose to establish Consular Business Targets (CBTs). To meet the NAO recommendation, we have already introduced additional business targets for 2006–07. In drawing up our new CBTs we will consider whether we should retain these targets; revise their wording and/or introduce further targets.

The existing PSA targets will also become CBTs but we are considering making a few minor amendments to them. Discussions are ongoing within Consular Directorate with a view to finalising the CBTs and using them as the basis for performance management with effect from 1 April 2007. We will take into account the views of our consular posts and stakeholders in the final targets. Our aim is for twelve Business Targets that provide a realistic challenge for staff, and deliver an acceptable level of service to consular customers. We will review the targets regularly, revising and replacing them as necessary, to reflect changes in business patterns and new service delivery needs.
Letter to Parliamentary Relations and Devolution Team, Foreign and Commonwealth Office from the Clerk of the Committee

The Committee has had an opportunity to consider the Winter Supplementary Estimates which was laid on 22 November 2006 and the Spring Supplementary Estimates which was laid on 20 February 2007 and have the following comments and queries.

1. Estimates Memoranda

The FCO appear to have taken into account the Treasury guidance and the Scrutiny Unit guide to preparing the Estimates Memoranda. However we wish to draw attention to the following areas where in the Committee’s view guidance was not adhered to or where the Memoranda could be improved:

— The “Summary of Changes” sections in both the Memoranda for the Winter Supplementary Estimates and the Spring Supplementary Estimates (paras 1–2) say very little of any substance. They do not appear to meet the Treasury requirement: “This section should identify the most significant issues arising from the Estimate. It should relate changes in the Estimate to budgetary changes and departmental policy initiatives.” [Treasury PES(2004)14/Annex-B paper, Sept 2004]. We recommend that the FCO in future Memoranda writes a brief paragraph which sets out how the most significant movements in its Supplementary enable it to meet its Departmental policy objectives.

— The “Impact on PSA Targets” section requires more detail. In the Spring Supplementary Estimates, that section only states: “Changes to FCO’s budget provision relate to planned activity and so will not impact our public service agreements” (para 17). We would have preferred to see an explanation of how the main movements in the Supplementary Estimates such as a £60.5 million draw-down for Africa peacekeeping and £46.5 million draw-down for global peacekeeping enable the FCO to better meet its PSA target 3, which relates to conflict prevention.

— The Scrutiny Unit’s Guide to preparing Estimates Memoranda recommends that the Department provides a table which shows the Departmental Expenditure Limits in the previous three years and the outturn which the department achieved against the limits (see para v in the Guide). The FCO has not provided this information, which means that the Estimates Memoranda do not give an indication of the FCO’s previous performance. We would be grateful if the FCO were to provide the relevant data in the following tabular format in its next Memorandum.

PREVIOUS YEARS’ EXPENDITURE AGAINST DEPARTMENTAL EXPENDITURE LIMITS (£ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Voted</th>
<th>Non-voted</th>
<th>Total DEL</th>
<th>Outturn</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource</td>
<td></td>
<td></td>
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<tr>
<td>200U-0V</td>
<td>200</td>
<td>100</td>
<td>300</td>
<td>250</td>
<td>50</td>
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<tr>
<td>200V-0W</td>
<td>300</td>
<td>100</td>
<td>400</td>
<td>400</td>
<td>0</td>
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<tr>
<td>200W-0X</td>
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<tr>
<td>Capital</td>
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<tr>
<td>200U-0V</td>
<td>100</td>
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<td>200V-0W</td>
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<tr>
<td>200W-0X</td>
<td>200</td>
<td>100</td>
<td>300</td>
<td>250</td>
<td>50</td>
</tr>
</tbody>
</table>

2. Spring Supplementary Estimates

(i) Additional funds for peacekeeping

The Supplementary Estimate requests a large amount of additional funds for peacekeeping. Is additional funding required as a result of the FCO having to transfer £53 million to the Ministry of Defence? How much of the additional funding for peacekeeping within the FCO was planned and how much was unanticipated and as a result of unforeseen events during the year?

<table>
<thead>
<tr>
<th>£’ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>RFR2 Section B3 take up of DUP for global peacekeeping.</td>
</tr>
<tr>
<td>RFR 2 Section C3 draw-down of balance for Africa peacekeeping.</td>
</tr>
<tr>
<td>RFR 2 Section D3 draw-down of balance for global peacekeeping.</td>
</tr>
</tbody>
</table>
(ii) Income from asset recycling

Table 1 in the Estimates Memorandum (increases in gross spending offset by Appropriations in Aid) shows that an extra £8.687 million (£7.6 million + £1.087 million) income was received for asset recycling. Has the FCO sold more assets than initially planned, or received extra income for some of the assets disposed of? What arrangements are there in place to accommodate staff where buildings have been sold?

(iii) End-year Flexibility

The FCO is carrying forward an amount of £108.867 million End-Year Flexibility (EYF). When does the FCO intend to use the EYF and what will it be used for?

(iv) Transfer from DFID

The FCO’s Estimates Memorandum and Written Ministerial Statement show that £16.216 million is being transferred from DFID to the FCO, mainly for Conflict Prevention Activity. However DFID’s Ministerial Written Statement refers to £19.216 million being transferred to the FCO (£5.341 million from the Africa Conflict Pool and £13.875 million from the departmental unallocated provision). Please could you provide us with an explanation for this apparent discrepancy?

3. Winter Supplementary Estimates

(i) Transfer to Security Industry Authority

Table 1 in the Estimates Memorandum includes a £7 million transfer to the Security Industry Authority. What was this transfer for?

(ii) Additional expenditure on biometrics

The Estimates includes an additional £11 million “for biometrics”, offset by an envisaged similar increase in income from the Home Office. Why was this additional expenditure needed? By how much will the Estimates for 2007–08 and future years be increased in respect of additional biometrics expenditure?

(iii) Increase in Administration Cost budget

The Winter Supplementary Estimates increased the administration budget by £29 million (see Written Ministerial Statement). It was reduced by £7 million in the Spring Supplementary Estimates but overall it has increased by £94 million from last year (Table 4, Spring Supplementary Estimates Memorandum). Why has the administration budget increased by so much?

Steve Priestley
Clerk of the Committee
22 March 2007

Letter to the Chairman from Sir Peter Ricketts, KCMG, Permanent Under-Secretary of State, Foreign and Commonwealth Office

My letter of 9 March on FCO Management issues covered developments in preparation for FCO Services’ launch as a Trading Fund. I thought it might now be helpful to provide some further details on the ongoing commercialisation process in FCO Services, and the implications it has for staff and for the future direction of the business.

As part of its change programme to become a fully commercially-oriented organisation, FCO Services has developed a business strategy with a clear focus on secure services—namely the provision of a secure environment, secure logistics and secure IT solutions for government. This new strategy plays to FCO Services’ core strengths in security and gives it the opportunity both to provide a long-term future for itself and its staff and to contribute to the Government’s drive to modernise, innovate and make the best possible use of resources.

There are, of course, implications for some staff. The majority of FCO Services staff work in the areas of the strategy’s main focus. They will be largely unaffected. A number, however, do not. We have therefore been examining in detail the consequences for those business areas which will not form part of the new organisational model—and for the staff who work in them. These are principally services which could be delivered by alternative means or may be carried out more efficiently or effectively within the FCO itself.
We have concluded that four areas, employing eight staff, will close; eleven areas which are no longer core to the new FCO Services strategy, with 86 staff, will continue but instead be managed by the FCO itself; and the way forward for a further five service areas, employing 114 staff, requires further review, which is currently underway. In these areas there may be changes, for example, in the way FCO Services arranges delivery.

We also concluded that the Language Teaching operation was not financially viable and we should move to a system where we purchase language training in a way that reduces cost and increases efficiency. This change would have increased the financial pressure on the Language Training function. FCO Services concluded that it was not appropriate to continue to provide this service and the FCO determined that it should not take on the function because it was uneconomic to operate. The new business model will entail more training overseas; training delivered in London will be delivered by a range of high quality sources of language teaching drawn down from a Framework Agreement. The change in arrangements in London will provide more flexibility and better value for money. The level of language teaching will not be adversely affected. 40% of existing language training is out-sourced now without impact on quality. The Board and I are committed to ensuring that FCO staff continue to have excellent language skills, but to do this more efficiently.

These changes will create the potential for redundancies. In accordance with the FCO’s Redundancy Agreement, therefore, FCO Services and the FCO are entering into formal consultation with the Trades Unions. We had an initial meeting with Trade Union representatives on 12 March to discuss the potential impact of the business strategy and the language training review; and to discuss when a formal consultation process could start. As part of this process, we will work closely with the Trade Unions to identify where opportunities to redeploy affected staff might lie. However, if no other options are available, the formal consultation process will include consultation on redundancy. The largest unit of redundancy will be the language centre, which currently employs 58 full-time language training staff and 46 flexible hours lecturers.

Any potential arrangements for outsourcing of services would also be subject to formal consultation with the Trade Unions. If staff transferred to another employer under outsourcing arrangements, TUPE regulations and the Cabinet Office Statement on Best Practice would apply, with staff terms and conditions of employment fully protected.

We fully understand that the impact of these changes will be significant for many of the staff involved and we shall do all we can to help them through this process. We have begun a detailed programme of communication, including briefings to all staff. This will be followed by individual sessions with those most closely affected, and of course regular updates on progress on the consultations with the Trade Unions.

Peter Ricketts
23 March 2007

Letter to the Clerk of the Committee from the Head of the Parliamentary Relations and Devolution Team, Foreign and Commonwealth Office

Thank you for your letter of 22 February covering matters arising from our response to your report on the FCO’s Departmental Report 2005–2006. I am pleased to provide the additional information you requested.

FAC QUESTION

1. The response to the recommendation made in paragraph 28 mentions participation by members of the Board in various development events, including those listed in Annex 3. The Committee wishes to know how many Board members participated in each such event?

FCO RESPONSE

All then-serving Board Members, including Michael Jay and our two Non-Executive Directors, attended all the formal training sessions mentioned in Annex 3, except Part I of the Project and Programme Management training, which was not attended by Michael Jay and Non-Executives Directors, nor by John Sawers who had urgent last minute travel. However all Members, including those absent for Part I of the training, attended Part 2. Additionally, all Board Members are required to complete a skills audit when they take up their positions, and some have undertaken additional training including in performance management and, for those who sit on the Finance Committee, financial management training.
FAC QUESTION

2. The response to the recommendation made in paragraph 38 lists a number of posts recently filled through open competition. The Committee wishes to know what professional qualifications are held by each of the recently appointed individuals?

FCO RESPONSE

Director General Finance—Keith Luck is a qualified Management Accountant who became a Fellow of the Institute of Management Accountants (FCMA) in 1993. His appointments include Head of BT’s Finance Training Unit, a consultant with Deloittes (now part of PwC), Director of Corporate Finance at the London Borough of Tower Hamlets, Director of Finance and Property Services at the London Borough of Lewisham, and Director of Resources for the Metropolitan Police Service.

Chief Information Officer—Tony Mather has over twenty years experience in IT, most recently with The BOC Group, Safeway Stores plc and Pepsi. He also holds an MBA from Kingston University (2000) and an Honours Degree in Mechanical Engineering (1986).

Finance Director FCO Services—Clive Heaphy is a member of the Chartered Institute of Public Finance and Accountancy (1986) and the Institute of Directors (2004). He has previously held roles as Finance Director of the English Sports Council (Sport England) and of a national commercial housing association.

HR Director, FCO Services—not yet appointed.

Assistant Director, Human Resources—(Diversity and Equality)—Michael Shearer holds an MBA from the University of Durham (1986). He gained experience in Diversity and Equality issues at HSBC.

Consul-General and Director of Trade and Investment, New York—Alan Collins is a career diplomat. He is an experienced Head of Mission whose service has concentrated on trade and investment work, as High Commissioner, Singapore, Ambassador in Manila and Director of the British Trade and Cultural Office in Taiwan (and he has also undertaken a commercial secondment to Shell).

Permanent Representative to the EU—Kim Darroch is a career diplomat. Most recently he was the Prime Ministers adviser on European affairs, Director-General (and before that Director), EU, in the FCO, and Counsellor, External Relations, UKRep Brussels.

Director, Consular Services—Rob Macaire was previously the Head of the Counter-Terrorism Department in the FCO and is an experienced crisis manager.

FAC QUESTION

3. The response to the recommendation made in paragraph 48 states that the NAO report on financial controls is expected in “early 2007”. The response is silent on the Committee’s request that it be provided with the outcomes of this and other exercises. The Committee requests a copy of the NAO report on financial controls.

FCO RESPONSE

The NAO draft report “FCO Controls Review” was received on 26 February 2007 and will be considered by the FCO Audit and Risk Committee on 19 March. Once the department has responded and the report has been finalised I would be happy to provide the Committee with a copy.

FAC QUESTION

4. With reference to the response to the recommendation made in paragraph 69, the Committee wishes to receive a confidential oral briefing about progress on the 2008-11 PSA, before it has been agreed.

FCO RESPONSE

Since the response to the Committee’s eighth report was presented to Parliament in January, work has progressed on the new performance management framework for the CSRO7 period. This follows the revised model set out by the Chancellor in the Pre-Budget Report [paras 6.53 onwards.] Building on the evolutionary reforms of previous Spending Rounds, the CSR will set a refreshed and smaller cross-Governmental, rather than departmentally constrained, suite of PSAs which articulate the highest priority outcomes for Government as a whole. Alongside the cross-Government PSA set each Department will manage performance of its broader business through Departmental Strategic Objectives (DSOs).

The FCO is participating actively in discussions of PSAs around areas such as conflict, climate change, counter-terrorism, migration and international poverty. A considerable amount of work is still needed, however, to bottom out these initial proposals. Lead departments will consult key stakeholders once draft PSA Delivery Agreements are at a sufficiently advanced stage of preparation. We would envisage briefing
the Committee in the manner you have requested at this point which is likely to be after the Easter recess. This would also offer a suitable opportunity to inform the Committee of progress in developing the FCO’s DSOs. We view these as an opportunity to align our departmental performance management arrangements with the Governments Strategic International Priorities in the manner outlined to the Committee during last summers oral evidence session [Ev 30 Q70J.] We are therefore proposing that the FCO’s DSOs mirror the 10 SIPs.

FAC QUESTION

5. The response to the recommendation made in paragraph 89 suggests that the Committee will be informed of adjustments to the configuration of the diplomatic network “at the earliest opportunity”. The Committee notes the recent announcement of the expansion and upgrading of the Posts in Kabul and in Lashkar Garh. It also notes that the Board has discussed the implications of this “step change” for the FCO’s operations elsewhere and the possible need for additional resources. The Committee wishes to receive a full note on these implications.

FCO RESPONSE

As the Committee notes, the FCO Board has discussed the resource implications of reinforcing our efforts on Afghanistan. A total of 32 new positions are to be created (17 in Kabul, 5 in Lashkar Garh, 2 in Islamabad and 10 in London), at a paybill cost of approximately £2.75 million. Just over half of this—£1.4 million—will be met through implementation of existing plans to draw down staff levels in Iraq. The remainder will come from reallocation of staff working in lower priority areas in London and overseas. Temporary staff and office accommodation overseas will be funded from the FCO’s Departmental Unallocated Provision. The very significant costs of providing permanent accommodation form part of our CSR bid. Discussions are ongoing with other interested Whitehall departments on the funding of airlift for civilian deployments. It is not envisaged at this stage that any adjustment to the FCO network, in the sense of post closures, will be required by this realignment of resources. However our ability to sustain this increased level of activity on Afghanistan in the long term without considering future post closures will depend on the terms of our eventual CSR settlement.

FAC QUESTION

6. The response to the recommendation made in paragraph 96 suggests that, taking into account the £50 million receipts from the Bangkok estate sale, the FCO will need to find about £15 million of sales annually in order to meet Treasury targets over the period 2004–05 to 2010–11. What consequences does the FCO anticipate meeting this target will have on its operations?

FCO RESPONSE

We judge that the Treasury’s target of £140 million over the period 2004–05 to 2010–11 is very challenging, but achievable. Disposal of FCO property in recent years has seen routine sales of £10 million per annum. We intend to exceed this amount by continuing our rigorous assessment of the operational need for each owned or long leased property on the FCO estate. We continue to keep our entire asset portfolio under review, to see how it matches up against our key performance indicators including value for money, fitness for purpose and security.

FAC QUESTION

7. With reference to the response to the recommendation made in paragraph 100, the Committee wishes to receive a confidential oral briefing about progress towards meeting the FCO’s capital requirements for security-related expenditure in the CSR period.

FCO RESPONSE

The FCO continues to attach the greatest importance to the security of our staff, and welcome the Committee’s ongoing interest in this matter. Further to our previous answer to the FAC we have now bid to HM Treasury for the capital resources for essential security-related expenditure in the CSR period, as part of our total bid. We will brief the Committee, as requested, once we have the Treasury’s response.
FAC QUESTION

8. The Committee wishes to receive a fuller response to its recommendation made in paragraph 112, with more information on the pilot project to relate public diplomacy work to the international strategic priorities.

FCO RESPONSE

We are writing separately to the Committee.

FAC QUESTION

9. The Committee feels the response to the recommendation made in paragraph 122 does not provide the “full assessment” of the British Council’s performance requested, and wishes to receive such an assessment.

FCO RESPONSE

The British Council implemented in 2003–04 a balanced scorecard approach to evaluating its work. The component evaluation tools have been refined each year, based on experience, and are now delivering a wide range of quantitative and qualitative data concerning the effectiveness of British Council projects and of their contribution to the achievement of their corporate outputs and outcomes. This more consistent approach to evaluation has allowed the British Council to plan and amend its strategy on a more informed and comprehensive basis.

Following Lord Carters review of public diplomacy, an external consultancy made recommendations in December 2006 for a shared evaluation framework for public diplomacy work conducted by the FCO, British Council and BBC World Service. Work is underway to develop for 2007–08 the component parts of the framework, which will allow the British Council to build on its existing approach to evaluation. The consultants commended efforts by the British Council to develop its measurement of impact, both in the short and medium term.

The British Council evaluation team has been in discussion with the FCO and will be introducing refinements to their approach to evaluation, which we are confident will deliver more coherent reporting of effectiveness in relation to the International Strategic Priorities. This will allow a more transparent, external assessment of the value of the work of the British Council. The system will be reviewed in detail as a core element of the VFM audit of the work of the British Council requested by the FAC. The review will be conducted by the National Audit Office, beginning in the early part of the financial year 2007–08.

27 March 2007

Letter to the Chairman from Sir Peter Ricketts, KCMG, Permanent Under-Secretary of State, Foreign and Commonwealth Office

FCO CAPABILITY REVIEW

As part of the sequence of Capability Reviews of Government Departments, the FCO Capability Review is being published today, alongside those of the MOD, DFID, DEFRA and DCMS. I enclose 17 copies of the FCO report for Members of the Committee.13

There is much that is positive in the Report about the FCO. It recognises that the FCO is regarded by other foreign services as one of the best in the world. It praises the calibre and commitment of its staff. It acknowledges the significant improvements made in delivery of services to the public, citing UK Visas in particular as a “world-leading service with real innovation”. It underlines that the strategic international priorities are a real strength for the Department. It draws attention to the ambitious nature of our change agenda, and the progress we have made in developing our leadership and in delivering the Professional Skills for Government agenda.

Of course, the Report also identifies areas where we can do better. In particular it identifies four Key Areas for Action:

— articulating clearly for staff, stakeholders and the rest of government the Department’s distinctive contribution to delivering the UK’s objectives overseas and the implications for its future role, shape and business model;
— strengthening change management capability and communications;
— strengthening the strategic management of human resources and knowledge to support the future role and shape of the Department; and

13 Not printed.
strengthening business planning processes and disciplines, to underpin more effective performance measures and resource allocation.

My Board and I welcomed the Review and have worked closely with the Review team. We recognise the scale of the challenges, and the changes we need to make to maintain the FCO as one of the best Foreign Services in the world. We see this report as a helpful tool to give added impetus and focus to our change programme.

I have set out in my Response to the review a specific series of measures we will be taking, and a timetable, to address the issues raised in the report. Rigorous follow up will be a top priority for the Board over the next two years.

I would be happy to brief the Committee further on the review and the steps we are taking in response to its findings.

_Peter Ricketts_

27 March 2007

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**Letter to the Chairman from Sir Peter Ricketts, KCMG, Permanent Under-Secretary of State, Foreign and Commonwealth Office**

I am writing to inform the Committee of changes in location of our Regional Embassy Offices in Iraq.

**BASRA**

Since it was established following the dissolution of the Coalition Provisional Authority on 30 June 2004, the British Embassy Office Basra (BEOB) has been located in its own discrete compound within a site known as the Basra Palace, on the southern outskirts of Basra City. The US Regional Embassy Office, the UN Assistance Mission to Iraq (UNAMI), and military forces from Multi-National Division (South East) also have their own compounds within the Basra Palace site.

As the Committee will be aware from the Prime Minister’s statement of 21 February, British forces are in the process of reducing the number of fixed bases which they hold in and around Basra. This is in line with our objective of progressively transferring responsibility for security to the Iraqi security forces, and of handing Iraqi assets back to the Iraqi authorities. This process has already begun with the recent handover of the MND(SE) base at the Old State Building in Basra City. Handovers of two further bases will follow shortly. The Prime Minister noted on 21 February that he also expected our forces to vacate the Basra Palace site itself in the late summer. Over the next few months UK forces will increasingly consolidate their presence at the Basra Air Station (BAS, also known as the Contingent Operating Base (COB)). This adjoins Basra International Airport, about 5km outside Basra City.

Against this background, we have decided also to move our Embassy Office from the Basra Palace to BAS. The move is now underway. The benefits of relocation to BAS will be:

— all the major elements of the British effort in southern Iraq—the Embassy Office, the UK-led multinational Provincial Reconstruction Team and the Divisional Headquarters of MND(SE)—will be in the same place. This is deepening civil-military co-operation in strategy, planning and Operations, as part of a genuinely joined-up approach to achieving our objectives in southern Iraq.

— the move will allow us better to ensure the safety of our staff; and other civilians in Basra who come under the FCO’s Duty of Care. Since October 2006, Basra Palace has been subjected to extremely high levels of rocket and mortar fire from extremist groups. We judge that our staff in Basra will be able to operate more safely from BAS, where the threat is currently significantly lower.

We hope that the full handover of Basra Palace to the Iraqis, following the departure of British forces and other international partners, will stand a high profile symbol of the progressive assumption of responsibility by the Iraqi authorities.

While Embassy Office was located at the Basra Palace, we repeatedly tried to open discussions with the Government of Iraq over the possible acquisition of a freehold or leasehold interest in our site, but without success. After the move to BAS is complete, therefore, the FCO will not retain any ongoing legal or proprietary interest in the Basra Palace site. But we will make clear to the Government of Iraq our interest in the possibility of re-opening a diplomatic mission in Basra City in the future, either at the Palace or another suitable site, once conditions permit.
Until January of this year, our diplomatic representation in northern Iraq consisted of the British Embassy Office Kirkuk. This was co-located with the US Regional Embassy Office (REO). In January, the US decided to relinquish that site and move their REO to the Kirkuk Regional Air Base. We took the opportunity to reassess our diplomatic presence in northern Iraq. We concluded that it was important to retain a resident presence, in order both to engage with the Kurdish Regional Government (KRG) on political developments in Iraq and the region, and also to pursue bilateral objectives, in particular voluntary and enforced migrant return programmes. We judged that this work was best conducted from Erbil rather than Kirkuk, as the former is closer to the centre of gravity of KRG politics. The security environment in Erbil also enables our staff to operate more safely and effectively than in Kirkuk.

Since January, therefore, the British Embassy Office has moved to Erbil, and is known as the BEO Erbil. It is temporarily located at the Khanzad Hotel, just outside the city. We are considering the options for other, longer-term options for a site in Erbil and will keep the Committee briefed on any further developments.

Peter Ricketts
28 March 2007

Letter to the Chairman from Dr Kim Howells MP, Minister of State, Foreign and Commonwealth Office

You will be aware that the FCO has for some time been seeking new office accommodation for the British Deputy High Commission in Mumbai.

I am pleased to confirm that the FCO has now succeeded in negotiating the purchase of three floors, as well as the shorter-term lease of an additional half floor, in the Naman Chambers building now under construction in the Bandra Kurla area of the city. Contracts were exchanged on 5 April.

Because of likely future changes to the way in which we provide consular and visa services, our office needs in Mumbai may change considerably in the next few years. We are confident, however, that this acquisition will provide us with the flexibility to ensure that we have sufficient office space both for our immediate
requirements in Mumbai and for our future operations there in the longer term. We expect to commence
the fit-out of these floors in August, with a view to having them ready for occupation by the Summer of 2008.
The total cost of this project, including fit-out costs, is expected to be in the region of £30 million.

Mumbai is an important city, and I am pleased that the FAC, following its recent visits to Mumbai,
continues to take a close interest in our operations and estate there. I hope that this news will be welcomed
by the FAC as evidence of our commitment to ensuring that our offices in Mumbai are fit for purpose, and
to improving the working conditions and the security of our staff who work there.

Kim Howells
16 April 2007

Memorandum submitted by UK Trade and Investment

ESTIMATE MEMORANDUM

HM Treasury guidance in PES(2004)14 specified that departments are required to provide an “Estimates
Memorandum” to their Select Committee explaining the allocation sought in the Main Estimates and how
they link to the department’s published targets.

I enclose UK Trade & Investment’s Estimate Memorandum for the forthcoming Main Supply Estimates. Should the committee require any additional information, we will be happy to expand the Memorandum appropriately.

Main Estimates are presented and published approximately three weeks after the Budget (see
Government Accounting, chapter 11). However, we await formal notification of the likely publication date.

I am also sending a copy of this letter and enclosure to the Clerk of the Trade and Industry Committee.

Susan Haird
Deputy Chief Executive
UK Trade & Investment
17 April 2007

MAIN SUPPLY 2007–08—ESTIMATES MEMORANDUM

1. Summary of the 2007–08 Main Supply Estimate

This Memorandum covers the Main Supply Estimate for UK Trade & Investment, which is a joint
operation of the Foreign and Commonwealth Office and the Department of Trade and Industry.

Expenditure under this Estimate covers programme expenditure for trade development and inward
investment, including grants to the Regional Development Agencies (RDAs).

The administration costs relating to this programme expenditure are reflected in the Main Estimates of
UK Trade & Investment’s parent departments, the Foreign and Commonwealth Office and the Department
of Trade and Industry.

The programme expenditure is in line with the 2004 Spending Review settlement for 2007–08 and supports
our Public Service Agreement (PSA) target of:

“By 2008, deliver a measurable improvement in the business performance of UK Trade &
Investment’s international trade customers; with an emphasis on new to export firms; and
maintain the UK as the prime location in the EU for foreign direct investments.”

<table>
<thead>
<tr>
<th>Resource and Capital DEL:</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource DEL</td>
<td>89.328</td>
</tr>
<tr>
<td>Capital DEL</td>
<td>0.248</td>
</tr>
</tbody>
</table>

2. End Year Flexibility (EYF) Entitlement

At the start of 2007–08, UK Trade & Investment will have an accumulated End Year Flexibility (EYF)
entitlement of £8.403 million resources and £1.384m capital, subject to any further underspends that emerge
during the finalisation of the 2006–07 Resource Accounts.
3. Spending Review

The 2004 Spending Review settlement announced figures for 2005–06 to 2007–08. The figures shown below take account of the transfer per year of £0.281m to the Foreign and Commonwealth Office in respect of the World Expo in Aichi, Japan; and a baseline transfer of £0.2 to the Department of Transport for the travel costs of the Duke of York, the UK Special Representative for International Trade and Investment.

<table>
<thead>
<tr>
<th></th>
<th>£m 2005–06</th>
<th>2006–07</th>
<th>2007–08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource DEL</td>
<td>100.0</td>
<td>95.3</td>
<td>89.3</td>
</tr>
<tr>
<td>Capital DEL</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
</tr>
</tbody>
</table>

There are no new services in this Estimate compared with last year.

UK Trade & Investment
Central Finance Team
Corporate Affairs

April 2007

Letter to the Clerk from the Parliamentary Relations and Devolution Team, Foreign and Commonwealth Office

FCO ESTATE SALES AND PURCHASES

Since 2004, we have reported to the Committee on a quarterly basis details of properties sold, and (more recently) purchased. No properties have been sold or purchased in the third quarter of the Financial Year 2006–07.

Richard Cooke
Parliamentary Relations Team

23 April 2007

Further letter to the Clerk from the Parliamentary Relations and Devolution Team, Foreign and Commonwealth Office

Thank you for letter of 22 March 2007 regarding issues arising from the Winter and Spring 2006–07 Supplementary Estimates round. This reply addresses the issues raised in your letter and follows its format with replies to the questions asked immediately following the restated questions.

(1) ESTIMATES MEMORANDA

Thank you for your comments. The FCO will ensure that future versions of these documents take them into account.

(2) SPRING SUPPLEMENTARY ESTIMATES

In respect of the Spring Supplementary Estimate you asked:

(i) Additional funds for peacekeeping

Q. The Supplementary Estimate requests a large amount of additional funds for peacekeeping. Is additional funding required as a result of the FCO having to transfer £53 million to the Ministry of Defence? How much of the additional funding for peacekeeping within the FCO was planned and how much was unanticipated and as a result of unforeseen events during the year?

A. FCO co-ordinates the peacekeeping budget for HMG in liaison with HMT. The total funding for peacekeeping in 2006–07 was agreed between FCO and HMT in June based on estimated spend. The initial tranche of this funding was drawn down in the Main Estimates, with the remaining funding drawn down in the Winter and Spring Supplementary Estimates as final spend figures were confirmed. The overall budget agreed a contribution of £53 million to peacekeeping activities in the Balkans. As co-ordinator of this budget, FCO drew down this money from HMT and transferred it to MOD in the Spring Supplementary to cover costs incurred.
(ii) Income from asset recycling

Q. Table 1 in the Estimates Memorandum (increases in gross spending offset by Appropriations in Aid) shows that an extra £8.687 million (£7.6 million + £1.087 million) income was received for asset recycling. Has the FCO sold more assets than initially planned, or received extra income for some of the assets disposed of? What arrangements are there in place to accommodate staff where buildings have been sold?

A. The £8.687 million recorded in Table 1 in the Estates Memorandum was required to bring total property sales in the Main and Supplementary Estimates for 2006–07 into line with the expected outturn for the year which, with the sale of part of the compound in Bangkok for £49 million, was unusually high. The FCO did not sell more assets than initially planned although the Bangkok proceeds were higher than had been anticipated and will be fully used to fund high-priority security-related building projects. The FCO continues to write to the Committee on a quarterly basis with details of all its property sales and purchases.

Where FCO buildings have been sold staff are re-provided as necessary with accommodation which is fit for purpose and better value for money.

(iii) End-year Flexibility

Q. The FCO is carrying forward an amount of £108.867 million End-Year Flexibility (EYF). When does the FCO intend to use the EYF and what will it be used for?

A. The bulk of FCO EYF is capital (£66 million) which we expect to spend in 2007–08 on estates projects and IT that is more fit for purpose and better value for money. The remainder (£42 million) is non-cash that we need to meet the resource consequences of this increased capital spending and to deal with any contingencies that may arise owing to the particular nature of the FCO estate, such as writing-off accommodation overseas.

(iv) Transfer from DFID

Q. The FCO’s Estimates Memorandum and Written Ministerial Statement show that £16.216 million is being transferred from DFID to the FCO, mainly for Conflict Prevention Activity. However DFID’s Ministerial Written Statement refers to £19.216 million being transferred to the FCO (£5.341 million from the Africa Conflict Pool and £13.875 million from the departmental unallocated provision). Please could you provide us with an explanation for this apparent discrepancy?

A. We understand that the amount transferred in the Spring Supplementary Estimate from DFID differs by £3 million because DFID are also including a transfer for Global Conflict Prevention activity that FCO recorded in the Winter Supplementary Estimate. DFID did not take a Winter Supplementary Estimate.

(3) Winter Supplementary Estimates

(i) Transfer to Security Industry Authority

Q. Table 1 in the Estimates Memorandum includes a £7m transfer to the Security Industry Authority. What was this transfer for?

A. The transfer of £7,075,000 from the Foreign and Commonwealth Office to the SIA (Security and Intelligence Agencies) was for Narcotics and Good Governance Programmes.

(ii) Additional expenditure on biometrics

Q. The Estimates includes an additional £11 million “for biometrics”, offset by an envisaged similar increase in income from the Home Office. Why was this additional expenditure needed? By how much will the Estimates for 2007–08 and future years be increased in respect of additional biometrics expenditure?

A. The £11 million capital was provided by the Home Office as interim funding to cover the ongoing development of the UK visas Biometrics Programme. This funding was used to develop, test and deploy technical solutions for Phase 1 of the programme covering those visa posts that could accommodate biometric visa operations in house. The work was completed on time and within budget and 63 visa posts overseas now operate a biometric visa regime. The funding also enabled the programme to commence development of technical solutions for Phase 2 of the Programme allowing the enrolment of visa applicants by commercial partners.

The expected breakdown of the OPEX (Operational Expenditure) non-capitalised for future years in respect of biometrics expenditure is:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007–08</td>
<td>£10.48 million</td>
</tr>
<tr>
<td>2008–09</td>
<td>£9.24 million</td>
</tr>
<tr>
<td>2009–10</td>
<td>£9.24 million</td>
</tr>
</tbody>
</table>

The above figures are to cover staff costs, support and maintenance charges and depreciation. This expenditure will be financed by receipts and will therefore be neutral in respect of Estimates.

It should be noted that the Capitalised OPEX is funded through the capital provided by the GIB (Group Investment Board) of the Home Office. The amounts for future years will be agreed with the Home Office and transferred through a Supplementary Estimate.
(iii) Increase in Administration Cost budget

Q. The Winter Supplementary Estimates increased the administration budget by £29 million (see Written Ministerial Statement). It was reduced by £7 million in the Spring Supplementary Estimates but overall it has increased by £94 million from last year (Table 4, Spring Supplementary Estimates Memorandum). Why has the administration budget increased by so much?

A. A large contribution to the £94 million increase is £35 million, of which only £12 million is Voted, for possible impairment of the FCO estate. This amount was agreed with the Treasury to be held as Departmental Unallocated Provision until it was needed to offset impairments due to the particular requirements of the FCO estate, for example for additional security, that are unlikely to be recouped by sales of assets into an open market. However, from Main Estimates 2007–08, Treasury will reclassify most impairments into Annually Managed Expenditure (AME) and therefore out of Administration Budgets. This will lead to a fall in Administration Budgets of £50 million in 2007–08.

The bulk of the remainder reflects a planned under-spend against budgets in 2005–06 in order to build up EYF and its subsequent take-up. At the time of the 2006–07 Spring Supplementary we were expecting to spend to the budget agreed in the last spending review plus £14.5 million of EYF that was taken-up in the Winter Supplementary to pay for the FCO restructuring costs. However, the end year position has now become clearer and we now expect to under-spend against our administration budget.

Richard Cooke
Parliamentary Relations Team

Main Estimates memorandum from Parliamentary Relations and Devolution Team, Foreign and Commonwealth Office

INTRODUCTION

1. The Foreign and Commonwealth Office Estimate has two Requests for Resources (RfRs):

   — **RfR 1:** Promoting internationally the interests of the UK and contributing to a strong world community, that covers:
     - Section A: Expenditure by the Foreign and Commonwealth Office (FCO), including UK Trade and Investment, on its administration, Wilton Park Executive Agency, hospitality and facilities; international organisations; grants in aid to bodies supporting FCO objectives; scholarships, information services and sponsored visits; special payments and assistance programmes to support foreign policy objectives including human rights, good governance, international security and the fight against the illicit drug trade; and international organisations; and on associated non-cash items;
     - Sections B and C: Resource grant in aid to the BBC World Service for broadcasting and to the British Council, respectively;
     - Sections D and E: Capital grant in aid to the BBC World Service for broadcasting and to the British Council, respectively;
     - Section F: AME Provision for impairments; and
     - Section G: The refund of certain taxes and duties paid by certain Foreign and Commonwealth governments.

   — **RfR 2:** Conflict prevention, that covers:
     - Section A: Expenditure by the Foreign and Commonwealth Office on conflict prevention, early warning, crisis management, conflict resolution/peacemaking in Sub-Saharan Africa;
     - Section B: Expenditure by the Foreign and Commonwealth Office on conflict prevention, early warning, crisis management, conflict resolution/peacemaking globally;
     - Section C: Peacekeeping and peace building activity and on associated strengthening of international and regional systems and capacity in Sub-Saharan Africa; and
     - Section D: Peacekeeping and peace building activity and on associated strengthening of international and regional systems and capacity globally.

RfR1 MAIN ESTIMATES CHANGES

Change in Budgeting Framework for Impairments

2. The Main Estimate now includes £50.000 million non-cash resource Annually Managed Expenditure (AME) provision for possible impairments to the FCO Estate arising from the need to make investment in assets, for example in respect of security, that cannot be recouped in commercial property markets and for which the costs are not hence reflected in valuations (section F). This impairments provision had been scored
in Resource DEL but from Main Estimates 2007–08 has been reclassified by the Treasury as AME. This reclassification applies across all government departments and across all years of the Public Expenditure cycle (2001–02 to 2007–08).

Transfer to DFID in respect of Gibraltar Pensions

3. The FCO transferred £3.750 million Resource DEL and £0.250 million Capital (grants) DEL to the DFID at Main Estimates 2007–08 from section A, for pension payments to former Spanish workers in Gibraltar. These payments form part of the 2006 Cordoba agreement between Spain, Gibraltar and the UK and remove a substantial liability, with respect to these pensioners, from the UK tax-payer. DFID will continue to administer the arrangements for payments under the authority of the European Communities Act 1972.

RfR2 MAIN ESTIMATES CHANGES

4. Activity and expenditure under the Conflict Prevention Pools are undertaken jointly by the FCO, MOD and the Department for International Development (DFID). The FCO manages the Peacekeeping and Global programme expenditure elements of the pool and has £74 million for the Global Conflict Prevention Pool in its Resource DEL baseline which is added to by other pool partners through transfers between Departments in Main and Supplementary Estimates. The effect of the transfers between pool partners to the 2007–08 FCO Main Estimates is a net increase of £180.750 million. This is made up of an increase of £200 million for peacekeeping (Sections C and D), transfers totalling £23.760 million to MOD and DFID for Global programme expenditure (Section B) and a transfer of £4.510 million from DFID for Africa programme expenditure (Section A).

5. Since there is uncertainty over these costs due to changes in demand for peace support operations, the Treasury has agreed that an initial amount of £200 million should be applied for in the Main Estimate. The Treasury expects that further provision will be sought in the Supplementary Estimates, by which time more accurate information will be available. Last year (2006–07) approval was given for a total amount of £357 million to be sought. The Chief Secretary to the Treasury has not yet agreed the total amount that Parliamentary approval should be sought for peacekeeping expenditure in 2007–08.

RECONCILIATION OF 2007–08 MAIN ESTIMATES TO SR2004 OUTCOME

6. The 2004 Spending Review settlement showed the FCO Resource Budget for 2007–08 as £1,723.0 million and the capital budget as £117.003 million. Since July 2004 there have been a number of changes to the FCO’s Departmental Expenditure Limits (DELs) and to the Treasury’s budgeting framework which bring the current Resource DEL figure for 2007–08 to £1,809.204 million and the Capital DEL to £147.753 million. The tables below show the main changes and reconcile the DELs with the Main Estimates figures.

Table 1 Resource

| Resource DEL Baseline from SR 2004 (£ million) | 1,723.000 |
| Changes to Resource DEL (Chronological Order) | |
| Changes effected in 2005–06 | |
| Net effect of reclassifying British Council as Public Corporation | –2.340 |
| Transfer from DFID in respect of Small Grants Scheme | 7.985 |
| Changes effected in 2006–07 | |
| BBC World Service Capital Grant moved to Capital DEL | –31.000 |
| British Council Capital Grant moved to Capital DEL | –7.800 |
| Transfer of BBC World Service Broadcasting Service share of BBC Monitoring | –6.100 |
| Subscription to the Cabinet Office | |
| Transfer of FCO share of BBC Monitoring Subscription to the Cabinet Office | –3.100 |
| Transfer from TSOL | 0.033 |
| Transfer from Home Office for police pensions | 1.526 |
| Changes effected in 2007–08 | |
| Take-up of Peacekeeping Funds from the Global Conflict Pool | 200.000 |
| Transfers to DFID for Gibraltar Pensions | –3.750 |
| Transfer to DFID for Global Conflict Prevention | –8.520 |
| Transfer from DFID for Africa Conflict Prevention | 4.510 |
| Transfers to MoD for Peacekeeping | –15.240 |
| Transfer of impairment provision to Annually Managed Expenditure (AME) | –50.000 |
| Resource DEL at 1 April 2007 | 1,809.204 |

Difference Between Resource DEL and Main Estimate

| Transfer of impairment provision to Annually Managed Expenditure (AME) | 50.000 |
| Remove Common Foreign & Security Policy (non-voted expenditure in DEL) | –5.862 |
Add Reimbursement of Taxes (voted expenditure outside of DEL) 18.000
Remove Departmental Unallocated Provision (not voted) (Table 5) –22.000
Add BBCWS Capital Grant from Capital DEL (Resource in Estimates) 31.000
Add back British Council Capital Grant from Capital DEL (Resource in Estimates) 7.550
2007–08 Main Estimate Resource Total 1,887.892

**Table 2 Capital**

<table>
<thead>
<tr>
<th>Year</th>
<th>2007–08 Main Estimate Resource Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,887.892</td>
</tr>
</tbody>
</table>

**Capital DEL Baseline from SR 2004 (£ million)**

117.003

**Changes to Capital DEL**

- Effect of reclassifying British Council as Public Corporation after SR2004 –7.550
- BBC World Service Capital Grant moved to Capital DEL (Budgeting framework change) 31.000
- British Council Capital Grant moved to Capital DEL (Budgeting framework change) 7.550
- Transfer to DFID for Gibraltar Pensions –0.25

**Capital DEL at 1 April 2007**

147.753

**Difference Between Capital DEL and Main Estimate**

- Departmental Unallocated Provision for Capital (not voted) –1.000
- Remove BBCWS Capital Grant from Capital DEL (Resource in Estimates) –31.000
- Remove British Council Capital Grant from Capital DEL (Resource in Estimates) –7.550

**2007–08 Main Estimate Capital Net Total**

108.203

---

**Departmental Expenditure Limit (DEL) and Administration Budgets**

7. The tables below show a comparison of the 2007–08 DEL (Table 3 and 3a) and Administration (Table 4) budgets with the 2002–03, 2003–04, 2004–05 and 2005–06 outturn, the forecast for 2006–07 and plans for 2007–08.

8. The breakdown between Resource and Capital differs from the table in the 2006–07 Spring Supplementary memorandum because the figures have been restated to reflect the changes to impairment provision explained at paragraph 2 above.

9. Table 3a shows outturn on the definition of DEL used in the year concerned in order to be consistent with published Departmental Expenditure Limits. They do not therefore correspond to the outturns in Table 3 that are on a consistent basis year on year, including reclassification by Treasury of expenditure across all years of the Public Expenditure cycle.

**Table 3 DEL Comparison**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource DEL</td>
<td>1,475,575</td>
<td>1,508,860</td>
<td>1,707,753</td>
<td>1,874,336</td>
<td>1,929,565</td>
<td>1,809,204</td>
</tr>
<tr>
<td>Capital DEL</td>
<td>101,971</td>
<td>86,621</td>
<td>116,626</td>
<td>131,792</td>
<td>139,190</td>
<td>147,753</td>
</tr>
<tr>
<td>Less Depreciation</td>
<td>67,072</td>
<td>64,010</td>
<td>67,106</td>
<td>108,675</td>
<td>84,124</td>
<td>116,624</td>
</tr>
<tr>
<td>Total</td>
<td>1,510,474</td>
<td>1,531,471</td>
<td>1,757,273</td>
<td>1,897,453</td>
<td>1,984,632</td>
<td>1,840,333</td>
</tr>
</tbody>
</table>

1 Figures for all years reflect the reclassification of impairment expenditure from DEL into AME.

2 Resource DEL figures for 2007–08 are understated because they do not include all of the conflict prevention expenditure, which will be transferred at the time of the 2007–08 Supplementary Estimates. In addition 2005–06 included expenditure on a number of one-off items (Tsunami expenditure, Efficiency Challenge Fund and G8 and EU presidencies).

3 Depreciation, which forms part of Resource DEL, is excluded from the total DEL, since Capital DEL includes the purchase cost of capital assets. To add on the depreciation of those assets would double count their cost.

**Table 3a Previous years’ expenditure against Departmental Expenditure Limits £ million**

<table>
<thead>
<tr>
<th>Year</th>
<th>Voted</th>
<th>Non-voted</th>
<th>Total DEL</th>
<th>Outturn 1</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Resource</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004–05</td>
<td>1,607,192</td>
<td>209,690</td>
<td>1,816,882</td>
<td>1,736,188</td>
<td>80,694</td>
</tr>
<tr>
<td>2005–06</td>
<td>1,999,224</td>
<td>6,713</td>
<td>2,005,937</td>
<td>1,916,190</td>
<td>89,747</td>
</tr>
<tr>
<td>2006–07</td>
<td>1,924,913</td>
<td>44,213</td>
<td>1,969,126</td>
<td>1,941,565</td>
<td>27,561</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004–05</td>
<td>101,533</td>
<td>1,000</td>
<td>102,533</td>
<td>71,236</td>
<td>31,297</td>
</tr>
<tr>
<td>2005–06</td>
<td>135,697</td>
<td>1,000</td>
<td>136,697</td>
<td>92,959</td>
<td>43,738</td>
</tr>
<tr>
<td>2006–07</td>
<td>157,779</td>
<td>1,000</td>
<td>158,779</td>
<td>139,191</td>
<td>19,588</td>
</tr>
</tbody>
</table>

1 Outturn is based on the definition of DEL in the relevant year and so is not consistent with the outturn in Table 3 that includes subsequent classification changes effective across all years.
Table 4 Administration Budget Comparison £ million

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration budget</td>
<td>703.482</td>
<td>706.187</td>
<td>745.541</td>
<td>814.689</td>
<td>839.705</td>
<td>870.046</td>
</tr>
</tbody>
</table>

1 Figures for all years reflect the reclassification of impairment expenditure from DEL into AME.

Departmental Unallocated Provision (DUP) 2007–08

10. At the time of the Main Estimate, the FCO has £22 million of unallocated resource provision and £1 million unallocated capital provision which is broken down as follows:

Table 5 2007–08 Departmental Unallocated Provision

<table>
<thead>
<tr>
<th>Resource</th>
<th>Resource</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>R/R1 DUP to met unforeseen requirements arising in-year</td>
<td>£17.0m</td>
<td>£1.0m</td>
</tr>
<tr>
<td>R/R2 Global Conflict Prevention Pool</td>
<td>£5.0m</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>£22.0m</td>
<td>£1.0m</td>
</tr>
</tbody>
</table>

End Year Flexibility (EYF)

11. The Public Expenditure Outturn White Paper published in July 2006 showed a total figure of £136.902 million for carry forward of 2005–06 DEL underspending into 2006–07 under the DEL EYF scheme. Table 5 below shows how this figure was compiled.

12. £18.755 million of this EYF was drawn down in the 2006–07 Supplementary Estimates, and we made a reduction of £9.280 million to adjust for final 2005–06 outturn when the 2006–07 EYF was calculated. This left the FCO with £108.676 million accumulated EYF for R/R1. This is made up of £22.306 million admin and £20.000 million programme and £66.370 million capital.

13. For 2006–07 we are currently forecasting only a small underspend against the Resource budget and an underspend of £19 million against the capital budget. The FCO did not draw down its R/R1 DUP of £1 million capital in 2006–07 and anticipates rolling this forward under the end year flexibility scheme as well as the £23 million underspend. These figures are reflected in the table below. EYF availability from 2006–07 will be confirmed in the Public Expenditure Outturn White Paper to be published in July.

14. The bulk of FCO EYF is capital (£66 million) which we expect to spend in 2007–08 on estates projects and IT that is more fit for purpose and better value for money. The remainder (£42 million) is non-cash that we need to meet the resource consequences of this increased capital spending and to deal with any contingencies that may arise owing to the particular nature of the FCO estate, such as writing-off accommodation overseas.

Table 5 Accumulation of EYF £ million

<table>
<thead>
<tr>
<th>R/R1 Administration</th>
<th>Programme</th>
<th>R/R2 Capital</th>
<th>Programme</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustment for 2004–05 final outturn</td>
<td>–20.602</td>
<td>0.000</td>
<td>2.866</td>
<td>–19.188</td>
</tr>
<tr>
<td>Forecast voted underspend 2006–07</td>
<td>4.000</td>
<td>0.000</td>
<td>19.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Ringfenced Impairments DUP 2006–07 not used</td>
<td>23.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>FCO Core DUP 2005–06 not used</td>
<td>14.500</td>
<td>0.000</td>
<td>1.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Total FCO EYF Entitlement in Public Expenditure Outturn July 2006 (table 5–Cm 6883)</td>
<td>42.886</td>
<td>14.643</td>
<td>65.035</td>
<td>14.338</td>
</tr>
<tr>
<td>EYF drawn down in Winter Supplementary</td>
<td>14.755</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>EYF drawn down in Spring Supplementary</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>4.000</td>
</tr>
<tr>
<td>of which: Voted underspend</td>
<td>14.755</td>
<td>0.000</td>
<td>0.000</td>
<td>4.000</td>
</tr>
<tr>
<td>Ringfenced Impairments SUP 2005–06 not used</td>
<td>23.000</td>
<td>0.000</td>
<td>0.000</td>
<td>23.000</td>
</tr>
<tr>
<td>FCO Core DUP 2005–06 not used</td>
<td>5.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>BALANCE OF ACCUMULATED END YEAR FLEXIBILITY</td>
<td>22.306</td>
<td>20.000</td>
<td>66.370</td>
<td>0.191</td>
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</table>
**PUBLIC SERVICE AGREEMENTS**

15. Full details of the FCO’s Public Service Agreements for 2007–08 can be found in the 2007 Departmental Report (Cm 7099).

*Keith Luck*
Finance Director General
26 April 2007

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**Letter to the Chairman from the Secretary of State, Foreign and Commonwealth Office**

You wrote to me on 8 March about press reports about a possible transfer of Ministerial responsibility for SIS and GCHQ. I am sorry that you have not had an earlier reply.

I can assure you that there is no question of such a transfer being considered: nor has it been.

*Margaret Beckett*
27 April 2007

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**Letter to the Chairman from Sir Peter Ricketts, KCMG, Permanent Under-Secretary of State, Foreign and Commonwealth Office**

I enclose copies for the Committee of the 2006–07 FCO Departmental Report, which will be published at 12.00 noon on 9 May.

The structure of the report is based on the FCO’s International Strategic Priorities. I hope you will find features such as “Highlights of the Year”, “Lessons Learned”, a foldout of “Facts and Figures” about the FCO’s work and the copy of the Leadership Conference 2007 film useful. This year, for the first time, an html version of the main text of the report is also available on the FCO website (www.fco.gov.uk/report2007), which we hope will improve accessibility. In a similar vein, we are offering to produce the Departmental Report in alternative formats (for example, audio, large print and Braille) for anyone who requests them.

As recommended in your report on the 2005/06 Departmental Report, we have re-introduced some examples of “Cost Benefit Analysis”.

I look forward to discussing the report with you when we meet on 26 June.

*Peter Ricketts*
8 May 2007

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**Letter to the Secretary of State, Foreign and Commonwealth Office from the Chairman of the Committee**

I am writing with regard to Sir Peter Ricketts’ letter of 16 April 2007, on FCO management issues.

My colleagues on the Committee and I are concerned that you have rescinded the decision to send the Committee a quarterly letter outlining the management issues at the top of the FCO’s agenda. You will remember that this quarterly report was offered to the Committee by the Permanent Under-Secretary’s predecessor both in an evidence session on 28 June 2006 and in writing on 18 July 2006. Your withdrawal of this offer appears to be a step away from the constructive relations that have been developed between the FCO and the Committee.

Sir Peter’s letter states that it is your firm view that “it must be for Ministers and the Board to manage the FCO”. We agree entirely. Our role is to scrutinise the management of the FCO, a function which clearly falls within our role as described in the Standing Orders of the House. We will only be able to carry out this scrutiny function effectively if we are kept regularly informed about the main management issues facing Ministers and the Board. In his oral evidence to us in June 2006, Sir Michael suggested to us that it would be possible for the Committee to see management papers, as well as receiving a quarterly management report:

> “in particular you should be able to see key management papers which are of interest to you because of your role in overseeing the management of the Office.”

If you believe that the Committee should not be sent management papers, then a quarterly management report summarizing the main issues seems to be an acceptable compromise.

Sir Peter’s letter to us states that you do “not believe that a quarterly management letter would add “materially” to the information already being sent to the Committee and that it would not therefore “add in a practical way to the Committee’s scrutiny of the FCO”. This is contrary to the assessment of the previous
Under-Secretary of State who told us that he believed “arrangements of this kind might enable the Committee to get a more rounded and consistent view of some of the management challenges” that the FCO face. It is our strong view that the Committee itself is best able to decide what information it requires to keep itself informed on these matters.

I look forward to receiving your response.

Mike Gapes MP
9 May 2007

Letter to the Chairman from Sir Peter Ricketts, KCMG, the Permanent Under-Secretary of State, Foreign and Commonwealth Office

I wrote to you on 28 March about changes in the location of our regional Embassy offices in Iraq. I can now offer the Committee some details about the financial aspects of our withdrawal from our previous accommodation in Basra.

The construction project to provide offices and associated accommodation and facilities for the British Embassy Office Basra (BEOB) at the Palace Compound started in May 2004 and was completed in March 2006. Total expenditure on converting the existing buildings into offices and providing 96 residential cabins was £24 million.

Although the FCO was not able to acquire a formal legal interest in the site there was a reasonable assumption at the time that we would hold the assets long enough for it to be appropriate, on the basis of standard accounting definitions, to include £17 million of asset value on the balance sheet. However, in view of the volatile nature of the security situation in Iraq we anticipated that the useful economic life of the assets might well be shorter than is normal, and so we considered it prudent to depreciate their value over the limited period of three years from 1 April 2005. The National Audit Office accepted this approach.

By the end of March 2007 two thirds of the original £17 million value had been depreciated leaving some £5.7 million on the Balance Sheet to be depreciated over 2007–08. As you know, a dramatic increase in mortar and rocket fire into the compound obliged us to move the Embassy Office from the Basra Palace to the Basra Air Station so the greater part of the £5.7 million balance will now be accounted for as accelerated depreciation in 2006–07 (with the remaining £708,000 being accounted for in 2007–08).

Depreciation of residential and non-residential Buildings is included in the Fixed Assets Note to the Resource Accounts but under accounting policies there will not be separate disclosure of the accelerated depreciation of the BEOB property. But I thought it important to register with you this highly unusual pattern of depreciation.

The value of non-property assets which could not be removed from the Basra Palace is not significant.

UK forces under the command of Multi-National Division (South East) continue to occupy a separate part of the larger Basra Palace site. These forces are due to leave in August, at which point all direct British interest in the Palace complex will cease. However, we have expressed to the Government of Iraq our interest in the possibility of re-opening a diplomatic mission in Basra City in the future, once conditions permit, either at the Palace or on another suitable site.

I am copying this letter to the Chairman of the Public Accounts Committee.

Peter Ricketts
17 May 2007

Letter to the Chairman of the Committee from the Secretary of State, Foreign and Commonwealth Affairs

Thank you for your letter of 9 May in response to Sir Peter Ricketts’ letter of 16 April.

Sir Peter’s letter, which reflects my views, made clear that the FCO accepts the Committee’s scrutiny role and the Office does share a great deal of information with the Committee. In addition, officials and Ministers have made themselves available to the Committee for both formal evidence sessions and informal briefings. In order to enable you to carry out your scrutiny role, we will continue to keep you informed about management issues including, when appropriate, documents relating to those issues. It must, however, be for the FCO to decide which papers or information it is appropriate to share with the Committee. I note that the FCO’s openness with its departmental select committee compares very favourably with the stance taken by other Whitehall departments.

I have reflected on the FCO’s position in relation to a quarterly management letter and maintain the view expressed in Sir Peter’s letter that such an approach would not add materially to the Committee’s scrutiny of the Office.
I attach high importance to maintaining the constructive relations between the FCO and FAC that your letter refers to. I hope that the Committee found the recent visit to the Consular Crisis Centre useful. It is unfortunate that members of the committee are unable to find time to visit Hanslope Park before the recess. I hope that mutually convenient times for your visits to the Office can be found in the future to enable as many members of the committee as possible to participate.

Margaret Beckett
22 May 2007

Letter to the Parliamentary Relations and Devolution Team from the Second Clerk of the Committee

I attach a list of questions related to the FCO’s 2006–07 Departmental Report and 2007–08 Main Estimate. To try and reduce the burden on staff drafting answers, I have divided the questions between those that need to be answered in time to feed into the oral evidence session with Sir Peter Ricketts and those that can have a later reply. I would be grateful to receive answers to those questions that are starred by Wednesday 13 June and to the unstarring questions by Friday 29 June.

As discussed in my meeting with FCO officials, the Committee also wishes to receive:

- corporate framework documentation which shows the accountability arrangements between FCO Services and the FCO;
- the OGC’s Report on the FCOs efficiency programme;
- the Q4 efficiency figures for 2006–07 and a reconciliation between these figures and the following statement in the Departmental Report: “projects where there will be increased efficiency savings include further reductions in the UK pay bill (£5 million), further procurement savings in the UK and overseas (£2 million) and savings totaling £2.9 million from local efficiencies” (p 127);
- a reconciliation between headcount reductions in the efficiency programme and staff numbers in Table 9, page 134. Please note that the Treasury guidance states that “DRs should also contain information on the relationship between staff numbers and the department’s workforce reduction taking place under the Efficiency Programme”; and
- a list of Public Accounts Committee Recommendations (if there are any).

I would also be grateful if the following link to the Scrutiny Unit’s Review of Departmental Reports, which includes examples of best practice across Whitehall, could be passed on to the relevant FCO Officials:

http://www.parliament.uk/about—commons—house—of—commons—scrutiny—unit/house—of—commons—scrutiny—unit—publications.cfm

Gosia McBride
Second Clerk of the Committee
24 May 2007

FCO QUESTIONS—DEPARTMENTAL REPORT 2006–07

PSA targets

1. *Could you provide an account of the main ways in which the PSAs to be announced in the 2007 Comprehensive Spending Review will differ from the PSAs in the 2004 Spending Review?
2. *How have you consulted stakeholders in formulating the new PSA targets and business plans?
3. *There are currently no PSA targets for the following strategic priorities: reducing the harm to the UK from international crime, including drug trafficking, people smuggling and money laundering; achieving climate security by promoting a faster transition to a sustainable, low-carbon global economy and ensuring the security and good governance of the UK’s Overseas Territories (Departmental Report 2006—07, page 15). Will all the strategic priorities be covered by the new PSA targets to be set in the 2007 Comprehensive Spending Review?
4. *You informed us last year that the next review of the FCO strategy is due in 2008 and any significant changes could be reflected in the new PSAs (Foreign Affairs Committee Report on FCO Annual Report 2005—06, Ev 6). How are you going to ensure that the new PSA targets agreed in 2007 will reflect any major changes that will be made to the strategy in 2008?
5. *The evaluation of progress made against some PSA targets appear to be based on an evaluation of both inputs and outputs or outcomes. For instance the PSA 1 target, which relates to the rolling-back of weapons of mass destruction was assessed as “on course” because although the FCO increased inputs—“the FCO has consolidated progress and continued to expand the depth of counter-proliferation work”, outcomes have been poor—North Korea carried out a partially successful nuclear test (p 150). Will the new PSAs more clearly separate out targets that relate to inputs from targets that relate to outputs or outcomes?
6. In the Autumn Performance Report, you reported the following against the SR 2002 PSA 4C: “the FCO continues to dedicate resources for the development and implementation of an effective toolkit for conflict and risk analysis, combining quantitative and qualitative analysis”. When will this toolkit be completed? Are you intending to use this toolkit to assess performance for the PSA relating to conflict prevention in the years covered by the 2007 Comprehensive Spending Review, or will you continue to use a narrative explanation to measure performance against the target, as you have done for the years, 2006—08?

7. What evidence is there that the following indicators are on course?

### Target indicator Question

<table>
<thead>
<tr>
<th>Target indicator</th>
<th>Question</th>
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<tbody>
<tr>
<td>SR04 PSA 3(A9)</td>
<td>By end 2007–08: A fully implemented comprehensive peace agreement between the Government of Sudan and the Sudan People’s Liberation Movement (SPLM), progress towards a stable and democratic government giving an assessment of “amber—on course”. In the Autumn Performance Reports, the MoD indicated that it was “red” and DfID indicated that the Darfur region was “red”, whereas the remaining region was “amber”. What evidence is there to support the change in the FCO’s assessment of this indicator from “red” at the time of the 2005–06 Departmental Report to “amber” in the Autumn Performance Report and 2006–07 Departmental Report?</td>
</tr>
<tr>
<td>SR04 PSA 4(H)</td>
<td>Better integration of new EU members in European security, economic, social and JHA systems as a result of UK interventions. What evidence is there that “new PSA 4 members are playing an increasingly active role across the board”, as stated in the 2006–07 Departmental Report, and that this is as a result of UK interventions (p 158). What evidence is there that FCO funded projects have improved NGO capacity in Saudi Arabia, increased the profile of civil society in Jordan and improved the service offered by police, as stated in the Departmental Report (p 163)?</td>
</tr>
<tr>
<td>SR04 PSA 7(A4)</td>
<td>A strengthened civil society as a consequence of the development of indigenous non-governmental organisations (NGOs), enhanced legislative process, strengthened public administration/civil service. What data is there to suggest that there has been an increase in the presentation of women in national and local government as well as in civil society and international organisations (p 163)?</td>
</tr>
<tr>
<td>SR04 PSA 7(A5)</td>
<td>An increase in the presentation of women in national and local government as well as in civil society and international organisation.</td>
</tr>
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</table>

8. SRA 2004 PSA 3 includes the security situation on nine regions/countries, but excludes India/Pakistan and Sri Lanka which were assessed in the similar PSA 2 of SR 2002. Overall, the SRA 2004 indicator is assessed as “amber” (on course), despite a “red” for one area. What would the FCO’s assessment have been, had the situation in India/Pakistan and Sri Lanka still have been included in the assessment of the PSA indicator, especially given the recent escalation of conflict in Sri Lanka and present difficulties in Pakistan?

### Capability Review

9. The Capability Review classifies the FCO’s “ability to plan, resource and prioritise” as an urgent development area and states that “the FCO has not articulated clearly enough either for itself or its partners its distinctive contribution to the Government’s objectives” (pp 16, 18). What are you doing to remedy this?

10. “The Capability Review finds that “Without a clear business model that consistently applies best practice across the network, the Department will not be well placed to deliver on its objectives and the International Priorities ... the Department does not have a systematic approach for measuring the impact of individual Posts and policies, although some Posts have developed their own methods for doing so. Heads of mission do not have full control of the resources used in Post, which reduces accountability for resources and performance”. (pp 22—23)

   (i) What steps are you taking to develop a clear business model that would enable the FCO to apply best practice across the network of different FCO posts?

   (ii) Are you intending to adopt a systematic approach for measuring the impact of different Posts and policies?
(iii) Are you reviewing whether Heads of Mission should have more control of the resources used in Post to increase the accountability for resources and performance?

11. The Capability Review states, “resources are slow to get to some Posts located in countries that are a priority for UK foreign policy” (p 22). What are you doing to address this?

12. The Capability Review states that the change programmes “include a major programme to introduce regional shared service centres which will improve the quality of administrative support at reduced cost” (p 7). The 2006-07 Departmental Report reports that the FCO will work with other government departments such as DfID, “will concentrate on finance, procurement and some HR processes” and “outsource some functions to the private sector” (p 117).

(i) Is it the FCO’s intention for services to be shared between a number of foreign postings in the same region as well as between FCO and DfID?

(ii) Does the programme to share services with DfID mean you may be likely to share Posts with DfID in the future?

(iii) What is the time-scale for implementation of shared services?

(iv) What cost/benefit analysis has been done with regard to the feasibility of shared services and outsourcing of functions?

(v) Are you intending to outsource functions to the private sector in foreign postings as well as in the UK? Are you considering off-shoring any services which are currently carried out in the UK?

13. The Capability Review reports that a director general for service delivery and business change and a qualified and experienced change director will be appointed (p 7). Have they been appointed yet? If not, when will they be appointed?

14. Which of the following opportunities identified for increasing efficiency in the Colhnson Grant Report, Efficiency, effectiveness and the control of costs in the Foreign and Commonwealth Office have you adequately capitalised on and in which areas is significantly more progress still required?

— Streamlining the Finance structure and processes and integrating the Resource Management Units.
— Streamlining the Human Resources Directorate’s structure and processes.
— Rationalising managerial layers and spans.
— Streamlining the Department of Strategy and Information.
— Applying best or better practice to overseas Posts.
— Substituting locally engaged people for the UK-based at Post.
— Improving routine processes.
— Reducing the number of people in the Corporate Pool 1.4 40.
— Rationalising the number of people engaged in change projects 0.4 10.
— Streamlining the management of the internal market 0.4 10.
— Reducing ancillary costs.
— Reducing expenditure on consumables.
— Reducing the cost of overseas accommodation.
— Reducing the cost of travel and baggage.

FCO SERVICES

15. *FCO Services became an Executive Agency on 1 April 2006, with the aim of becoming a trading fund on April 2008 (Departmental Report, p 122).

(i) What evidence is there that the transition of FCO Services to Executive Agency status has increased efficiency, and also that its becoming a trading fund in April 2008 will increase efficiency still further?

(ii) What safeguards are in place to ensure that any pressure on FCO Services to increase income levels, as a result of it becoming a trading fund, will not lead to incentives for it to divert resources away from essential or core FCO services to more profitable services?

(iii) What preparation work does FCO Services have to do in order to become a trading fund on April 2008?

16. *What are your expected savings from outsourcing the Foreign and Commonwealth Office’s language teaching operation?

17. Can you provide the Committee with a copy of your new language teaching business model?

18. In the last three years (i) how many FCO staff were trained in a foreign language? (ii) in how many languages was training available and (iii) what proportion of training was carried out overseas?
19. In each of the first three years of the new language teaching business model, (i) how many staff do you expect to be trained in a foreign language, (ii) in how many languages will training be available and (iii) what proportion of training will be carried out overseas?

**Conflict Prevention Pools**

20. Please could you provide a breakdown of the budgets in the Conflict Prevention Pools, identifying for each significant budget:

- which department (FCO, MoD or DFID) has the lead in managing the pool and is responsible for formulating the budget and negotiating the financial provision with the Treasury;
- the proportion of funding which is normally sought for in the Main Estimates and the supplementaries; and
- how the different departments coordinate with each other in the delivery of the projects.

21. What amount of the provision outside RFR 2 in the Main Estimates could be identified as expenditure which is directed at achieving conflict prevention?

22. *Please could you give an account of what you perceive to be the benefits to date of the operation of the Conflict Prevention Pools system. Do you expect improvements to be made to the working arrangements of the Conflict Prevention Pool in the period covered by the forthcoming Comprehensive Spending Review?*

23. *In 2006—07, FCO is estimated to have spent £344 million on conflict prevention (Table 5, p 130), of which £137 million was spent via the Conflict Prevention Pools system (p 46). Are you intending to change the proportion of the FCO conflict prevention budget spent via Conflict Prevention Pools system pool system significantly in the forthcoming Comprehensive Spending Review?*

**UK Trade and Investment**

24. The Departmental Report 2007 on UK Trade and Investment states that the “UKTI has identified a priority of 16 high growth markets, based on an assessment of the relative importance of different markets for UK business and the value of committing further resources in these markets. They are Brazil, China, India, Indonesia, Malaysia, Mexico, Qatar, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Thailand, Turkey, United Arab Emirates and Vietnam,” (p 17)

   (i) Will the UKTI have a target in the forthcoming Comprehensive Spending Review that measures the success of UK business in selling exports to the 16 high growth markets, it has identified?

   (ii) The Report suggests that the initiative will focus on companies which will have export experience already, but not in these particular “high growth” markets, On what basis has the decision been made to focus on these companies, rather than companies which are already selling to these markets but have the potential to increase their exports still further, or companies which are currently not exporting at all but produce goods which are in demand in these high growth markets?

**Efficiency Savings**

25. *How are you intending to achieve £31.5 million efficiency gains under the pay bill reduction category in 2007-08 (Table 1, p 126)?*

26. *The ICT efficiency savings in 2006–07 have been reduced from £16.4 million in the 2005–06 Report (Table 5, p 80) to around £1.1 million in the 2006—07 Report (Table 1, p 126) because of delays in rolling out the Future Firecrest programme (p 127). The Departmental Report (p 127) states that “we now expect to achieve the efficiencies out-side the timeframe of the SR04 programme” and that “we anticipate that the six new projects that we have introduced more than compensate for this shortfall.”

   (i) Why has there been slippage in the Future Firecrest programme and when do you expect the Department to realise the efficiencies of this particular programme?

   (ii) Please could you give details of the six new projects that you are expecting to more than compensate for the shortfall in efficiency gains caused by the delay in rolling out the Future Firecrest programme?

27. *Could you explain the changes in the following categories within the 2006-07 efficiency savings from their projections as set out in the 2005–06 Departmental Report?*

<table>
<thead>
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<tbody>
<tr>
<td>Estates projects</td>
<td>4.2</td>
<td>5.3</td>
</tr>
<tr>
<td>Paybill reduction</td>
<td>18.0</td>
<td>8.2</td>
</tr>
<tr>
<td>Procurement efficiencies</td>
<td>6.1</td>
<td>8.2</td>
</tr>
</tbody>
</table>
28. The Departmental Report states that “service quality has not suffered as a result of the efficiencies” (p 127). What measures are you undertaking to monitor service quality and ensure that it does not fall as a result of projects which are intended to improve efficiency?

29. The Departmental Report 2006—07 states that you have relocated 123 positions and that you have identified a future 171 position for relocation by April 2010. As the target is to relocate 450 posts by 2010–11, you will need to identify a further 156.

(i) When will you finalise which posts you are going to relocate?

(ii) What evidence have you got that relocating posts has not had any adverse effect on staff morale?

30. The NAO report on efficiencies gives a “green rating” to the measurement of efficiencies in the efficiency savings project in the BBC World Service. However, it gives a “red rating” to the measurement of efficiencies in the project relating to the overseas network of the FCO staff engaged in the UK Trade and Investment work, because there was uncertainty whether efficiency gains were being double counted between the ECO and the UKTI (NAO, The Efficiency Review: A Second Review of Progress, p 50). What measures are you taking to ensure that there is no double counting of efficiency gains between UKTI and the FCO?

CORE TABLES

31. *Capital spending in 2006–07 is projected to be £139 million in the 2006–07 Departmental Report (Table 6, p 131), about 8% less than the budget of £150 million set out in the 2005–06 Departmental Report (Table 10, p 85) What are the reasons for the under implementation of the capital budget?

32. Administrative income in 2006–07 is estimated to be £128 million in the 2006–07 Departmental Report (Table 8, p 133), 27% higher than was planned in the 2005–06 Departmental Report, where it was set at £101 million (Table 12, p 87). Why has administrative income been so much higher than expected in 2006–07?

33. Why have staff numbers for 2005—06 changed from 6,166 in the 2005–06 Departmental Report (Table 13, p 88) to 6,233 in the 2006—07 Departmental Report (Table 9, p 134)?

34. The estimated income for visa and other services provided at consular services is set to increase by 10% from £254 million in 2006–07 (DR 2005—06, Table 15 p 91) to £279 million in 2007–08 (DR 2006—07, Table 11, p 137). What proportion of the increase is due to an increase in visa fees and what proportion is due to an increase in the forecast demand for services?

35. *What do you estimate to be the cost resulting from the security lapse in the Visa Facilitation Service’s website? Can you break this estimate down, including into possible compensation payments and the cost of setting up replacement systems both currently and in the future? When did the FCO become aware of the breach in security?

36. In the 2005–06 Departmental Report the following projects were listed as long term capital projects: Mumbai Office with an estimated completion date of 2009 and the Ljubljana Residence with an estimated completion date of 2008 (Table 16, p 93). Why are they not listed in the 2006–07 Departmental Report (Table 12, p 139)?

37. Expenditure on consultants increased by 46% from £24.07 million in 2004–05 (DR 2005–06, Table 25, p 106) to £35.4 million in 2005–06 (DR 2006–07, Table 21, p146). Why has expenditure on IT and estates projects consultants increased so much? What is your budget for expenditure on consultants in 2006–07?

38. Corporate sponsorship has fallen from £987,200 (DR 2005—06, Table 26, p 107) in 2005–06 to £21,750 in 2006–07 (DR 2006–07, Table 22, p 147). Do you expect corporate sponsorship to return to its previous 2005–06 levels in 2007–08?

Progress against recommendations in the Financial Management Review

39. What progress has been made against the following recommendations in the Financial Management Review?

— There should be less use of “off line” and instead the global network of PRISM should be fully exploited.

— Financial skills should be embedded throughout the organisation in line with the rest of Whitehall using the new Professional Skills for Government framework.

— Resource management units should be accountable to the Finance Director as well as individual Directors general.
ESTIMATES MEMORANDA

40. In your written response to questions about the Spring Supplementary Estimates dated 23 April 2007, you stated that 63 visa posts overseas now operate a biometric visa regime.

(i) What proportion of visitors into the UK now require a biometric visa?

(ii) Is the FCO aiming for all visitors into the UK to require a biometric visa? If so, when are you aiming for this to take place?

41. In your response to our questions on the Winter Supplementary Estimates, you stated that part of the increase in administration budget from 2005–06 to 2006–07 is due to the fact that there was “a planned under-spend against budgets in 2005–06 in order to build up End-Year Flexibility and its subsequent take-up”.

(i) Why did you need to plan an under-spend in the administration budget in 2005–06, in order to build up EYF and ensure its subsequent take-up in 2005–06?

(ii) You have also stated that you expect to under-spend against the administration budget for 2006–07. What is your expected under-spend?

42. In the Main Estimates Memorandum you have stated that you expect to spend £66 million of FCO EYF on estates projects and IT that is more fit for purpose and better value for money. Could you give a more detailed breakdown of the £66 million, showing what proportion you intend to spend on estates projects and what proportion you intend to spend on IT?

24 May 2007

Letter to the Second Clerk of the Committee from the Parliamentary Relations and Devolution Team, Foreign and Commonwealth Office

THE FCO’S 2006–07 DEPARTMENTAL REPORT AND MAIN ESTIMATE

Your letter of 24 May asked questions relating to the FCO’s 2006–07 Departmental Report and also listed various other documents that the Committee wanted to see.

Our replies to the starred questions are enclosed. Replies to the unstarred questions will be sent to you by Friday 29 June as agreed. The questions and answers are listed in the same order as your letter.

The additional information you requested was:

— Corporate framework documentation which shows the accountability arrangements between FCO Services and the FCO.

This is attached at Annex A

— The OGC’s Report on the FCO’s efficiency programme.

We have consulted the Treasury’s Efficiency Team (formerly part of the OGC) on this issue. As originators of the documents, they have advised us that any OGC/Efficiency Team assessment is for internal purposes only. The assessments are produced by the Efficiency team, agreed by the relevant Treasury spending team, and are for the attention of the Prime Minister and the Chancellor. They constitute ongoing advice to Ministers and for this reason cannot be disclosed.

The Q4 efficiency figures for 2006–07 and a reconciliation between these figures and the following statement in the Departmental Report: “projects where there will be increased efficiency savings include further reductions in the UK pay bill (£5 million), further procurement savings in the UK and overseas (£2 million) and savings totalling £2.9 million from local efficiencies” (p 127)

The Q4 Efficiency figures are set out in Annex B. The individual FCO projects that make up the OGC classifications, and demonstrate the achievement of the increases indicated above are at Annex C. Reported savings in these areas were slightly higher than forecast at the time of drafting of the Departmental Report.

A reconciliation between headcount reductions in the efficiency programme and staff numbers in Table 9, page 134. Please note that the Treasury guidance states that:

“DRs should also contain information on the relationship between staff numbers and the department’s workforce reduction taking place under the Efficiency Programme.”

The interim target of 265 staff savings in 2006–07 is consistent with the increase in staff numbers between 2005–06 and 2006–07 shown at table 9. The increase in the overall total is a result of increased demand for consular and visa activity mentioned in the foreword to the Departmental Report. As mentioned when we met to discuss the 256 interim target for staff savings, the fact that consular and entry clearance services are funded by the fees paid by users is taken into account.
The interim efficiency target is a reduction of 265 between 1 April 2004 and 1 April 2007. This is alongside an expected consular and visas growth of 400. This gives a net target of plus 135. Table 9 shows 6,190 as the forecast FTE for 1 April 2007 that assumed we achieved the planned reductions and Consular and Visas achieved expected growth. Since 1 April 2004 the actual saving is 368 against the target of 265. Consular and visas have grown by 385 against a target of 400. Since 1 April 2004 the overall change is plus 17 against a target of plus 135.

— A list of Public Accounts Committee Recommendations (if there are any)

I can confirm that there are no PAC recommendations for the period covered by this Departmental Report.

Richard Cooke
Parliamentary Relations Team
13 June 2007

PSA TARGETS

Question 1 Could you provide an account of the main ways in which the PSAs to be announced in the 2007 Comprehensive Spending Review will differ from the PSAs in the 2004 Spending Review?

Answer

The Treasury are co-ordinating work across government to draw up PSAs for the CSR07 period. They are still being drafted. It is therefore not possible to say definitively how they will differ from those in the 2004 Spending Round. The overall PSA framework is evolving, however, in the ways outlined by the Economic Secretary to the Treasury in his speech to the Social Market Foundation on 17 October14. This has since been elaborated on in the Pre-Budget Report15 and Budget16. In brief, the CSR07 PSAs will focus on the top priority outcomes for Government to achieve in the next spending period, responding to the long-term challenges the country now faces17. We expect that there will be fewer PSAs. Each PSA will have a published cross-government Delivery Agreement that clearly sets out how the PSA outcome will be delivered and by which department.

Question 2 How have you consulted stakeholders in formulating the new PSA targets and business plans?

Answer

The FCO is working with other Whitehall departments to draw up a successor to the current PSA on conflict prevention. We have consulted the NGO community through their Peace and Security Liaison Group on lessons learned from previous PSAs in this area. We are also looking to engage the academic community, think tanks and stakeholders in the international system. Other Departments are similarly engaging with key stakeholders as they develop ideas for PSAs in other fields.

The FCO is also testing a revised business-planning framework; we are using 2007–08 as a transition year, with a view to having a developed model ready for roll-out in 2008–09, to coincide with the CSR07 PSAs. Plans for 2007–08 are being drafted; thorough stakeholder consultation is required at all tiers of the planning framework.

Question 3 There are currently no PSA targets for the following strategic priorities: reducing the harm to the UK from international crime, including drug trafficking, people smuggling and money laundering; achieving climate security by promoting a faster transition to a sustainable, low-carbon global economy and ensuring the security and good governance of the UK's Overseas Territories (Departmental Report 2006–07, page 15). Will all the strategic priorities be covered by the new PSA targets to be set in the 2007 Comprehensive Spending Review?

Answer

The CSR07 PSAs are not intended to provide comprehensive coverage of all Departmental work, focusing instead on a relatively small number of cross-HMG priorities. Consistent with this, the CSR07 PSAs will cover all of the FCO’s Strategic Priorities. The latter will, however, be mirrored in our Departmental Strategic Objectives and will drive the FCO’s business planning framework, so complementing the cross-government PSA set.

14 http://www.hm-treasury.gov.uk/newsroom_and_speeches/speeches/econsecretspeeches/speech—est—171006.cfm
15 http://80.69.6.120/media/571/C7/pbr06_chapter6.pdf_paragraphs_6.53-6.60
16 http://www.hm-treasury.gov.uk/media/73B70/bud07_chapter6_253.pdf_paragraphs_6.50-6.58
Question 4  You informed us last year that the next review of the FCO strategy is due in 2008 and any significant changes could be reflected in the new PSAs (Foreign Affairs Committee Report on FCO Annual Report 2005–06, Ev 6). How are you going to ensure that the new PSA targets agreed in 2007 will reflect any major changes that will be made to the strategy in 2008?

Answer

We will continue to review our strategy throughout the CSR07 period. If there are any major changes to the White Paper and to our Strategic Priorities (SPs), we will discuss these with other Government Departments and with other relevant stakeholders.

Since we expect PSAs to focus on selected cross-HMG priorities, rather than seeking to cover the entirety of the SPs, amending some of the existing SPs, or introducing new ones, during the CSR07 period need not cause problems for the PSA framework. Our SPs do not therefore need to be bound by the PSA timetable, but can instead be revised as necessary to take account of evolving challenges in the international system.

Question 5  The evaluation of progress made against some PSA targets appear to be based on an evaluation of both inputs and outputs or outcomes. For instance the PSA 1 target, which relates to the rolling-back of weapons of mass destruction was assessed as “on course” because although the FCO increased inputs—“the FCO has consolidated progress and continued to expand the depth of counter-proliferation work”, outcomes have been poor—North Korea carried out a partially successful nuclear test (p 150). Will the new PSAs more clearly separate out targets that relate to inputs from targets that relate to outputs or outcomes?

Answer

We acknowledge the Committee’s concerns that a number of the current SR04 indicators are difficult to measure and evaluate. For a number of our SPs this has been particularly challenging, given the difficulty of assessing our individual impact on the achievement of a broad outcome goal, and the impact of diplomacy.

As the PSA performance management framework continues to evolve, Government Departments are striving to adopt best practice in performance management in the public and private sectors, drawing on lessons from across the UK and abroad. Doing so increasingly involves moving away from the measurement of inputs, towards outcome based measures wherever possible. For CSR07, we plan that the PSAs will be supported by robust, timely, relevant and quantifiable indicators. We will try to avoid input indicators wherever possible.

THE CAPABILITY REVIEW

Question 10  The Capability Review finds that: “Without a clear business model that consistently applies best practice across the network, the Department will not be well placed to deliver on its objectives and the International Priorities... the Department does not have a systematic approach for measuring the impact of individual Posts and policies, although some Posts have developed their own methods for doing so. Heads of mission do not have full control of the resources used in Post, which reduces accountability for resources and performance”. (pp 22–23)

(i)  What steps are you taking to develop a clear business model that would enable the FCO to apply best practice across the network of different FCO posts?

Answer

We have developed a more rigorous and standardised business planning system, in which Strategic Priority owners, Geographical Directors and Heads of Mission are producing plans to a standard format. This will enable us to apply best practice more effectively across the network of Posts as our management information improves.

(ii)  Are you intending to adopt a systematic approach for measuring the impact of different Posts and policies?

Answer

As above, a simpler and more consistent, corporate and professional business planning process has been introduced and is being rolled out across the Department. The new framework is built around Strategic Priority Strategies and Country Business Plans. This will increase the accountability of Strategic Priority Owners and Heads of Mission for delivery against their respective Strategies and Plans. We are developing a performance reporting framework to support the business planning reforms. This will apply consistently across the Department.
(iii) Are you reviewing whether Heads of Mission should have more control of the resources use

Answer

Heads of Mission will agree Country Business Plans with Strategic Priority Owners and Geographic Directors. Heads of Mission will be responsible for delivery of the agreed plans. While some resources will continue to be ring-fenced, increased flexibility is being introduced to give Heads of Mission greater day-to-day control of their human and financial resources. We are also working to improve management information so that Heads of Mission have sound data on which to base their decisions.

Question 12 The Capability Review states that the change programmes “include a major programme to introduce regional shared service centres which will improve the quality of administrative support at reduced cost” (p 7). The 2006–07 Departmental Report reports that the FCO will work with other government departments such as DfID, “will concentrate on finance, procurement and some HR processes.” and “outsource some functions to the private sector” (p 117).

(i) Is it the FCO’s intention for services to be shared between a number of foreign postings in the same region as well as between FCO and DfID?

Answer

Yes. The chief focus of the FCO’s Shared Services Programme is to simplify, standardise and streamline corporate services within the FCO’s network of over 220 posts. One of the main projects in the Programme is to consolidate financial, procurement and HR (for locally engaged staff) processes, (currently carried out separately at each post), in a small number of Global Process Centres, on a regional or global basis. This service will be rolled out to the FCO’s posts progressively, most likely beginning in the developed world where the potential savings to the taxpayer are greater, and only later to developing countries where DfID has a presence.

Separately, the Foreign Secretary and the International Development Secretary have agreed an FCO-DfID Shared Service Delivery plan to increase co-operation in areas of mutual benefit. In Africa, DfID and FCO already track FCO-DfID corporate service sharing activities between FCO Posts and DfID Offices on a country by country basis.

(ii) Does the programme to share services with DfID mean you may be likely to share Posts with DfID in the future?

Answer

Yes. The FCO-DfID Shared Service Delivery plan seeks to increase the proportion of co-located offices by over 10% and the proportion of DfID staff in co-located offices by over 25% by the end of the CSR07 period.

(iii) What is the time-scale for implementation of shared services?

Answer

The FCO Board has appointed a Shared Services Programme team. Since December 2006 this team has worked on a business case for transforming the delivery of corporate services across the FCO network. The Programme aims to deliver this transformation across much of the network during the three years of the CSR 07 period. It will do this chiefly through: introducing Global Process Centres to take responsibility for financial, procurement and HR transactions; outsourcing Facilities Management functions to private sector providers through consolidated regional contracts; and rationalising the FCO’s supplier base for key goods and services. These projects will affect different parts of the network at different times. In some regions, posts may see relatively little effect until after the end of the current CSR period in 2011. The team is currently working up a consolidated strategic business case. This will include recommendations to the FCO Board on the optimum pace of rolling out these changes. It will take account of: the FCO’s efficiency savings targets under the CSR; the need to provide best value for taxpayers’ money; investment costs and affordability; risk; and the need to maintain levels of service to HMG customers and the public.

(iv) What cost/benefit analysis has been done with regard to the feasibility of shared services and outsourcing of functions?

Answer

We are still developing the detailed business case for the Shared Services Programme as a whole. However, initial findings indicate that there is the potential for savings to be made within the CSR period and beyond. We estimate that by the end of CSR07 the individual projects in the Shared Services Programme could potentially reduce the FCO’s baseline spend on corporate services by a net total of approximately £22 million, while at the same time improving service standards and freeing up FCO resources for frontline
activities. These initial figures are the result of high level analysis. It is only when the detailed design phase has been completed, and we are clear about the implications of redundancy and other investment costs, and on the best pace and profile of change, that we will be in a position to provide more reliable figures.

(v) Are you intending to outsource functions to the private sector in foreign postings as well as in the UK? Are you considering off-shoring any services which are currently carried out in the UK?

Answer

Through the Facilities Management Project, one of the components of the Shared Services Programme, we intend to outsource certain support services to private sector contractors in order to improve service standards, achieve better value for money, and free up FCO resources for frontline activities. The full scope of activity will vary from post to post, depending on local conditions. At present the Shared Services Programme has no plans to offshore any services currently carried out in the UK.

Question 13 The Capability Review reports that a Director-General for service delivery and business change and a qualified and experienced change director will be appointed (p 7). Have they been appointed yet? If not, when will they be appointed?

Answer

James Bevan will take up his appointment as Director-General Change and Delivery on 2 July 2007. An experienced Whitehall Change Director has also been appointed and will join the FCO on secondment on 16 July.

FCO Services

Question 15 FCO Services became an Executive Agency on 1 April 2006, with the aim of becoming a trading fund on April 2008 (Departmental Report, p 122).

(i) What evidence is there that the transition of FCO Services to Executive Agency status has increased efficiency, and also that its becoming a trading fund in April 2008 will increase efficiency still further?

Answer

As an Executive Agency, FCO Services operates along business lines, on a full trading basis with its customers and is often in competition, in the services it offers, with commercial companies.

Its performance as an Executive Agency is assessed against two key financial performance measures: return on capital employed (ROCE) and growth in revenue from non-FCO customers. In the last FY, FCO Services moved from a loss making internal department of the FCO into a surplus-making Agency. In doing so it has increased revenues from non-FCO customers by 3.4% against the previous year. Over this period, customer satisfaction has also risen from 74%–84%. Trade debts (beyond 30 day payment terms) from customers have fallen from a high of more than £22 million to a March 2007 level of £3 million through improved relationship management and credit control processes.

In the future, as a Trading Fund, FCO Services will operate off-vote and be subject to greater commercial disciplines and greater commercial flexibility. Detailed analysis has indicated that efficiency savings of at least 15% of total costs should be achievable over the next five years as a result of increased productivity levels and more efficient procurement. Even with assumptions of a real fall in revenue from the FCO (offset by real rises from non-FCO customers), the result is a robust business model with all key targets being achieved.

(ii) What safeguards are in place to ensure that any pressure on FCO Services to increase income levels, as a result of it becoming a Trading Fund, will not lead to incentives for it to divert resources away from essential or core FCO services to more profitable services?

Answer

As a Trading Fund (TF), FCO Services will remain an integral part of the FCO, with the Foreign Secretary retaining overall strategic control and direction. The FCO will agree FCO Services' Business Plan every year and in-year performance will be reviewed quarterly by a Ministerial Advisory Board, chaired by the FCO Parliamentary Under Secretary of State.

The relationship between FCO Services and the FCO is built on a strategic partnership in which FCO Services is committed to supplying, and maintaining the capacity to supply, the mission-critical services required by the FCO to deliver on its Strategic Priorities. Resources will not be diverted away from this.
As FCO Services’ dependency on these services is projected to fall from current levels by 2012/13, it aims to grow its revenue from non-FCO customers in order to widen its customer base and become less dependent on one customer for its revenues.

The FCO will, however, remain both the principal customer and the principal stakeholder in the business.

(iii) What preparation work does FCO Services have to do in order to become a Trading Fund on April 2008?

Answer

— Establish its financial integrity. As a TF, FCO Services must have full control of its financial operations and reporting processes. These must be completely separate from the FCO. This includes establishing its own separate set of books, with control over its chart of accounts, General Ledger etc, as well as establishing its own accounting policies and agreeing with the National Audit Office (NAO) and HM Treasury the form of accounts to be used. FCO Services’ “fitness to trade” as a TF will be independently assessed by the NAO in a “Fit to Trade Review” in September.

— Deliver a comprehensive change programme and an organisation re-design to put into action the organisation’s new business strategy. The “Success through Excellence” (STEP) Programme comprises around 25 umbrella projects, each with work streams within them, to develop FCO Services’ financial, operational and human resource capability, within a new organisational structure, to deliver the organisation’s “Secure Focus and Growth” business strategy. This focuses on delivering a unique combination of secure services and growing business in these areas with non-FCO customers.

Question 16 What are your expected savings from outsourcing the Foreign and Commonwealth Office’s language teaching operation.

Answer

We anticipate savings of £1.5 million per annum.

CONFLICT PREVENTION POOLS

Question 22 Please could you give an account of what you perceive to be the benefits to date of the operation of the Conflict Prevention Pools system. Do you expect improvements to be made to the working arrangements of the Conflict Prevention Pool in the period covered by the forthcoming Comprehensive Spending Review?

Answer

The Pools have helped to deliver more integrated policy-making and delivery across the three departments. They have also reinforced the international perception of the UK as a leader in the conflict prevention field and other countries regularly express interest in learning from the UK experience.

Considering that Africa Conflict Prevention Pool (ACPP) budget levels are relatively modest in comparison with the scale of the challenge of reducing conflict in Africa, and that administration costs are very low, it is achieving significant impact. In September 2006 the ACPP published a review of Pool performance from 2001 to 2005—Reducing Conflict in Africa: Progress and Challenges—which points to a number of important achievements:

— Strong and influential relationships are being built with key continental and national actors in the emerging Africa Peace and Security Architecture (APSA).

— High quality training and other support is being provided to strengthen African capacity for Peace Support Operations, along with general improvements in the underpinning professionalism and capabilities of African armed forces.

— Important contributions are being made to peace building and post conflict stabilisation work.

— Country work is producing many examples of good practice and innovation.

— Real progress is being made in promoting joined-up approaches across the UK government in conflict-related work in Africa, and in the wider international community.

The ACPP will continue to support the development of the APSA and to develop imaginative and innovative approaches to conflict prevention. An improved methodology for undertaking joint regional conflict analysis is now being piloted in the Horn of Africa. The ACPP has also identified, as part of the CSR process, a gradual shift of resources from West Africa (where conflict trends are increasingly positive) to Central and East Africa (where conflict remains a major problem). The ACPP has also taken a number of steps to tighten up administrative procedures, particularly with regard to assessing allocations. The ACPP Annual Report 2006–07 will issue over the summer including a major review of UK SSR work in Africa.
The Zero-Based Review of Global (ie non-African) Conflict Prevention Pool (GCPP) conducted in June 2006 concluded that the GCPP had helped to drive more systematic cross-Government strategy planning in conflict prevention; and that tri-departmental commitment and joint working, though still variable, was improving over time and was seen as a benefit by the three departments. This was in line with the 2004 Bradford University Evaluation of the CPPs.

Efforts continue to improve the management structures and performance of the Pools. We are focusing in particular on introducing to the GCPP, during the next Spending Round, measures that will allow us to monitor more effectively the impact of spending.

Question 23 In 2006–07, FCO is estimated to have spent £344 million on conflict prevention (Table 5, p 130), of which £137 million was spent via the Conflict Prevention Pools system (p 46). Are you intending to change the proportion of the FCO conflict prevention budget spent via Conflict Prevention Pools system significantly in the forthcoming Comprehensive Spending Review?

Answer

The figure of £344 million within the FCO’s annual accounts represents the total spend by the FCO through RfR2. This is made up of four elements: two programme funds—the Africa Conflict Prevention Pool and Global Conflict Prevention Pool; and two peacekeeping funds—Peacekeeping Africa and Peacekeeping Rest of World. These funding mechanisms, coupled with the increasing demands for peacekeeping operations and the high proportion of costs which fall to the UK under UN, EU and OSCE assessed contributions schemes, mean that we do not have the flexibility to change significantly the proportion of funds spent through the Pools.

As the CSR is still on going, and we do not yet know what funding the Pools will receive, it is difficult to say at this stage what proportion of funding we will spend through the Pools in the next Spending Round.

EFFICIENCY SAVINGS

Question 25 How are you intending to achieve £31.5 million efficiency gains under the pay bill reduction category in 2007–08 (Table 1, p 126)?

Answer

The pay bill reduction category consists of four projects. These are the UK staff paybill reduction (£15 million); ancillary pay bill savings (£11.5 million); overtime reduction (£1 million) and local staff paybill savings (£4 million). The forecasts for each project is in brackets after each project. Some of the projects (eg overtime) produce savings in their own right, others such as UK paybill are the combined effect on paybill of other efficiency projects such as the project on savings from HR Directorate.

Question 26 The ICT efficiency savings in 2006–07 have been reduced from £16.4 million in the 2005–06 Report (Table 5, p 80) to around £1.1 million in the 2006–07 Report (Table 1, p126) because of delays in rolling out the Future Firecrest programme (p 127). The Departmental Report (p 127) states that “we now expect to achieve the efficiencies outside the timeframe of the SR04 programme” and that “we anticipate that the six new projects that we have introduced more than compensate for this shortfall.”

(i) Why has there been slippage in the Future Firecrest programme and when do you expect the Department to realise the efficiencies of this particular programme?

Answer

As reported earlier, the slippage is due to new government security requirements introduced at the time the FCO signed the Future Firecrest contract with Hewlett Packard. Meeting these requirements meant a significant redesign that involved increased cost. The FCO is currently in negotiation with HP about the total amount. There will be a revised economic case for the FCO Investment Committee once the negotiations are complete. That case will include projected efficiency savings to be realised within SR2007.

(ii) Please could you give details of the six new projects that you are expecting to more than compensate for the shortfall in efficiency gains caused by the delay in rolling out the Future Firecrest programme?

Answer

The 6 new projects are:

(1) Alternative Representation: Through closures or localisations, we will create subordinate post networks that are leaner and principally dedicated to service delivery. The post closures are as stated in the official report by the then Foreign Secretary (Jack Straw) on 15 December 2004. A written ministerial statement on 11 October 2005 updated this report.
(2) DSI Restructuring: Restructuring of the positions in DSI (now Communication Directorate) to produce a more efficient team that will still meet its objectives.

(3) Gratis Visas: To increase our income through more stringent issuing of gratis visas.

(4) Local Efficiencies: To capture efficiencies that have been made at post but not captured centrally eg reduction in rental costs.

(5) Facilities Management: To ensure that the FCO selects the most appropriate facilities management service providers to meet future business requirements. This will reduce overall costs to the FCO of service provision at posts whilst improving service levels.

(6) Language Training: The language review will radically reform language training policy and delivery. It will make training more targeted and effective. It will deliver quality and maintain standards but also be better value for money.

The savings generated from these projects coupled with better than expected savings from various other projects will more than compensate for the shortfall in efficiency gains caused by the delay in rolling out the Future Firecrest programme.

Question 27 Could you explain the changes in the following categories within the 2006–07 efficiency savings from their projections as set out in the 2005–06 Departmental Report?

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<tbody>
<tr>
<td>Estates projects</td>
<td>4.2</td>
<td>5.3</td>
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<tr>
<td>Pay bill reduction</td>
<td>18.0</td>
<td>8.2</td>
</tr>
<tr>
<td>Procurement efficiencies</td>
<td>6.1</td>
<td>8.2</td>
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The breakdowns of the efficiency savings as reported in the Departmental Report 2006–07 are as follows:

The Estates projects consist of Lyons review (£1.3 million) and Asset recycling (£4 million). The Pay bill reduction consists of UK staff paybill reduction (£3.4 million); Ancillary pay bill reduction (£1 million); overtime reduction (£0.8 million) and local staff paybill savings (£3 million). As the UK staff paybill reduction and ancillary pay bill reductions are quite complex due to fluctuations in staffing numbers these are worked out more precisely at the year-end. Procurement efficiencies consist of strategic sourcing and demand management (£5.2 million) and procurement at post (£3 million).

The forecasts set out in the 2005–06 Departmental Report were based on year-end 2006–07. The figures produced in the Departmental Report 2006–07 are only representative up to Q3 of that year. The actual figures for the full year of 2006–07 are:

— Estates projects £6.5 million.
— Pay bill reduction £19 million.
— Procurement efficiencies £8.5 million.

The changes are due to a better than expected efficiency savings across a range of projects. The breakdown of this is:

— Asset recycling increased from £4 million to £5.2 million.
— UK staff paybill reduction from £3.4 to £10 million.
— Ancillary pay bill from £1 million to £5 million.
— Local staff paybill savings from £3 million to £3.2 million.
— Procurement at post from £3 million to £3.3 million.

Due to the increased prices of fuel and the increased volume that the FCO now need for operational purposes coupled with the agreed methodology, there are no reportable savings in the energy efficiencies project. This is not a true reflection of the project. There has been reduction in energy usage for the FCO on a like for like basis (for example we made cumulative savings of 10.06% in electricity consumption at our Main Building, King Charles Street, for the FY 2006–07, and 6.55% at Old Admiralty Building).
Question 29 The Departmental Report 2006–07 states that you have relocated 123 positions and that you have identified a future 171 position for relocation by April 2010. As the target is to relocate 450 posts by 2010–11, you will need to identify a further 156

(i) When will you finalise which posts you are going to relocate?

Answer

The FCO took a strategic decision to base additional staff in support of its IT programme at Hanslope Park rather than in London. This, together with the inclusion of 200 relocated British Council posts to Manchester, and the increase in support service staff at Hanslope Park, mean that FCO is on track to meet in full its commitment of relocating 450 posts out of London by 2010–11. In consultation with the trade unions a managed relocation package is available for staff whose jobs move from London to Hanslope. To date, no staff has been made redundant as a result of our relocation programme. As part of our wider shared services and change agenda, the FCO will continue to examine the VFM, cultural and change management aspects of further relocations.

(ii) What evidence have you got that relocating posts has not had any adverse on staff morale?

Answer

We have no evidence of any adverse effect on staff morale due to the relocation of posts.

Core Tables

Question 31 Capital spending in 2006–07 is projected to be £139 million in the 2006–07 Departmental Report (Table 6, p 131) about 8% less than the budget of £150 million set out in the 2005–06 Departmental Report (Table 10, p 85). What are the reasons for the under implementation of the capital budget?

Answer

This capital underspend should be seen in the context of an estate and ICT programme that stretches over five years. We fine tune spending across programmes towards the end of each FY to get as close to our annual targets as possible but it is very difficult to turn the flow of capital spend on and off easily. In this case a prudent approach was taken which resulted in an underspend. This will be corrected this FY to bring spending over the settlement period in line with allocations.

Question 35 What do you estimate to be the cost resulting from the security lapse in the Visa Facilitation Service website? Can you break this estimate down, including into possible compensation payments and the cost of setting up replacement systems both currently and in the future? When did the FCO become aware of the breach in security?

Answer

The investigation into the security lapse is ongoing. As announced by Lord Triesman, an independent investigation by Linda Costelloe Baker commenced on 5 June. This makes it difficult to estimate the costs incurred as we are still investigating all the facts surrounding the incident. The view of our legal advisors, Morrison & Foerster, is that under our contract with VFS, liability for any compensation due to visa applicants rests clearly with VFS not UKvisas. There is no extra cost of setting up replacement systems as UKvisas already has a separate on-line application facility, www.Visa4UK.fco.gov.uk. This is currently available to visa applicants in over 80 countries and we intend to make it globally available by 2008. UKvisas were notified of the security breach on 14 May 2007. Ministers and the PUS were notified on 16 May 2007. UKvisas were notified of the earlier breach in security on 21 December 2005.

13 June 2007

Letter to the Clerk of the Committee from the Parliamentary Relations and Devolution Team, Foreign and Commonwealth Office

NAO Review of FCO Controls

Further to my letter of 27 March 2007 (paragraph 3) I am pleased to advise that we received the finalised NAO Controls Review report on 11 June and a copy is attached.18 For completeness, I have also attached a copy of the NAO letter sent to us in February when the draft version of the report was issued.

18 Not printed.
The review takes the form of a series of Key Control Frameworks covering the key finance business processes that surround Prism (Oracle), and which the NAO have recommended and FCO have accepted. The NAO concluded overall that:

“. . .in most cases the process level controls exist but there appear to be fewer of the Management/Higher level controls identified as being in existence or operating. It is of course the latter that provide the overview to ensure that management information appears reasonable, and provides assurance that the process level controls are operating effectively. Put another way, good higher level controls are the key to reliable systems and data.”

We have agreed to introduce the additional controls the NAO have recommended and will also use the Key Control Frameworks as a basis for future internal audit testing.

In addition to this review of the controls surrounding Prism we have also engaged PricewaterhouseCoopers (PwC) to use their Oracle interrogation tool “GATE” to conduct a series of audits evaluating the controls within Prism. The first of these reports (expected in July) will assess the effectiveness of the logical security, user administration and segregation of duties within the Prism application. All PwC’s reports will be copied to the National Audit Office.

PwC will also be able to give us advice on pre-defined Oracle configurable controls and how the FCO system settings compare against generally accepted private sector good practices. Overall it will represent a leap forward in our approach to the audit of Prism.

I trust the Committee will find this helpful.

Richard Cooke
Parliamentary Relations Team
21 June 2007

Letter to the Second Clerk of the Committee from the Parliamentary Relations and Devolution Team, Foreign and Commonwealth Office

THE FCO 2006—2007 DEPARTMENTAL REPORT

I refer to your letter dated 24 May attaching a list of questions relating to the recently published FCO Departmental Report. I have already written to you offering a response to the “starred” questions set out in your letter. I now enclose the replies to the “unstarred” questions.

Richard Cooke
Parliamentary Relations Team
29 June 2007

Annex

PSA Targets

Question 6 In the Autumn Performance Report, you reported the following against the SR 2002 PSA 4C: “the FCO continues to dedicate resources for the development and implementation of an effective toolkit for conflict and risk analysis, combining quantitative and qualitative analysis”. When will this toolkit be completed? Are you intending to use this toolkit to assess performance for the PSA relating to conflict prevention in the years covered by the 2007 Comprehensive Spending Review, or will you continue to use a narrative explanation to measure performance against the target, as you have done for the years, 2006–08?

Answer

Work on developing our conflict and risk analysis continues, including in the context of the CSR and drawing up a new Whitehall-wide conflict PSA.
Question 7 What evidence is there that the following indicators are on course

SR04 PSA 3 (A9)—By end 2007–08: A fully implemented comprehensive peace agreement between the Government of Sudan and the Sudan People’s Liberation Movement (SPLM), progress towards a stable and democratic government.

The FCO has rated this indicator in the Autumn Performance Report rather more optimistically than either the MoD or DfID, giving an assessment of “amber—on course”. In the Autumn Performance Reports, the MoD indicated that it was “red” and DfID indicated that the Darfur region was “red”, whereas the remaining region was “amber”. What evidence is there to support the change in the FCO’s assessment of this indicator from “red” at the time of the 2005–06 Departmental Report to “amber” in the Autumn Performance Report and 2006–07 Departmental Report?

Answer
There has been some progress in implementing the North/South peace agreement since the 2005–06 Departmental Report, though the process remains fragile. The indicator would be red if the assessment focused solely on Darfur.

SR04 PSA 4 (H)—Better integration of new EU members in European security, economic, social and JHA systems as a result of UK interventions.

What evidence is there that “new members are playing an increasingly active role across the board”, as stated in the 2006–07 Departmental Report, and that this is as a result of UK interventions (p 158)?

Answer
The Government worked closely with all of the new Member States to help them prepare for EU membership in the years preceding their accession. For example, since 1998 British officials have been involved in 180 “twinning” projects—sharing their expertise with the new Member States prior to their accession. This helped ensure that they were ready to take on the obligations of membership, and make a genuine contribution to the delivery of the EU’s policies, across the board, once they were members. For example, and as the Report itself sets out on page 57, in 2006 we spent over £1 million in Romania and Bulgaria to help strengthen their judiciary and tackle corruption. These projects brought significant benefits to both countries and also better equipped them to contribute to the EU’s efforts in these areas.

The new Member States are making a real and practical difference to the EU’s policies. The UK has helped with this.

The new Member States are, like us, strong supporters of the Lisbon economic reform agenda. They regularly intervene in Council discussions, in support of liberalising measures. In particular they have embraced Better Regulation, arguing (including in European Councils) in support of the Commission’s initiatives on simplification, impact assessments and cutting the regulatory burden. We have also worked with their officials to help them apply the techniques and develop their expertise.

The new Member States also made a significant contribution to ensuring the agreement of the Services Directive in December 2006, which analysts estimate could be worth £5 billion annually, and 135,000 jobs to the UK economy.

On social policy they have been eager, like the UK, to ensure new proposals complement the delivery of jobs and growth. This has contributed to changing the terms of the debate on social policy, which is increasingly focused on how we deliver flexibility and security in EU labour markets that are adapting to globalisation.

On Justice and Home Affairs the FCO’s network of JHA attaches has worked to engage the new Member States in key areas. All have become more active on domestic JHA measures relating to counter-terrorism or corruption, in turn bringing them closer to EU standards in host governments on JHA issues.

In Romania the UK helped set up a highly effective multi-agency task force to combat organised migration crime—called Operation Reflex. This has led to the break up of a number of human trafficking gangs—bringing significant benefit to the EU’s efforts to tackle this area. Operation Reflex is regarded by SOCA as a model that could be used in other countries in the region.

The UK has supported, and welcomed, Poland’s membership of, and active participation within, the Group of six Interior Ministers. We are also working bilaterally with the Poles on human trafficking. In the Czech Republic we have offered training for commercial judges, which has in turn increased the ability of the Czech system to apply common standards in eg arbitration cases.

Finally, the UK has welcomed the contribution of the new Member States to the European Security and Defence Policy. By the end of 2006, 12% of the participants seconded to civilian ESDP missions were from new Member States (47 out of 378).
SR04 PSA 7 (A4)—A strengthened civil society as a consequence of the development of indigenous non-governmental organisations (NGOs), enhanced legislative process, strengthened public administration/ civil service.

What evidence is there that FCO-funded projects have improved NGO capacity in Saudi Arabia, increased the profile of civil society in Jordan and improved the service offered by police, as stated in the Departmental Report (p 163)?

Answer

Saudi Arabia

We have been working with the Saudi Ministry of Social Affairs to strengthen the Ministry’s capacity to better regulate the NGO sector; provide a more enabling environment for NGO development; and help the charities to deliver more effectively their services. As a result of a twelve-month programme of exchange visits and direct training of officials, the Charity Commission has trained over half the Ministry’s regulatory staff. The Ministry has strengthened and balanced its regulatory controls of the charitable sector; and is now working with the Charity Commission to develop a new training centre and national training network.

Looking ahead, we are now undertaking a project which aims to strengthen the capacity of Saudi NGOs to deliver appropriate services more efficiently. This will include delivering a training programme for a selected number of charities; and developing a pilot twinning programme between these Saudi charities and their UK counterparts. In addition, FCO funding has supported a project undertaken by the Jeddah Chamber of Commerce and Industry to provide capacity building for young entrepreneurs. We are also supporting a project to empower Saudi women to play a wider role in society, thus enabling them to participate to a greater degree in decisions that affect their lives. As part of this project, 540 women and 34 men attended a national seminar to consider how to strengthen the role of women in society and promote advocacy on domestic abuse issues.

Jordan

As a result of FCO funding, a Jordanian Youth Parliament has been established, with representatives from youth organisations, NGOs and students unions from all over the country. They have undergone an extensive professional development programme and will shadow the Jordanian Parliament, discussing topics that are being debated by the government and the Parliament, and proposing a youth view on these topics.

FCO support also enabled a coalition of Jordanian NGOs to come together and host a parallel civil society meeting at the Forum for the Future in Jordan in December. Over 300 civil society representatives discussed topics including political pluralism and women’s empowerment, before presenting their recommendations to Ministers at the Forum for the Future.

Kenya

The project in Kenya on community policing is designed to raise awareness of community members on the need and importance of Community Policing. The project is on-going and its full value will be £90,000. The programme began in January 2007 and is aimed at increasing awareness among police and local communities in three districts of their role in peace and security activities, and the importance of community policing. The programme will also provide training to enhance capacity building and skills training for up to 40 community leaders on peace and security issues. Finally, the project will create a mechanism for identifying early warning signals of security issues and informing its escalation to relevant authorities who will then be a structured voice through which local communities can channel their concerns and opinions to law enforcement officers.

We will be able to measure the impact of the project through the 40 officers we will train and through monitoring of increased dialogue between local community leaders and police/law enforcement officials.

SR04 PSA 7 (A5)—An increase in the presentation of women in national and local government as well as in civil society and international organisation.

What data is there to suggest that there has been an increase in the presentation of women in national and local government as well as in civil society and international organisations (p 163)?

Answer

The FCO and the Swiss government have co-funded a three-year UNIFEM (United Nations Development Fund for Women) Arab Women’s Parliamentarian project in the Middle East. In Bahrain, 24 women ran in the 2006 parliamentary and municipal elections. Of these, 22 were trained by this project.
In Jordan, we have supported a project to provide training courses on women’s participation in public life. The project has trained over 200 young women in the skills necessary for engaging in public life—such as public speaking, chairing meetings, and leadership. We are beginning to see results at a local level—at Yarmouk University, there were no women members of the student union board prior to this project. However, in the election of 7 March 2006, 39 female students ran for elections and six were elected.

In Morocco, the UK funded a project to support marginalised Moroccan women in the practical implementation of the new Family Code. 30 workshops for a total of 300 representatives of NGOs were held across Morocco.

In Mauritania, raising awareness workshops were held with more than 70 NGOs across the country. In addition, 130,000 copies of the Family Code, electoral awareness, and good governance booklets were printed and distributed. The project covered seven regions and 80,000 women were trained. Since the project, women’s NGOs have seen a 50% increase in participation. In a survey of 756 women during the project evaluation, 80% said that they would vote for female candidates in the September 2007 elections to help them access decision-making positions. The President of the NGO in charge of the project evaluation is herself now a candidate in the upcoming elections.

We are also supporting a project under the Democracy Assistance Dialogue, a G8 Broader Middle East and North Africa initiative, which has brought together over 100 experts from across the BMENA region to consider the obstacles to women’s participation in political life. Civil society recommendations were presented to Foreign Ministers at the 2006 Forum for the Future, and in 2007 the project will focus on specific country case studies (Algeria, Jordan and Pakistan).

In Pakistan there are now reserved seats for women in local government and in the national and provincial assemblies—a 33% quota of reserved seats for women in local government and national government. After a parliamentary struggle, the Hudood Ordinance was amended to provide women with greater personal freedom and access to the legal system. HMG had been actively lobbying the Government of Pakistan on both these issues.

A GOF-EIW project funded the establishment of a Youth Parliament in Islamabad as an 18–24 month pilot project that could be expanded to other provinces and districts. It has been successful in empowering young women to play a more active role in civil society—the current leader of the opposition in the Youth Parliament is female. Another GOF-EIW project is being planned to support the 40,000 women local councillors who gained (reserved) seats in the last local elections by training them on how to make the most effective contribution through their new roles.

A local-grassroots NGO has implemented a three-year capacity building programme for women councillors. One outcome of this training has been the formation of Women Councillors Network, which has campaigned publicly on women’s issue (including the repeal of the Hudood Ordinance) and recently against extremism.

In Afghanistan, the GOF-EIW funded Afghan Women’s Hour, a programme that would have been inconceivable not long ago, has successfully offered girls, their mothers and their grandmothers a place to speak and to listen to one another. The full gamut of issues has been aired: standing for Parliament, learning to read, starting a business, the prevention of maternal mortality.

Another GOF-EIW funded project is helping to increase both knowledge and awareness of the rights of women at the grassroots level and women’s participation in local governance. It is currently doing this at the community level, through establishing Reflect empowerment circles for women participants in all target villages. At the provincial level, a “fellowship” programme consisting of formal training and structured information sharing will be conducted for development practitioners, government functionaries and interested graduates.

In Indonesia GOF-EIWG funded a project at the Islamic State University which focussed on gender mainstreaming and training for women prayer group leaders in traditional Muslim societies in a conservative part of West Java. This training resulted in women leaders having increased confidence to speak up on key issues in their area. GOF EIWG also funded training for leaders of Women’s Studies Centres in the national university network across Indonesia which was aimed at increasing the number of women taking up the positions of Head of Women’s Studies Centres across Indonesia.
Question 8  SRA 2004 PSA 3 includes the security situation on nine regions/countries, but excludes India/Pakistan and Sri Lanka which were assessed in the similar PSA 2 of SR 2002. Overall, the SRA 2004 indicator is assessed as “amber” (on course), despite a “red” for one area. What would the FCO’s assessment have been, had the situation in India/Pakistan and Sri Lanka still been included in the assessment of the PSA indicator, especially given the recent escalation of conflict in Sri Lanka and present difficulties in Pakistan?

Answer
India/Pakistan and Sri Lanka do not feature in the 2004 PSA. The amber assessment is based only on those regions measured under the current conflict PSA, and according to the current indicators and targets. The effect of including India/Pakistan and Sri Lanka would depend on the precise indicators agreed. The India/Pakistan relationship is much improved since 2002, while the situation is a cause of real concern. We continue to monitor both situations closely.

CAPABILITY REVIEW

Question 9  The Capability Review classifies the FCO’s “ability to plan, resource and prioritise” as an urgent development area and states that “the FCO has not articulated clearly enough either for itself or its partners its distinctive contribution to the Government’s objectives” (pp 16, 18). What are you doing to remedy this?

Answer
We have established a strengthened Policy Planning Staff and a new integrated Communications Directorate. Together with Whitehall partners we are negotiating new cross-cutting Public Service Agreements, with clear outcomes and responsibilities. And we have established a “Future Role of the FCO” project specifically to review with our key Whitehall partners their future planned international engagement and what the FCO’s distinctive contribution to this will be. This project will feed into the Department’s future business planning, including identifying where resources need to be reallocated. These measures will allow the Department within 12 months to produce an articulation of the FCO’s distinctive role in policymaking, and delivery for the whole of HMG overseas, which is clearer and supported by key stakeholders.

Question 11  The Capability Review states, “resources are slow to get to some Posts located in countries that are a priority for UK foreign policy” (p 22). What are you doing to address this?

Answer
The key actions we are taking in response to the Capability Review—including a clearer articulation of how and where the FCO adds most value, and a more consistent and rigorous business planning framework—are designed to ensure that our resources are allocated to our highest priority activities and countries. Our current build-up of FCO resources to support our mission in Afghanistan is evidence of the Department’s determination to move resources rapidly to where they are most needed.

Question 14  Which of the following opportunities identified for increasing efficiency in the Collinson Grant Report, Efficiency, effectiveness and the control of costs in the Foreign and Commonwealth Office have you adequately capitalised on and in which areas is significantly more progress still required?

— Streamlining the Finance structure and processes and integrating the Resource Management Units.
— Streamlining the Human Resources Directorate’s structure and processes.
— Rationalising managerial layers and spans.
— Streamlining the Department of Strategy and Information.
— Applying best or better practice to overseas Posts.
— Substituting locally engaged people for the UK-based at Post.
— Improving routine processes.
— Reducing the number of people in the Corporate Pool 1.4 40.
— Rationalising the number of people engaged in change projects 0.4 10.
— Streamlining the management of the internal market 0.4 10.
— Reducing ancillary costs.
— Reducing expenditure on consumables.
— Reducing the cost of overseas accommodation.
— Reducing the cost of travel and baggage.
Answer

The FCO continuously seeks efficiency savings. We keep all the listed areas under review, in particular:

— Streamlining the Finance structure and processes and integrating the Resource Management Units
  
  Some savings from the Finance Function have been released in SR04. In CSR07, streamlining, standardising and simplifying processes and structures is at the heart of the Shared Services Programme. It is intended that centralising UK invoice processing, optimising procurement systems and opening Global Process Centres (which will cover both home and much of our overseas finance and procurement operation) will generate more efficient processes. More directly, follow up work to the Financial Management Review is also intended to generate savings from staffing in the Finance structure including Resource Management Units. DG Europe and Globalisation have integrated their Resource Management Units with their Delivery and Change Management teams to become a Delivery Resource Unit. Part of the Units remit will be to monitor efficiency measures across DGEG and the Networks to ensure benefits are adequately captured and best practice is spread.

— Streamlining the Human Resources Directorate’s structure and Processes
  
  This was the subject of an efficiency project in SR04. HRD aims to reduce by over 100 staff from a starting point of over 280 in early 2005 to around 180. This is proving more difficult than expected within the original timeframe. In some cases, implementing other change programmes, themselves delivering significant additional efficiency savings (eg the Shared Services Programme), requires additional HR resource. We are on course to achieve 75% of the net savings within the original timeframe. There will be no let up in our efforts to pursue efficiency savings through streamlining structure and automating processes thereafter.

— Rationalising managerial layers and spans
  
  Savings from reductions in the FCO’s SMS are realised in the Paybill Efficiency project in SR04. These include a net reduction of some 15 jobs at SMS payband 2 and 68 at payband 1 by 1 April 2008. In CSR07 further restructuring reductions in the SMS and in the delegated grades have been targeted.

— Streamlining the Department of Strategy and Information
  
  This was a project from the SR04 period in the project “DSI Restructuring”. This project is ongoing and has already produced significant savings. DSI itself has now been split with the reconstitution of Planners and the creation of Communications Directorate.

— Applying best or better practice to overseas Posts
  
  Efficiency projects capitalising on this opportunity include Procurement at Post (SR04), Localised Efficiencies (SR04), Europe ZBR (CSR07) and the Shared Services Programme (CSR07) (better processing and also greater use of facilities management contracts).

— Substituting locally engaged people for the UK-based at Post
  
  Localisation is an ongoing project within the FCO, savings from which are scored in the UK paybill and ancillary paybill projects (SR04). We now have 40 missions run by local staff and according to the latest Schedule 5 data we now have 1120 staff working in front-line positions other than in UKTI, Consular and Visas roles—which account for 1,089, 1,580 and 695 posts respectively. It is intended that further savings will be realised in a number of CSR07 projects (including Shared Services) using this technique.

— Improving routine processes
  
  HRD Efficiency Projects (SR04) and Shared services (CSR07) are both releasing savings from this opportunity, as is the Europe ZBR (CSR07)

— Reducing the number of people in the Corporate Pool
  
  Officials who have concluded tours of duty and who have not been posted to a substantive position are assigned to the Corporate Pool and deployed on temporary work in departments. The overwhelming majority are effectively deployed at any one time but a review of the use of the corporate pool is underway designed to reduce the number of staff that are not deployed substantively within the Office.

— Rationalising the number of people engaged in change projects
  
  This has not been the subject of a specific efficiency project. However, the project aimed at reductions in FCO back office redeployed FCO Services staff into new structures.

— Streamlining the management of the internal market
  
  The extra wider market turnover from FCO Services project (SR04) generates savings by funding FCO services core capacity from external sources. This has produced substantial savings. FCO Service’s move to Executive Agency status has helped make the internal market more efficient and that further such efficiencies are foreseen as they move to Trading Fund status.
Reducing ancillary costs
The Collinson Grant Report assumed that greater efficiency in delivery would result in fewer UK-based staff overseas. This would offer up £14.8 million largely in allowances and the costs of supporting staff overseas. But the SR04 outcome was based on the FCO recycling its efficiency savings. Thus savings found from staff at posts overseas in SR04 will largely be re-deployed to the front line elsewhere. Nevertheless the Ancillary paybill savings project (SR04) captures the savings resulting a reduction in staff numbers overseas and changes to conditions of service. In addition savings have been generated through a redefinition of the method of calculating allowances in OECD posts.

Reducing expenditure on consumables
Procurement (SR04), Localised Efficiencies (SR04), and the Shared Services Programme (CSR07), the Procurement Optimisation Project, are targeting this opportunity.

Reducing the cost of overseas accommodation
The Collinson Grant Report assumed that greater efficiency in delivery would result in fewer UK-based staff overseas. This would offer up £14.8 million largely in allowances and the costs of supporting staff overseas. But the SR04 outcome was based on the FCO recycling its efficiency savings. Thus savings found from staff at posts overseas in SR04 will largely be re-deployed to the front line elsewhere. That said, the Europe ZBR and reducing the cost of representation overseas (both CSR07) are both seeking to find savings from this area, as is the Facilities management part of Shared Services (CSR07). Some savings have been delivered in this area through the Localised Efficiencies project (SR04).

Reducing the cost of travel and baggage
The Collinson Grant Report assumed that greater efficiency in delivery would result in fewer UK-based staff overseas. This would offer up £14.8 million largely in allowances and the costs of supporting staff overseas. But the SR04 outcome was based on the FCO recycling its efficiency savings. Thus savings found from staff at posts overseas in SR04 will largely be re-deployed to the front line elsewhere. That said, both Shared Services and reducing the cost of representation overseas (CSR07) will target savings from these areas. Indirectly other projects, which reduce the number of UK staff on postings, eg through localisation, will produce savings in these budgets.

FCO Services

Question 17 Can you provide the Committee with a copy of your new language teaching business model?

Answer
The invitation to tender will set out explicitly the specifications for delivering Language Training and will be available through the FCO website:

Question 18 In the last three years i) how many FCO staff were trained in a foreign language? ii) in how many languages was training available and iii) what proportion of training was carried out overseas?

Answer
i) The number of staff receiving language training was:
Financial Year 2006/07—252 staff Financial Year 2005/06—386 staff
Financial Year 2004/05—405 staff

ii) The FCO has permanent teachers in 14 languages:
Arabic, Chinese (Mandarin), Serbian/Bosnian/Croatian, French, German, Greek, Italian, Japanese, Portuguese, Russian, Ukrainian, Spanish.
The FCO also employs lecturers on a flexible basis in a further 27 languages:
Arabic, Bulgarian, Bosnian, Chinese, Croatian, Czech, Danish, Dutch, Farsi, Finnish; French, German, Greek, Hindi, Hungarian, Italian, Japanese, Korean, Polish, Romanian, Russian, Serbian, Slovak, Spanish, Swedish, Turkish and Ukrainian.
The FCO had no in house teaching capability in 8 of the 22 FCO priority languages:
Pashtu, Dari, Vietnamese, Indonesian, Burmese, Urdu, Cantonese and Thai: training in these languages was outsourced.

iii) The proportion of training carried out overseas varies according to the difficulty of the language. Easier languages will normally include a period of around four weeks in country; the most difficult languages have one year training in the UK and one year training in-country.
Question 19  In each of the first three years of the new language teaching business model, i) how many staff do you expect to be trained in a foreign language, ii) in how many languages will training be available and iii) what proportion of training will be carried out overseas?

Answer

i) At present the FCO has around 900 overseas jobs requiring specific levels of language skills, although this number will fluctuate to reflect business need. These posts will be filled by officers undergoing new training or using existing skills.

ii) The 22 languages identified as having the highest strategic importance are: French, Spanish (L.A. and European), German, Portuguese (Brazilian & European), Russian, Turkish, Italian, Arabic, Dari, Farsi, Pashtu, Japanese, Mandarin, Cantonese, Korean, Indonesian, Burmese, Thai, Vietnamese.

iii) It is proposed that in-country training will increase for those requiring a high proficiency level, with proportions varying between languages and officers able to undertake in-country training once they have reached confidence level.

CONFlict Prevention Pools

Question 20  Please could you provide a breakdown of the budgets in the Conflict Prevention Pools, identifying for each significant budget
— which department (FCO, MoD or DFID) has the lead in managing the pool and is responsible for formulating the budget and negotiating the financial provision with the Treasury;
— the proportion of funding which is normally sought for in the Main Estimates and the supplemamentals; and
— how the different departments coordinate with each other in the delivery of the projects.

Answer

DFID leads management of the Africa Conflict Prevention Pool (ACPP), which had a budget of £63 million in 2006–07. DFID act as the secretariat, leading a joint DFID, MoD and FCO steering team. Allocations are agreed interdepartmentally, with joint approval of all submissions to HMT. A table detailing allocations for 2006–007 is attached.

FCO leads management of the Global Conflict Prevention Pool (GCPP), which had an initial allocation of £74 million in 2006–07. The GCPP also had access to £11.77 million of funds rolled over from FY 2005–06, and a further £4.83 million of departmental DELs were disbursed through the GCPP, giving a total budget of £90.6 million. The GCPP Steering Team, with representatives from FCO, DFID, MOD, assisted by representatives from the Cabinet Office and HM Treasury, makes recommendations to Ministers on the allocation of funds between strategies. Allocations for 2006–07 were:

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>Strategy Manager</th>
<th>GCPP 2006–07 ALLOCATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OPENING (£)</td>
<td>FINAL (£)</td>
</tr>
<tr>
<td>Afghanistan—Main</td>
<td>FCO</td>
<td>13,375,000</td>
</tr>
<tr>
<td>Afghanistan—Counter</td>
<td>FCO (ADIDU)</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Narcotics Balkans</td>
<td>Cabinet Office</td>
<td>7,500,000</td>
</tr>
<tr>
<td>Caribbean</td>
<td>FCO</td>
<td>750,000</td>
</tr>
<tr>
<td>India—Pakistan (Kashmir)</td>
<td>FCO</td>
<td>750,000</td>
</tr>
<tr>
<td>Indonesia—East Timor</td>
<td>FCO</td>
<td>500,000</td>
</tr>
<tr>
<td>Iraq</td>
<td>FCO</td>
<td>12,500,000</td>
</tr>
<tr>
<td>Latin America (incl. Belize/Guatemala)</td>
<td>FCO</td>
<td>750,000</td>
</tr>
<tr>
<td>Middle East/North Africa</td>
<td>FCO</td>
<td>4,500,000</td>
</tr>
<tr>
<td>Nepal</td>
<td>FCO</td>
<td>5,200,000</td>
</tr>
<tr>
<td>Russia/CIS</td>
<td>FCO</td>
<td>6,000,000</td>
</tr>
<tr>
<td>Security Sector Reform (SSR)</td>
<td>DFID</td>
<td>6,250,000</td>
</tr>
<tr>
<td>Small Arms and Light Weapons (SALW)</td>
<td>DFID</td>
<td>3,250,000</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>FCO</td>
<td>500,000</td>
</tr>
<tr>
<td>United Nations</td>
<td>FCO</td>
<td>7,500,000</td>
</tr>
</tbody>
</table>

Strategies total              | 75,450,000       | 87,384,000                |
The allocation for Afghanistan includes £3.875 million of DFID funding (delivered via the GCPP), in addition to £9.5 million of core GCPP funding. The final figure for Iraq similarly includes £0.95 million of funding transferred from the Peacekeeping element of RFR2.

All three departments are involved in the CSR process, and Ministers have written jointly to the Chief Secretary regarding funding in the next Spending Round.

— the proportion of funding which is normally sought for in the Main Estimates and the supplementaries;

DFID requests the previously agreed annual ACPP allocation from HMT in the Main Estimates. This was £63 million for FY 06/07. Approximately 10% is held back as an in-year Reserve. The rest is divided between the three departments on the basis of the bids approved by Ministers. Any subsequent reallocations between departments are handled through the supplementaries.

The FCO requests the annual GCPP allocation of £74 million from HMT in the Main Estimates. As we do not have full information about planned project activity when making that request, £64 million is distributed between the three departments in proportion to their overall spend in previous financial years. The remaining £10 million is held back. At the Winter and Spring Supplementaries, the FCO claims the EYF agreed for GCPP, and makes any necessary further transfers between departments based on fuller information on planned spending.

— how the different departments coordinate with each other in the delivery of the projects

The ACPP coordinates joint conflict analysis and Pool allocations and provides broad monitoring and evaluation for the Pool portfolio with some in-depth reviews and lesson learning on key thematic issues. Coordination is achieved through regular ACPP steering team meetings, through the use of four Regional Conflict Advisers based in Africa and through in-country interdepartmental teams in our overseas posts. A performance review published in 2006 identified significant ACPP impact in terms of encouraging greater interdepartmental working, developing formal and informal conflict related networks and enhancing UK performance on core pan-African and regional issues such as support to the African Union on peace and security issues; all at comparatively low administrative costs (around 5%).

Each regional or thematic strategy within GCPP is run by a Strategy Team, comprising representatives of all three departments (and sometimes OGDs). These teams agree the conflict assessment and the strategy for dealing with it. They consider all project bids, including arrangements for delivery, monitoring and evaluation. Projects can only proceed once they have been approved by representatives of all three departments. Delivery of a project, including oversight of any third parties (eg NGOs) involved, is usually led by one of the three departments. The department uses its internal controls and procedures to ensure effective management. Other departments are involved in delivery, monitoring and evaluation as appropriate. And all three departments learn lessons through evaluation of projects and take stock of project outcomes when deciding the future direction of the strategy.

Regular meetings of all three departments represented at posts involved in delivering GCPP programmes are also required. Many strategies use video- or tele-conferencing to involve in-country representatives in strategy meetings in London. Other tools for coordinating tri-departmental work in London and overseas include field visits, duty visits to London, formal (internal) reports and external reviews.

Work is ongoing to review and improve the management structures of the GCPP as part of the CSR07 process.

Question 21 What amount of the provision outside RFR 2 in the Main Estimates could be identified as expenditure which is directed at achieving conflict prevention?

Answer

FCO expenditure is broken down according to international priorities. International priority 3 is “Preventing and resolving conflict through a strong international system”. Final figures for 2006-07 are not yet available, but will be published in the FCO Resource Accounts for 2006-07. For 2005-06, spend on international priority 3 was £584 million. (RFR2 spend for that year was £296 million.)
UK TRADE AND INVESTMENT

Question 24 The Departmental Report 2007 on UK Trade and Investment states that the “UKTI has identified a priority of 16 high growth markets, based on an assessment of the relative importance of different markets for UK business and the value of committing further resources in these markets. They are Brazil, China, India, Indonesia, Malaysia, Mexico, Qatar, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Thailand, Turkey, United Arab Emirates and Vietnam.” (p 17)

(i) Will the UKTI have a target in the forthcoming Comprehensive Spending Review that measures the success of UK business in selling exports to the 16 high growth markets, it has identified?

(ii) The Report suggests that the initiative will focus on companies which will have export experience already, but not in these particular “high growth” markets. On what basis has the decision been made to focus on these companies, rather than companies which are already selling to these markets but have the potential to increase their exports still further, or companies which are currently not exporting at all but produce goods which are in demand in these high growth markets?

Answer

(i) Targets for UKTI in the forthcoming CSR period are under discussion with Treasury. UKTI’s current PSA target, which remains valid in 2007–08, focuses on delivering a measurable improvement in the business performance of UKTI’s international trade customers. Measurement is carried out through independent surveys of UKTI clients, the Performance Impact Monitoring Survey (PIMS). PIMS provides robust evidence that UKTI’s trade services enable companies to upgrade their export capabilities, and overcome barriers to overseas markets, resulting in improved business performance. Latest survey results show that at least 50% of all exporters assisted, including in the 16 high growth markets, improved their business performance as a result; and that UKTI trade services over a year generated an estimated total financial benefit to businesses of around £2.5 billion.

(ii) A key theme of UKTI’s strategy, set out in “Prosperity in a Changing World” published last summer, is to focus the organisation’s efforts and resources where they can make the biggest difference. The new focus on 16 high growth markets has two elements. One is a reinforcement of resources in these markets. More than £5 million of UKTI’s staff resources in its overseas network is being moved to these markets in order to deepen the UK’s trade and economic relationships and to ensure UK companies are best placed to make the most of the business opportunities on offer. In two key markets, China and India, resources have been further strengthened by increasing funding to partner delivery organisations, the China Britain Business Council and the Indo-British Partnership Network. This will mean that UKTI is better placed to support all UK-based companies, from the experienced to first-time exporters. The second element is a pilot scheme to target companies with existing exporting experience that are ready to make the step into more demanding markets. A team of high growth market advisers is being set up to manage relations with these companies, making an initial offer, advising and signposting, and referring them to UKTI and other services. The limited resources for this new scheme are likely to have the most impact targeted at companies with a track record in exporting, but which would otherwise be less likely to access the significant opportunities in these high growth markets.

EFFICIENCY SAVINGS

Question 28 The Departmental Report states that “service quality has not suffered as a result of the efficiencies (p 127). What measures are you undertaking to monitor service quality and ensure that it does not fall as a result of projects which are intended to improve efficiency?

Answer

A variety of different tools are used as balancing quality measures (BQMs) to monitor service quality depending on the nature of the project. BQMs include consultation with directorates, usage of key performance indicators and achievements against strategic priorities. The results from the different measuring tools indicates whether quality of service/output has been impacted by the efficiencies achieved.

The FCO’s main service delivery arms (Consular, UKVisas, and UKTI) have their own measurements of service quality.
Question 30 The NAO report on efficiencies gives a “green rating” to the measurement of efficiencies in the efficiency savings project in the BBC World Service. However it gives a “red rating” to the measurement of efficiencies in the project relating to the overseas network of the FCO staff engaged in the UK Trade and Investment work, because there was uncertainty whether efficiency gains were being double counted between the FCO and the UKTI (NAO. The Efficiency Review: A Second Review of Progress, p 50). What measures are you taking to ensure that there is no double counting of efficiency gains between UKTI and the FCO?

Answer

The FCO do not report any UKTI efficiencies as part of our efficiency programme, hence there is no direct double counting between the two and the UKTI and FCO efficiency programmes are reported separately from one another.

Most of the projects undertaken by the FCO involve no issues with UKTI and as a result are not relevant in relation of “double counting”. Where elements within projects can be identified as coming directly from UKTI reductions (eg UKTI elements of the Alternative Representation project), these elements have been excluded from FCO figures. However, it has not been possible to exclude indirect effects. Thus, if UKTI reduces its presence in a post, this may make easier reductions in management and support costs that may be recorded as part of the FCO’s efficiency programme.

CORE TABLES

Question 32 Administrative income in 2006–07 is estimated to be £128 million in the 2006–07 Departmental Report (Table 8, p 133), 27% higher than was planned in the 2005–06 Departmental Report, where it was set at £101 million (Table 12, p 87). Why has administrative income been so much higher than expected in 2006–07?

Answer

The increase in income largely reflects changes reported in the 2006–07 Spring Supplementary Estimate, in particular:

— £16.6 million resulting from activity relating to the selling into Wider Markets initiative;
— £7.3 million from hard charging other government departments in relation to the FTN communications system; and
— £3.4 million VAT refunds.

Question 33 Why have staff numbers for 2005–06 changed from 6,166 in the 2005–06 Departmental Report (Table 13, p 88) to 6,233 in the 2006–07 Departmental Report (Table 9, p134)?

Answer


Question 34 The estimated income for visa and other services provided at consular services is set to increase by 10% from £254 million in 2006–07 (DR 2005–06, Table 15 p 91) to £279 million in 2007–08 (DR 2006–07, Table 11, p 137). What proportion of the increase is due to an increase in visa fees and what proportion is due to an increase in the forecast demand for services?

Answer

Income for 2007–08 assumes no growth in demand for visa services and is based solely on increased fees.

Question 36 In the 2005–06 Departmental Report the following projects were listed as long term capital projects: Mumbai Office with an estimated completion date of 2009 and the Ljubljana Residence with an estimated completion date of 2008 (Table 16, p 93). Why are they not listed in the 2006–07 Departmental Report (Table 12, p 139)?

Answer

The long term capital projects table in the 2006–07 Departmental Report (Table 12, p 139) refer to financial year 2007–08.

The long term capital projects table in the 2005–06 Departmental Report (Table 16, p93) was compiled before the collapse in early 2006 of an agreement with a local developer to deliver new offices in Mumbai. Recent negotiations to purchase three floors in the Naman Chambers building were only successfully completed after finalising the table for the 2006–07 Departmental Report.
The Ljubljana Residence project was completed in 2006–07 so no longer features in the long term capital projects for 2007–08. The 2005–06 Departmental Report showed £5,000 to be spent in future years for the retention of funds for the contractors defects liability and final sign off of the project.

Question 37: Expenditure on consultants increased by 46% from £24.07 million in 2004–05 (DR 2005–06, Table 25, p106) to £35.4 million in 2005–06 (DR 2006–07, Table 21, p146). Why has expenditure on IT and estates projects consultants increased so much? What is your budget for expenditure on consultants in 2006–07?

Answer
The increase in consultancy costs from £24.07 million in 2004–05 to £35.4 million in 2005–06 is primarily as a result of the costs associated with the development of the FCO’s next generation global IT desktop and laptop infrastructure and applications.

The FCO does not formally set budgets for consultants. In general, budgets are set for an individual project. It is for the project manager to decide on what expertise is required. In addition, budgets for these individual projects are devolved to over 200 posts and a large number of directorates and departments in the UK.

Most staff employed on a consultancy basis are employed to supply professional expertise on estates issues and information technology. The FCO’s use of external consultants helps to contribute to the success of projects by providing relevant new knowledge, specialist skills, experience and an independent view of key issues not available in-house. This wider experience and broader perspective, drawn from their work with other organizations, can add value to what the FCO does.

Question 38: Corporate sponsorship has fallen from £987,200 (DR 2005–06, Table 26, p 107) in 2005–06 to £21,750 in 2006–07 (DR 2006–07, Table 22, p 147). Do you expect corporate sponsorship to return to its previous 2005–06 levels in 2007–08?

Answer
The majority of the sponsorship generated in 2005–06 was in relation to two projects: Sponsorship of the G8 summit at Gleneagles generating £650,000 and event in Tokyo to promote modern UK design generating £252,400. Combined, these amount to £902,400 of the total £987,200 generated for the year. There are no major projects that we are aware of for 2007–08 that would attract sponsorship on this scale. We do not therefore expect sponsorship to return to its previous 2005–06 levels in 2007–08.

Progress Against Recommendations in the Financial Management Review

Question 39: What progress has been made against the following recommendations in the Financial Management Review?

— There should be less use of “off line” and instead the global network of PRISM should be fully exploited.
— Financial skills should be embedded throughout the organisation in line with the rest of Whitehall using the new Professional Skills for Government framework.
— Resource management units should be accountable to the Finance Director as well as individual Directors general.

Answer
— The FCO is making more use of standard Oracle functionality, thereby reducing the need for “off line” systems. The global rollout of Prism was completed in May 2006 and major benefits ensued. Prism enabled the laying of the FCO’s 2005–06 Accounts by July 2006, a major advance on previous years and we remain on course to achieve a similar target for FCO’s 2006–07 Accounts. On procurement, Purchase Orders are now almost universally in use globally to drive FCO purchasing. Key HR functions are now carried out on Prism, with the introduction of further HR functionality imminent. The FCO Board reports significantly improved management information. This year, the appointment of a Director General, Business Change and Service Delivery to lead a new directorate will bring Board-level coherence and focus to the FCO’s global change programmes and projects.
— The FCO established a new SMS-led Financial Skills Team to provide impetus and coherence to financial skills and training. The Team reports directly to the DG Finance and leads on policy and delivery. The Audit and Risk Committee is about to consider an outline business case for an 18 month financial skills project aimed at improving financial management skills through both internal staff development and a limited amount of external recruitment. Subject to approval, the key features would be developing a financial skills framework that maps skills needed to jobs; delivering those skills through an improved finance training programme; establishing a trainee accountants scheme; and recruiting external finance specialists to a small number of key jobs. The
FCO is making progress towards the Cabinet Office target of 75% of SMS and Band D staff completing the Finance Skills for All e-learning and continues to invest heavily in Prism training (4,700 staff trained on Prism processes) and areas such as programme and project management.

The FCO has launched a review of resource management units in terms of their number, size and skills and their relationships with Finance Directorate. This will include issues of accountability. The aim is for the review to be completed by mid-August 2007 and implemented thereafter.

**Estimates Memoranda**

**Question 40** In your written response to questions about the Spring Supplementary Estimates dated 23 April 2007, you stated that 63 visa posts overseas now operate a biometric visa regime.

(i) *What proportion of visitors into the UK now require a biometric visa?*

(ii) *Is the FCO aiming for all visitors into the UK to require a biometric visa? If so, when are you aiming for this to take place?*

**Answer**

(i) We are currently in the second phase of the global rollout with the technology now in use in 71 countries (as at 4 June 2007). A list of these countries is given below. The number of visa applications in the 71 countries in which we are currently collecting biometric data annually account for over 35% of global UK visa applications.

(ii) Our aim is to collect biometric data (10-fingerscan and a digital photograph) from all visa applicants, as part of the application process, wherever in the world they apply, by April 2008. By April 2008 we plan to have completed the process of equipping all of our visa issuing posts in approximately 140 countries and all of the offices of our commercial partners (111 Visa Application Centres in 53 countries).

Biometrically enabled countries in alphabetical order (71):

Albania, Angola, Argentina, Armenia, Azerbaijan, Bangladesh, Belgium, Bolivia, Bosnia, Botswana, Bulgaria, Burma, Cameroon, Chile, Democratic Republic of Congo, Croatia, Cuba, Cyprus, Czech Republic, Denmark, Dominican Republic, Ecuador, Estonia, Ethiopia, Finland, The Gambia, Georgia, Ghana, Greece, Guyana, Hungary, Iran, Iceland, Jamaica, Jordan, Kenya, Latvia, Lebanon, Lithuania, Malta, Mauritius, Mexico, Moldova, Morocco, Nepal, The Netherlands, Nigeria, Norway, Pakistan, Peru, Philippines, Poland, Portugal, Romania, Senegal, Seychelles, Sierra Leone, Spain, Sri Lanka, Sudan, Sweden, Syria, Tanzania, Trinidad and Tobago, Tunisia, Turkmenistan, Uganda, Uruguay, Venezuela, Vietnam and Zambia.

**Question 41** In your response to our questions on the Winter Supplementary Estimates, you stated that part of the increase in administration budget from 2005–06 to 2006–07 is due to the fact that there was “a planned under-spend against budgets in 2005–06 in order to build up End-Year Flexibility and its subsequent take-up”.

(i) *Why did you need to plan an under-spend in the administration budget in 2005–06, in order to build up EYF and ensure its subsequent take-up in 2005–06?*

(ii) *You have also stated that you expect to under-spend against the administration budget for 2006–07. What is your expected under-spend?*

**Answer**

(i) FCO planned an underspend in 2005–06 in order to build up EYF to meet restructuring costs arising from improved efficiency as set out in the SR04 Efficiency programme.

(ii) We are currently finalising our Resource Accounts for 2006–07. Our final out turn against Administration Budgets will therefore be published shortly.
In the Main Estimates Memorandum you have stated that you expect to spend £66 million of FCO EYF on estates projects and IT that is more fit for purpose and better value for money. Could you give a more detailed breakdown of the £66 million, showing what proportion you intend to spend on estates projects and what proportion you intend to spend on IT?

Answer

£56 million of our capital EYF is planned to be spent on estates projects and £10 million on IT equipment in relation to Biometric Visas.

Witnesses: Sir Peter Ricketts KCMG, Permanent Under-Secretary and Head of the Diplomatic Service, Dickie Stagg, Director-General Change and Delivery, Keith Luck, Director-General Finance, and David Warren, Director Human Resources, Foreign and Commonwealth Office, gave evidence.

Q1 Chairman: Good afternoon. Could members of the public please turn off their mobile phones, and if you have a problem, take the batteries out?

This is an annual event where the Department comes before us to discuss its Annual Report. Although we know you very well, Sir Peter, this is your first appearance before us in your new capacity. We are very pleased to have you here today. Perhaps you will introduce your colleagues and then we will open with a question from Sir John Stanley, who wants to ask about a particular area, and then we will get into more general activities.

Sir Peter Ricketts: Thank you very much indeed, Mr. Chairman. I am accompanied by two faces that will be familiar to you, Mr. Dickie Stagg on my left, who is our Director-General for Corporate Affairs and has appeared before you a number of times, and Mr. David Warren, our Director of Human Resources. Mr. Keith Luck, a new face, is our Director-General for Corporate Affairs, who started life as a professional accountant in the private sector and has spent time with local authorities and the Metropolitan police before coming on to our Board at the beginning of the year.

Q2 Sir John Stanley: Sir Peter, before the Foreign and Commonwealth Office unilaterally terminated its cost-sharing agreement with the Ministry of Defence on the defence attache network worldwide earlier this year, did your Department have discussions with the Cabinet Office and other relevant Government agencies as to the implications of that move?

Sir Peter Ricketts: No, Sir John. That decision was taken in the FCO because, like all Departments, we are under real pressure from the Treasury to show efficiency savings. We therefore had to look at the totality of our expenditure and make some prioritisation choices. One choice that we made was that the £10 million or so a year that subsidised the defence attache network was not a priority for FCO funds. We took the view that it was entirely right that the MOD should fund the defence attache network for defence purposes, but we did not feel that that was a high priority use of FCO funds, and so we took the decision. I discussed it with my counterpart in the MOD and we are making arrangements for transitional plans, but it was an FCO decision.

Q3 Sir John Stanley: Sir Peter, I am dismayed and very surprised that your Department did not engage in the wider consultations to which I have referred. Did your Department not reflect on the wider national security implications of such a decision? If it did not, surely it should have, and consulted the relevant Government agencies.

Sir Peter Ricketts: We certainly reflected within the FCO. We have a set of strategic priorities that we are funded to deliver. The MOD is funded to deliver defence priorities and we concluded that the money that we were subsidising for MOD defence attaches around the world was not a priority for FCO funds. We co-operate and work extremely well with the MOD, and that has continued since this decision—it has not affected the good co-operation between us—but we have concluded, and the Foreign Secretary agreed, that the MOD should decide on the disposition of the defence attache network.

Q4 Sir John Stanley: Are you saying that the FCO’s current view is that the defence attache network contributes very little to its responsibilities and objectives?

Sir Peter Ricketts: I am saying that I believe it serves primary defence objectives, and it is therefore right it should be funded by the MOD. Defence attaches continue to work in close co-operation with FCO-funded parts of our missions abroad, but we concluded, yes, that the funds that we had been providing, frankly, were not delivering high-priority outcomes for the FCO.

Q5 Sir John Stanley: Finally, will you remind the Committee of the conclusions in Lord Franks’s report, following the Falklands war, as to the main sources of information of our post in Buenos Aires about the whereabouts of the Argentine navy in circumstances in which significant cuts in that post had been made by the then Conservative Government?

Sir Peter Ricketts: I cannot, I am afraid.

Q6 Sir John Stanley: If you consult the reports, Sir Peter, you will find that Lord Franks concluded that, as a result of the cuts, the main source of that critical information was the local press reports. I hope that I have made my point.

Sir Peter Ricketts: You certainly have, Sir John, and I will reflect on it, but I believe that the MOD and the FCO are co-operating very effectively. As a result of this decision, the MOD has had to review internally
the disposition of its defence attache network. That is something that we will work with it on, but it has clarified where the priority lies between the FCO and the MOD in terms of functions and embassies.

Q7 Mr. Keetch: I absolutely, totally agree with what Sir John Stanley has said, and I find this cut in our overseas capability frankly astonishing. Sir John is a former Armed Forces Minister, and all of us on the Committee know of the close relationship between defence and foreign policy, and that some of us sometimes cross the line from one field to another. The reality of what you are saying is that the FCO has built a little castle, put a moat around it and said, “We aren’t going to support defence capability in our embassies overseas,” in a way that could be disastrous for foreign policy. Sir John related it to the Falklands conflict. I think it was the direct withdrawal of a defence attaché in South America that achieved that.

Are you saying that we should no longer have a defence attaché, and that the FCO no longer has any view or influence on, or suggestion at all about where we should have a defence attaché, given that a defence attaché provides not only defence advice to the ambassador but eyes and ears to go and look at things in a way that, with the greatest respect, a diplomat, accountant or someone in charge of human resources cannot do? This country gets involved in great export opportunities throughout the world involving legitimate defence exports; are you saying that you are going to take support away from defence attachés in those posts and leave them solely on the MOD budget?

Sir Peter Ricketts: I am saying that the promotion of defence exports seems to be properly a call on MOD resources, not FCO resources. I go back to where I began: we are under pressure, as are other Government Departments, to find efficiency savings, so we have to scrutinise every pound that we spend. We have concluded, and the Foreign Secretary agreed, that the £10 million or so that we have been subsidising about 30% of the cost of the defence attaché network, so 70% of it remains funded by the MOD. The MOD will be concluding whether it wants to reduce the total number of defence attachés around the world, which is one possibility, or to increase the funding to keep the same number. I think that actually the MOD has taken the opportunity to have a critical look at how many defence attachés it has around the world, and where they are deployed. It is always a good thing to keep that kind of issue under review.

Chairman: Andrew Mackinlay, very briefly, then we will move on.

Q10 Mr. Purchase: I want to know, if I may, why a function that has worked for a number of years is suddenly deemed, during an efficiency drive, to be no longer necessary? Has that function now ceased completely?

Sir Peter Ricketts: No, the function continues. We have, I think, subsidised about 30% of the cost of the defence attaché network, so 70% of it remains funded by the MOD. The MOD will be concluding whether it wants to reduce the total number of defence attachés around the world, which is one possibility, or to increase the funding to keep the same number. I think that actually the MOD has taken the opportunity to have a critical look at how many defence attachés it has around the world, and where they are deployed. It is always a good thing to keep that kind of issue under review.

Q8 Mr. Keetch: So, core FCO business includes supporting laudable things like the Westminster Foundation for Democracy for political party training. British culture and all sorts of other trade and investment operations through UK Trade and Investment, which I support, but it does not include helping to have somebody in post who can recognise one kind of missile or submarine from another? Is that what you are saying—that that is no longer a foreign policy priority for the Foreign Office?

Sir Peter Ricketts: I am saying that the funding of military officers serving abroad should be a call on MOD budgets.

Mr. Keetch: I am astonished.

Q9 Mr. Purchase: I do not think that this is catastrophic, but I worry that it might be indicative of the lack of co-ordinated approaches across the Government, not just the FCO and the MOD. I am concerned that you say that it is £10 million-worth of savings, for a function that you do not think is necessarily central to what you are doing, or even peripheral to what the FCO does overseas.

If I were to become the Chancellor of the Exchequer tomorrow, why should I not just take £10 million from you and give it to the MOD to carry on with that function?

Sir Peter Ricketts: We will try to persuade the Chancellor that this is a sensible decision about prioritisation of available FCO money, and that we believe that we have higher priority calls on it than the subsidy to the defence attaché network. I would be very happy if the FCO had no pressure on it for efficiency savings, and could continue the subsidy and continue the defence attaché network as it has been. However, given the pressures that we are under, I think that it is right that the MOD should look at the disposition of the defence attaché network, on the basis of the resources that it feels it can put into it.

Q11 Andrew Mackinlay: I am not unsympathetic to what you have said, to the extent that I do not think that the FCO budget should necessarily promote the sale of arms—that may be a decision for other Departments—but surely there could be some occasions, such as with an emerging country, where, as a foreign policy objective, we want to get the armed forces up to good standards, with inter-operability and so on. Is there not a case, rather than talking about defence teams and defence attaché budgets, for that to be on a merit basis?

There might be some occasions when, properly and legitimately as a foreign policy objective, you should be making a contribution, and other cases where you say to the Ministry of Defence, “No, that is inappropriate.” It seems that our discussion of the past few minutes has made the issue appear black and white. I do not know the position of Montenegro, but by way of example, presumably we want to ensure that its armed forces are signed up to good ethics and are robust and have inter-operability. They are probably even coming into NATO.

Sir Peter Ricketts: I do not mean to make it sound as black and white as it has sounded over the last five or 10 minutes. I agree that there are shared interests...
between ourselves and the MOD over things such as supporting the growth of democratically accountable armed forces and improving their capability and so on. That is something that we talk to the MOD about all the time. The MOD is kind enough to go on discussing with us how it will dispose of its defence attached assets around the world. We have funds through the global conflict prevention fund that we can use to help training attachments and fund courses in these countries. So it is not completely black and white.

However, having taken this decision to take our subsidy away from the DA network, I am not inclined to go down the road of funding some but not others. That at the same time, the demands upon us. We should co-operate together on a common strategy for achieving what you are talking about, yes, and that is happening.

Q12 Chairman: I now move on to more general issues. Sir Peter, the FCO Board decided its negotiating strategy with the Treasury for the comprehensive spending review in November 2006. Having decided that strategy, can you tell us how the negotiations are going? Are there any particular difficulties or sticking points? And are you optimistic that you will get what you want?

Sir Peter Ricketts: It would be unwise of any official around Whitehall to be too optimistic, Mr. Chairman. Thank you for giving us the opportunity to bring you up to date on the CSR process; it seems to have been going on for some time.

Perhaps I could start by saying that I strongly believe that the FCO is a more efficient organisation than it used to be. That we give good value for money, and that the case for the global presence that the FCO provides in a globalising world is one that is of real value to the Government.

If we look back over the last couple of spending rounds, the FCO’s budget had been growing more slowly than that of most other Government Departments, so we have been working in those spending rounds to find the type of efficiencies that you have just been talking about. We have also been making some tough choices about where we deploy people, including moving people away from Europe towards India and China, and so on.

At the same time, the demand on us from other Government Departments for the use of our embassy facilities around the world and the demand from members of the public for the consular and visa services that we offer continues to rise. So we are facing growing demands for our services.

However, we recognise that the FCO cannot be exempt from the drive across the Government for efficiencies. In his last Budget, the Chancellor set out that he was looking for all Departments to cut their administration budgets to find efficiencies of 5% and to cut overall budgets by 3%. Those were his targets.

The Foreign Secretary has had a number of discussions with the Chief Secretary to the Treasury, and we have tried to offer a way of meeting those targets that does not involve making significant cuts in our overall global presence. We believe that there is a means of achieving that objective.

On the 5% reduction in our administration costs, which all Government Departments have been asked to produce, we have said to the Treasury that we will strive to make those cuts provided that it is prepared to define our administration costs as they do those of other Departments. I say that because, for some reason that I do not fully understand, at the moment all FCO activity pretty much counts as administration, so the cost of our ambassador in Kabul or in Baghdad counts towards our administration costs, which for most people in other Departments is their support costs or perhaps their HQ costs. We are trying to agree a definition of our administration costs that would allow us to reduce them by 5%, largely through moving towards a shared services model for our support services abroad. We can talk more about that, if you like.

Chairman: We will come to that later.

Sir Peter Ricketts: Regarding the 3% overall cut in the budget, given that we are an organisation that is very heavily dependent on manpower—people are our main cost—that is a much more difficult target to meet. In our view, it would be feasible to meet that target if the Treasury recognised one very large element in our budget, which is the subscriptions to international organisations that lie on our account. So the UK subscriptions to the United Nations, NATO, the Organisation for Economic Co-operation and Development and other international organisations are all part of our budget, and the subscriptions have been going up much faster than our budget. That is a big constraint, so we are also discussing that with the Treasury.

The third area that we are in discussion with the Treasury about is our capital requirements, because the cost of keeping our people secure in embassies around the world at a time of rising threats is mounting. Therefore, we need to have enough capital to meet our key security costs around the world.

I think that those are the three areas where we are actively trying to cut costs. Negotiations continue, and are likely to continue for some months yet.

Q13 Chairman: Summarising what you are saying, you have increasing costs of membership of international organisations, which are not under your control and cannot be under your control because they are international organisations, and yet the Treasury regards your overall budget as the place where the efficiency savings have to be made. So the efficiency savings that you are expected to make on things that are under your control are of considerably higher proportions than this 5% figure.

Sir Peter Ricketts: That is exactly right.

Q14 Chairman: Therefore, other Government Departments that do not affiliate to international organisations in the same way—they do not have to pay a contribution to the UN or other international organisations—do not have the same pressures on them.

Sir Peter Ricketts: We pay the subscription on behalf of the Government as a whole, and our budgetary allocation for that has not kept pace with the rising subscription levels. So as the British economy...
becomes stronger and the costs of our subscriptions rise, we must find further savings. That is the current position.

Q15 Chairman: Of course, we also as a country have a commitment to help the UN with regard to various activities that are additional to the budgeted contribution to the UN system. Sir Peter Ricketts: Indeed we do. For example, that includes peacekeeping and other UN activities. One final additional cost on that front is that both the UN and NATO are building new headquarters buildings, for which all countries have to subscribe, including the UK, and that comes from the FCO capital budget.

Q16 Chairman: Perhaps you should talk to the Ministry of Defence about getting some of that money from the defence budget. Sir Peter Ricketts: That is a very good idea.

Q17 Chairman: May I ask you about security? What proportion of your bid for an increased budget relates to making our embassies, residences and representations in other countries secure to meet modern standards against terrorism? Sir Peter Ricketts: It is a very substantial proportion of it, but I am not sure that I can give you a precise figure.

Q18 Chairman: Perhaps you could send us a note. Sir Peter Ricketts: I will. Our estates budget is driven very largely by security. In other words, we are replacing embassy buildings and residences that are insecure and it is extremely expensive to find places that are far enough back from the road and built to an adequate standard for security, so security is the driver. Let me write to you, if I may.

Q19 Chairman: Clearly, the Committee will be concerned if the country’s effectiveness internationally is seriously damaged because we have to, quite rightly, protect our staff, but thereby undermine our level of representation. We will come on to the question of posts and the footprint later on, but for the record, I wish to flag up that those are matters of deep concern. Sir Peter Ricketts: I appreciate the Committee’s concern and will be happy to write.

Q20 Mr. Horam: On the question of security, in the 2004 spending review, the FCO received an additional £200 million for security. Do you expect to receive any additional amount for security in the current spending round? Sir Peter Ricketts: I think that we received an additional £60 million for each of the three years of the spending review, which is about £120 million in total. [Interuption.] May I correct the record, Mr. Chairman? That figure should be £180 million. We have made good use of that, and as a result, we have a number of embassy properties that are much safer and more secure than they were.

Q21 Mr. Horam: I was trying to get at whether the issue of security outweighs the restraints that are imposed on you by the Treasury, which we have been discussing. Is that a separate item or is it within that overall envelope? Sir Peter Ricketts: We are not at present being offered the additional sums that we were offered in the last spending round, but we need something of almost that magnitude, if not quite at that level, to continue to make inroads into the list of posts that are not currently secure. Dickie Stagg: May I add a small point? In the 2004 spending review settlement, we put in a particular bid for security in the immediate aftermath of the attack on the consulate in Istanbul. There was a rather specific set of issues related to that attack, which we wanted to try to prevent from being repeated elsewhere. But I think that Sir Peter made a fair point about the case for additional security expenditure going forward.

Q22 Mr. Horam: Which still exists? Dickie Stagg: It does. Sir Peter Ricketts: Unfortunatley, the list of posts that need attention on the security front is still considerable.

Q23 Mr. Horam: May I move on to public service agreements, which relate to the issue of Treasury management? It is rather ironic, in the light of your decision on defence attaches’, that the Treasury is actually promoting the idea of cross-departmental working on public service agreements and cross-departmental public service agreements. How does that affect you? Do you have a number of public service agreements where you are working with, for example, the MOD or the Department for International Development and do you have a number which are individual to you alone? Is that how it works? Sir Peter Ricketts: The approach to public service agreements in this spending round is different from how it has been in the past and the Treasury’s intention is that all public service agreements should be cross-departmental so that, instead of having some that apply to only one Department and some that are joint, there will be a much smaller number and they will all be cross-cutting, which seems to me to be a good idea because public service agreements are—

Q24 Mr. Horam: So how many did you have before that revolution in public service agreements and how many do you expect to have? Sir Peter Ricketts: We had nine in the last spending round and expect to be associated with three or four in the coming spending round.

Q25 Mr. Horam: So the number will fall? Sir Peter Ricketts: The number across Government will fall. We will lead Whitehall’s work on the conflict PSA. We can talk more about that if you like. We will be associated with a number of other PSAs, on migration, on counter-terrorism and on sustainable development, for example.
Q26 Mr. Horam: Are these now under way?  
Sir Peter Ricketts: They are now under discussion among Whitehall Departments, to be finalised when the CSR is announced in the autumn.

Q27 Mr. Horam: On the one that you are leading, on conflict prevention, you are having discussions with various non-governmental organisations, academic community think-tanks and so on. How does that work? What do you expect to get from those organisations?  
Sir Peter Ricketts: We have always found that the conflict PSA is the most difficult PSA about which to get sensible performance measures that mean something. They do not just measure activity, such as the number of conferences held or of peacekeepers deployed; they try to get at, in a meaningful way, whether what the FCO is doing has an effect on conflict regionally or globally. In the CSR 2004 PSA on conflict, we made an effort to produce good measures, although I am not sure that they were all that good.

In this PSA, we are trying to have both a quantifiable sense of how much conflict is going on in the world and what Departments can do about it, and some more specific milestones for the individual programmes that we will pursue, to show that we are making some progress towards stability in individual countries. That will involve a mixture of working with places such as the university of British Columbia, which has a model for measuring conflict globally, and referring to more specific milestones that apply to the activity of our Department. Through them, we will try to focus on the outcome that we achieve, rather than just measure processes.

Q28 Mr. Horam: Do you think that public service agreements are intrinsically more difficult for the Foreign Office than for other Departments? Reducing waiting lists in the health service, for example, has a measurable outcome. It is much more difficult in your case, because you are dealing with less tangible things.  
Sir Peter Ricketts: We can use them well for our service delivery work, such as consular and visa work. We can have PSA targets for that.

Q29 Mr. Horam: But not for conflict prevention.  
Sir Peter Ricketts: I personally think that conflict prevention is one of the most difficult areas. It is a policy area and an area in which, with the best efforts in the world, the British Government are only one player, and the FCO is only one of the British Government players, trying to effect peace in the Middle East or in Afghanistan. That does not mean to say that what we do is irrelevant; I hope that it is not, but we have always found it difficult to measure how much of an impact we make. For this PSA, we are putting serious effort into a better set of performance measures, which will then be common to us, DFID, the MOD and the Cabinet Office, and should therefore ensure that all Departments are working together in this area.

Q30 Mr. Horam: I must say that I am rather unconvinced by the amount of work that you have to put into something that is inherently rather difficult to your point of view. How does a PSA, as you have described it, relate to your strategic objectives?  
Sir Peter Ricketts: In the last spending round, there was a fairly close, but not complete, match between our 10 strategic priorities and the then nine PSA targets, as demonstrated in our departmental report. The match was not complete because the targets were set in 2004 and lagged behind the development of our strategic priorities, which included the addition of climate change, for example. It was an imperfect overlay of one on the other. In the next spending round, there will be far fewer targets, so they will not cover anything like the full spectrum of the Department’s strategic priorities, but will all be geared to—

Q31 Mr. Horam: They will not cover all your strategic objectives?  
Sir Peter Ricketts: They will not cover all 10 strategic priorities. We will be left with a set of 10 departmental strategic priorities and, like other Departments, a much smaller number of PSA targets, which will be geared to identify targeted bits of our activity. I hope that that will be more helpful to us, because it will point us to areas of joint working with other Departments.

Q32 Mr. Heathcoat-Amory: May I pursue the point about public service agreements and their measurement? You have described rather well, Sir Peter, how the outcomes may be beyond your control. There may just be fewer wars one year, and therefore measuring you on outcomes might not actually reflect your efficiency and the effort that you put in. We have been told in answers to written questions that the Departments will be “moving away from the measurement of inputs, towards outcome-based measures wherever possible”. In a sense, we are moving in the wrong direction. Can you not find a better way of measuring inputs and outputs, and persuade the Treasury accordingly?  
Sir Peter Ricketts: Mr. Heathcoat-Amory, I am not sure I agree that we are moving in the wrong direction. We can easily measure inputs; in a way, that is the simple part of it. We can report to Parliament on how many visits we have made, how many conferences we have held, how many calls ambassadors have made around the world and all the rest of it. That does not tell you very much about what the FCO has achieved in terms of preventing conflict. Although it is much more difficult, it is more relevant if we hold ourselves to account on outcomes from all this work—what do we actually achieve from it? Difficult as it is, my own feeling is that it is right that officials should be told to account for what it is they actually change in the world. That is the way that work across Whitehall on these PSAs is going.

Q33 Mr. Heathcoat-Amory: But you may be just lucky. Those outcomes might be influenced beneficially by factors entirely unconnected with
your efforts, but you are going to be judged on them by the Treasury. That seems rather perverse, particularly since we are moving further in that direction.

Sir Peter Ricketts: I recognise your point that sometimes you get outcomes without a great deal of input from the UK. But I repeat what I said: measuring inputs measures enthusiastic work by Departments; it does not really measure whether that is achieving anything. If you want to take a view on whether all this activity is worth while, and whether it is a higher priority for funding than something else, holding us to the hard discipline of saying, “What are we actually changing in the world as a result of this?” is worth doing, even though it is difficult.

Q34 Mr. Heathcoat-Amory: May I ask you a little more about how you manage your Department? It must seem occasionally that you are being managed by the Treasury. May I bring Mr. Stagg in here, because I think he is the manager responsible? Incidentally, I am delighted to see him again. I think I last saw Mr. Stagg when he was an incredibly energetic private secretary about 15 years ago, so I am very pleased that he is now managing the Foreign Office. Mr. Stagg, how do you see your relationship with the Treasury? Yours is an old and very big Department, but it seems to be an appendage of the Treasury. The Treasury is responsible overall for deciding whether Government money is being spent effectively and the taxpayer is getting good value. I think we have to have some mechanisms and those revolve around outputs, which, as others have said, are much easier for some to measure than for others. Clearly, if you are running a trust hospital or building a road, you can judge the effectiveness of your activity quite well. For the consular and visa operations, which I am also responsible for, I think we have developed fairly clear PSA targets—we can measure them and get clear guidance as to whether we are delivering what people expect and want.

In terms of foreign policy, that is difficult, as you and Sir Peter have been discussing, but the reality as I see it is that the Treasury has an approach that involves giving Departments money to achieve things, not in order to make inputs into things. Therefore, we have to have some mechanism for measuring, however imperfectly, whether we are getting something out of the money that the taxpayer is putting in at the top of the machine.

We have to try to find some way to do that, and I think any thoughts from people around the table would be very helpful because we do not disagree at all about the difficulty, but I think that the Treasury and ultimately the British taxpayer would say, “Well, we want to know where this money is going to.” The relationship is not a marriage made in heaven, but it is reasonably sensible and grown-up.

Q35 Mr. Heathcoat-Amory: So you are happy about that. May I ask you about the use of consultants? It is sometimes observed that we suffer from too many consultants, who come in and borrow your watch and then tell you what the time is. Do you suffer from that in the Foreign Office and is it an influence of the Treasury on you?

Dickie Stagg: I will have a stab at my answer, then anyone else can join in. From my point of view, the whole term is quite difficult to define. In the answers that we have been giving Parliament about the use of consultants, the large bulk of the money, by far the biggest single sum, is spent on Hewlett Packard, which is our IT partner in developing a new global desktop system. Whether you define this as a consultancy is really quite an interesting and esoteric question, but I am absolutely sure that we need to have some high quality, private sector input into that process. So my perspective is that, in general, we get a good deal from them, but I am sure that there are examples where we have not got as much out of consultants as we would have hoped.

Sir Peter Ricketts: Perhaps I may add to that. I would like, during my time in this job, to see our dependence on consultants go down. I think we ought to be trying, where we can, to grow expertise in the Department that can take on some of the roles that consultants are rightly and inimitably helping us with at the moment, such as our IT programmes. I would like to see that decline over time.

Q36 Mr. Heathcoat-Amory: May I ask you a specific question about the Global Conflict Prevention Pool? I understand that the Pool is shared with the MOD and the Department for International Development, and there is one for preventing global conflict, but most of it seems to have been spent on Iraq and Afghanistan last year, which cannot be said to have been a huge success, as both are the subject of very high-intensity wars. Is there a danger that we actually use that preventive money in fire-fighting to deal with wars that we may not have started but have not been able to stop, rather than looking ahead in places such as Latin America and elsewhere to prevent future wars?

Sir Peter Ricketts: Thank you. I think that that is a very interesting question. My answer is, essentially, yes, I think that there is a danger of what you describe and it arises because of a long-standing problem in funding arrangements in Whitehall, which means that the Ministry of Defence, when conducting operations, is funded from the Treasury reserve for its operational costs, but the FCO is not. So we have to find the civilian costs of crisis management, such as in Afghanistan or Iraq, either from reprioritising our existing budget or from the Conflict Prevention Pool. Those are the only sources of money that we have got. The convention is that we cannot go to the Treasury reserve for our in-year short-term costs for crisis response, which we are now deeply engaged with.

We have people at risk in Baghdad and Basra, in Kabul and Lashkar Gah, who are effectively on operations and who need security, protection and money to survive in those very difficult environments. The only place we can get that, if we cannot find it from within our own budget, is the Conflict Prevention Pool, so the result has been that more and
more of the money in the pools has been allocated to the short-term requirements, and less and less to the long-term requirements.

I think that, over time, we need to find a better way of ensuring a cross-government approach to these crisis-management arrangements, to make sure that all Departments, including the FCO, DFID and the MOD, can respond to short-term crisis needs. We also need to maintain the pools for the longer-term conflict preventing work that I think they were originally conceived for. It seems that it is a frustration that is under active discussion, but we have not solved that problem.

Q37 Chairman: May I just pick up on something that Mr. Stagg said? He referred to the ability to measure performance on visa and consular work, but we are in the position of knowing that the FCO was unable to assess its performance on six out of its seven consular targets, because data in the consular annual return was not available. Could you explain why that was?

Dickie Stagg: There are two slightly different things involved, mine was a conceptual comment about the possibility of measuring—and

Q38 Chairman: Conceptually, you could, but in fact you have not.

Dickie Stagg: In practice, we have had a difficulty because the main IT system, Compass, used by our consular operation does not have as part of its functionality the ability to suck out directly details about the activity undertaken by staff. That is in the process of being changed, and by the autumn we will have it working properly. As a result, only at that stage will we have an accurate picture of the six targets to which you refer, other than customer satisfaction, which is handled separately.

Q39 Chairman: So this is an IT problem?

Dickie Stagg: Yes, I think it is, to be honest with you.

Q40 Chairman: May I switch to another IT problem? I understand from the efficiency savings forecast relating to those areas that there has been a delay. The annual report states that the efficiencies were reduced because the delay in the roll-out of the Future Firecrest programme to early 2008 meant that your savings would come not in this review period, but in the next one. Can you explain why that was and why it appears that while you were developing this programme, the Cabinet Office suddenly changed its security requirements, causing further difficulties? Is this not all a mess?

Sir Peter Ricketts: I will start with the general point and then pass over to Mr. Stagg. I do not think that it is a mess, Mr. Chairman. It is unfortunate that we were just on the point of investing in Future Firecrest when the security authorities changed the rules on IT systems that could be connected to the internet and the security arrangements needed for them. When they come across evidence, the security authorities have a duty to ensure that the rules take account of it and none of us wants to be responsible for lapses in IT security. However, it did confront us with a problem.

Sorting the problem out has caused delays and extra expense, but when we roll out Future Firecrest at the end of this year and into early next year, it will be secure and will perform the function that we need it to. You are quite right that as a result of that, it has not been possible to achieve the efficiency savings we hoped for in this spending round period.

Dickie Stagg: I will just add a couple of points. The reason for the delay is that we had to redesign the entire system fundamentally. That was something put on us by the Cabinet Office security experts—for understandable reasons, as there was very strong evidence that attempts were being made, in lots of ways, to use the internet as a way into our wider systems. We had to protect them, so a perfectly rational judgment was made, but that involved us having to make difficult decisions about how to reconfigure our system, given that many of our staff want to have access to both ends for their work—to the confidential tier, and to the internet.

We had to design a new style of structure that separates the confidential tier from the rest and allows only those working at the universal tier access to the internet. That was a very complicated piece of redesign.

Q41 Chairman: Let us be clear—the original timetable for Future Firecrest will not be met.

Dickie Stagg: No.

Q42 Chairman: And there will be additional costs as a result of the changes that you had to introduce.

Dickie Stagg: Correct.

Q43 Chairman: And the consultant on this is Hewlett-Packard.

Dickie Stagg: Yes, although I do not think that consultant is quite the right word. It is the private sector partner that we are working with.

Q44 Chairman: Who is going to pay the additional cost? Is that just a hit that you have because this is a decision that you have taken, or will you get compensation in some form from elsewhere in Government, or will the consultants—the people working with you—meet part of the cost?

Dickie Stagg: I do not think that we will get help from the rest of Government, who will think that we were merely following Government rules and are just unlucky that we happened to be at that particular stage in our procurement when the rules were changed. I do not think that we will get a sympathetic hearing on that, but I would welcome support from other parts of Government.

We are trying to work with Hewlett-Packard to minimise the cost. We are having a contract variation negotiation at the moment, which we hope will conclude in July. We believe that we will be able to make these changes at a cost well below that forecast nine or 12 months ago, through some quite creative input from Hewlett-Packard and our own IT people.
Q45 Chairman: How much would that be?
Dickie Stagg: It is a negotiation on which it would be rash to share my hand with you before we reach the end.

Q46 Chairman: Can you give me a rough ball-park figure?
Dickie Stagg: I would rather write to you, as we shall be able to do during the course of next month when we have the outcome.

Q47 Chairman: We will certainly get a note. Are we talking about a significant percentage increase?
Dickie Stagg: It is a significant increase. I am sorry to be hedging. We are involved in quite a delicate commercial negotiation.

Q48 Chairman: All right. We shall pursue it in writing and, hopefully, we shall get some more information.
Dickie Stagg: You certainly will. There is no desire to hide information from the Committee. It is merely that we have three or four weeks more of the negotiations.

Q49 Chairman: I am sure that if we do not get it, the Public Accounts Committee will be after you as well.
Sir Peter Ricketts: We will certainly provide you with the information, Mr. Chairman.

Q50 Chairman: I shall move on to some other issues relating to efficiencies and the discussion about the relocation target of posts. Under the Lyons process, you have a target of 450 people to be relocated by the third quarter of December 2010-11. I understand that 156 posts still need to be identified. Have you identified them and will you meet your target?
Dickie Stagg: Yes, we are on target to have the relocations complete by the end of calendar year 2010. The actual number that we have now reached is a bit higher than the figure you have because we have moved a few more people since then. We are around 200. We have had a negotiation discussion with the Office of Government Commerce. It managed the process and it is happy that we are on track to deliver it by the deadline.

Q51 Chairman: The 450 posts include about 200 relocated British Council posts. Is that correct?
Dickie Stagg: That is right.

Q52 Chairman: Was that always your intention or is it a way in which to massage the figure?
Dickie Stagg: It is not a way in which to massage the figure, Chairman. It is merely a reflection of the rules within which the Treasury makes us work, whereby our own non-departmental public bodies are counted in the figures for better or for worse. In some areas, that makes life more difficult for us. In others, it makes it slightly easier for us.

Q53 Chairman: So the fact that the British Council decided to have a major reorganisation was helpful to you?
Dickie Stagg: In this context, certainly Chairman.
Keith Luck: May I add a footnote? We had a plan to relocate 150 IT staff—in fact, some of our Hewlett-Packard colleagues. Although the relocation did occur and it was in our plan, it was ruled out by the Office of Government Commerce.

Q54 Chairman: So your actual figure, including the British Council, would have been greater.
Keith Luck: It would have been significantly greater—by 200.

Q55 Mr. Keetch: Why was it ruled out?
Keith Luck: On the basis that they are partners working with us on the project rather than direct employees of the Foreign Office.
Dickie Stagg: I was personally involved in a long negotiation with the Office of Government Commerce about the definitions. I personally found it slightly unusual that people who are clearly very much part of our organisation in most ways, although not long-term, permanent civil servants, are excluded, and the British Council’s back office alterations are included, but those are the rules.

Q56 Mr. Keetch: So you can treat your staff at the British Council in one way, but you cannot treat Hewlett-Packard staff who are effectively seamlessly working with you in the same way?
Sir Peter Ricketts: It is an Office of Government Commerce accounting issue, I think—what they count in, and what they count out.

Q57 Chairman: I think that we shall read “Alice in Wonderland” on our way home.

Q58 Mr. Hamilton: May we move on to financial management? In the minutes of the FCO Board meeting for April, you show that the FCO is facing pressure on its budgets in the current financial year 2007-08. The minutes state that that is due to “new commitments” since allocations were made in 2005 and “ongoing uncertainties around visa and consular income”. I understand that you are also holding back £10 million from the bilateral and global opportunities funds. Will you give us an assessment of your current financial situation for this financial year?
Sir Peter Ricketts: Yes, indeed. As you say, we had a careful discussion about this in the Board. We are now in the third year of the 2004 spending round, so the budget allocations are three years old. A great deal has happened in those three years—for example, the creation of a wholly new post in southern Afghanistan, the great expansion of our embassy in Kabul, a number of other additional calls on our embassies around the world, and so forth.
At the outset of the financial year, when it also became apparent that we would not have a great deal of end-year flexibility from the previous financial year because we had spent efficiently and effectively almost all the money from that year, we had to take a look at what we were committed to and what funds we had, and bring the two into alignment.
That was the discussion in the Board; we recognised that we needed to be prudent and not risk finding out halfway through the year that we were running out of money and would therefore need to do a crash operation to stop programmes in mid-year. We concluded that it was better to hold back some money from the programme budget and to ask our Directors-General to save a bit of administration costs money, so that we would be on course for a full spend but not an overspend for the year. If it turns out, as the year goes on, that we are under spending a bit, we will of course restore the money to the programme budgets; but this was an in-year budget adjustment discussion, which seemed to me to be prudent.

Q59 Mr. Hamilton: Have you assessed the impact of holding back the £10 million from the Global Opportunities Fund?

Sir Peter Ricketts: We certainly did, in the Board. When we considered that, we assessed the impact of holding money back from that and from the bilateral funds, and we concluded that we could do it without doing violence to programmes that were already committed. Provided we took the decision by mid-year, we would be able to recommit some of the money if we found that we still had it.

Q60 Mr. Hamilton: In the April Board meeting minutes, you state that there is an urgent need to improve the quality and timeliness of financial data. To what extent will the additional controls that you have agreed with the National Audit Office address that?

Sir Peter Ricketts: I will ask Mr. Luck to respond in detail. One of the great benefits that we have is that the Prism management information oracle tool is now working effectively around the world. That has meant, for example, that we were able to spend much more efficiently last year, and therefore come much closer to a full spend. That was good budgeting, but it meant a tighter discipline on ourselves because we had less underspend to help us through this year. Perhaps, Keith, you could comment on the NAO controls?

Keith Luck: If I may add that we have worked with the National Audit Office on the detailed financial controls? It is very useful in the management of our accounts; and although it will not of itself necessarily speed up the production of the accounts, it will improve and enhance their quality.

We are taking action in other areas, combining a number of change programmes within the finance function, probably under a programme that we seek to approve called five-star finance, and we will be taking some specific action to improve the timeliness and quality and completeness of the Board reports—and those reports that go to our budget holders across the organisation.

Prism has been an extremely useful tool, and we are now in a position to leverage the benefit of having an IT system that is common across our network and to develop the functionality that you would expect to see in well-managed and well-run organisations.

The NAO controls were a useful exercise. I think that you have now received a copy of the report produced earlier this month, and our intention is to embed those controls wherever they do not exist in our global processes; and we are taking forward a whole suite of work to review the controls and to ensure that they are exactly as we have agreed with the National Audit Office. It has been a very useful piece of work; indeed, looking back on its history, I think it was even suggested by this Committee.

Q61 Mr. Hamilton: Finally, I shall concentrate on fraud. Unfortunately, fraud tends to happen in large organisations from time to time. The last major fraud that we were told about was in Tel Aviv. We have now heard about the fraud at our embassy in Santo Domingo, in which an accountant apparently stole £190,000 over two years. During our last annual report inquiry, we were told that the fraud was allowed to take place because of non-application of prescribed procedures, rather than gaps in the control framework. Can you tell us what lessons you have learned from the latest fraud in Santo Domingo, and what you will do to try to prevent any further fraud from occurring?

Sir Peter Ricketts: May I start and then ask Keith Luck to continue? The issue is one of real concern to me. Mr. Hamilton. It is one of the things that keeps me, as the accounting officer, awake at night. We are a worldwide organisation with a lot of very small missions. There may be fraud going on anywhere. I am not complacent, but I am reassured that year on year the amount that we appear to have lost through fraud has fallen: £957,000 in 2004-05, £646,000 in 2005-06 and £344,000 in 2006-07. I absolutely agree that is still far too much.

You are right to point to Santo Domingo. In Tel Aviv, we have pursued restitution vigorously. In the past few days, we have obtained a civil court judgment that has given us all the assets of the individual who committed the fraud, including pension fund and apartment. I believe that is not full restitution for the fraud, but we have been given everything the person has. That sends a signal that we will rigorously pursue restitution, as we are doing in Santo Domingo as well.

It was a worrying thing to have discovered fraud in Santo Domingo. I shall let Mr. Luck discuss in more detail the lessons that we have learned, but it is clear that some of our checks and controls were not applied, and that has led to the fraud that we have now discovered. That is another example of the need for rigorous application of all the checks. We also have an assurance through Prism that we will be much better protected from fraud if Prism rules are followed properly and rigorously.

Keith Luck: Indeed, ever greater vigilance is required. In the opening remarks, there was an indication that the possibility of fraud would always be with us, particularly in a global organisation that operates around the world as we do. In Santo Domingo, the controls that should have been in place were not applied or fully exercised, thereby leading to that particular fraud.
However, we have learned a number of things from the fraud, particularly around seeing bank statements. We immediately wrote to all embassies to ensure that they saw the originals of bank statements, and the originals, not copies, of bank statements now come into our accounting centre in Milton Keynes. In due course, I would like to move to a position where we can actually see the bank account details from the centre and have banking arrangements regionally or, indeed, globally around the world.

Q62 Mr. Hamilton: Many of us have internet banking facilities, and I imagine that they are available in some countries. Do you use that facility? You would then be able to check centrally, could you not? Keith Luck: Absolutely, and our intention under the shared services programme is to do precisely that, but we run up against some peculiar technical difficulties with internet and electronic banking, particularly around the security constraints that were referred to earlier; for example, the use of Firecrest. In the past few months, we have engaged actively with the Treasury, which is keen to run pilots with us. Oslo is particularly keen, as is Washington, for internet banking. Ultimately, though, we want banking arrangements rationalised across the office so that we can work from the centre with a number of banking providers across various regions. If we could see the bank accounts from the centre, we would not have to rely on paper records being posted back to the centre. One of the lessons that we have learned is to track those very carefully.

We have focused our financial compliance unit on the high cash posts. Indeed, a feature of the Santo Domingo fraud was that there was a sense of ever-increasing cash balances, and that has become a red flag to us. Indeed, when our internal audit teams and the National Audit Office do a visit now, we ask them to follow through with four specific checks to highlight precisely the sort of fraud that we found at Santo Domingo. There is no complacency on our part and it keeps not only Sir Peter awake, but myself. We have ever greater vigilance.

Q63 Andrew Mackinlay: Is Prism working? Sir Peter Ricketts: Prism is working.

Q64 Mr. Keetch: Sir Peter, perhaps in the few minutes before we have a vote, which we are expecting any moment, I can ask you about risk assessment. As you know, in our last Report on your Annual Report of 2005-06, we made the point that we were rather surprised that Iraq and the Middle East had not been identified by the Foreign Office as being in your top five strategic risks. You responded to us by saying that you would reform the way in which you calculated those risks to make it more effective. We read from your unclassified minutes of the FCO Board of 27 February that you have now accepted some recommendations from your Internal Audit Department's review of the FCO risk management framework. We also see that on 20 April 2007 you have put Iraq as No. 5 on the strategic risks of the FCO. Could you share with us any of the other recommendations of the Internal Audit Department in terms of how you identify or calculate either your strategic risks or other aspects of policy?

Sir Peter Ricketts: Thank you Mr. Keetch. You are right that in light of the Committee's observations on our top risks and the way that we set them out, we went back and thought about it again. We concluded that it did make sense to have Iraq among our top risks. We designed the strategic risk register for internal purposes, to deal with a number of different sorts of risks within the organisation and to ensure that the Board was happy that those risks were being properly attended to and mitigated. They included, for example, risk through conflict and crisis, through terrorist attack and through humanitarian crisis—all the sorts of risks that might lead to a need for new resources or cause reputational damage to the FCO.

In terms of the way that we run the business, we have a separate set of operational risks for financial controls and other aspects of the way that we run our business and our money. We were concerned that we should not proliferate a larger and larger number of issues on our strategic risk register because the longer it gets, the less useful it is, to the point where it just becomes a chore rather than a useful management tool. We were reluctant to keep adding risks of the same nature that did not add to our sense of whether the organisation had the right risk management arrangements in place.

The Internal Audit review of our risk management arrangements concluded that they were satisfactory. It came up with a number of specific points about the communication of risks and what we were doing about them through the organisation. The Board is keeping those regularly under review. With something like the Middle East peace process, we could list it as a strategic risk, but it is actually a risk that is well known and fully managed in the FCO. We have been working on it for years. With an issue such as Afghanistan, Iraq or Iran, there is more likelihood of a sudden crisis demanding more FCO resources, and it is therefore the sort of risk that the Board thinks we ought to keep under regular review.

Q65 Mr. Keetch: May I ask what I hope is not a stupid question, but is the question of a layman? I am sure that if I were to go into High Town in Hereford in my constituency and ask 20 people what was one of the big strategic risks for the UK, Iraq would be number one or two on their list. I have to respond to my constituents; we, as Members of Parliament, have to respond to the concerns of our constituents. Do you think that the public would expect Iraq to almost invariably be one of the top five strategic priorities of the FCO? Should public opinion not be taken into account when deciding what ought to be your strategic concerns and risks?

Sir Peter Ricketts: Yes, I accept the force of your point and, in the light of what the Committee had to say to us about the risk register, we went back and looked at it and concluded that you were right. We now have Iraq on our strategic risk register because it clearly is a significant risk to the FCO in terms of
reputation, commitment of resources and risk to staff. That is why it is there and I fully accept your point.

Q66 Mr. Pope: I want to ask a couple of questions about FCO Services, which last year became an Executive Agency. Next year, it will become a Trading Fund, which can generate income. Could you explain how the accountability arrangements will work in that period of transition? The written submissions that we have seen refer to FCO Services being "subject to greater commercial disciplines and greater commercial flexibility". I wonder how that marries with the separate statement that the Foreign Secretary will retain overall strategic direction. Those two statements do not seem to sit comfortably together. Could you explain how the arrangements will work and whether they will change as FCO Services becomes a Trading Fund?

Sir Peter Ricketts: Yes, I will. The arrangements will change. As accounting officer, I am still accountable to Parliament for FCO Services while it remains an Executive Agency. It is part of the FCO group of activities, which also includes Wilton Park. The Chief Executive of FCO Services has some accounting officer responsibilities, but I am essentially accountable to Parliament for FCO Services having proper accounts that are properly constructed. When it becomes a Trading Fund, that relationship will change. It will no longer come under the FCO group of families; it will account separately to Parliament for its resources and it will be audited separately by the National Audit Office. It will have more of an arm's length relationship with the FCO. I think that the Foreign Secretary will still have strategic oversight for setting its objectives and overall targets, but the Chief Executive will be separately accountable to Parliament.

Q67 Mr. Pope: That is helpful. FCO Services seems to be doing really well. When it was an internal part of the FCO, it was losing money. In the past year, it has increased revenue from non-FCO customers by 3.4%; it has increased customer satisfaction by 10%; it has reduced trade debts by £17 million; and it is argued that it will make efficiency savings of 15% of total costs in the next five years. Are those improvements due to the fact that it has become an Executive Agency? If so, why is that the case? Why could not those improvements have been made when it was run internally?

Dickie Stagg: Perhaps I shall answer, as I have been involved with FCO Services for the past five years. What has happened is that we have changed some of the organisation's incentives so that there is now a bigger incentive for people to operate in a more businesslike way. We have got the FCO working closely with FCO Services. We have got the FCO working together. Could you explain how the accountability arrangements will work in that period of transition? The written submissions that we have seen refer to FCO Services being "subject to greater commercial disciplines and greater commercial flexibility". I wonder how that marries with the separate statement that the Foreign Secretary will retain overall strategic direction. Those two statements do not seem to sit comfortably together. Could you explain how the arrangements will work and whether they will change as FCO Services becomes a Trading Fund? Would it not be more effective to have FCO Services as an Executive Agency?

Q68 Mr. Pope: May I move on to language services? I am sorry to jump from one thing to another. The FCO has decided to close the language centre, with projected savings of £1 million to £1.5 million a year. It seems to me that there is quite widespread concern about that, certainly among Members of Parliament to whom I have spoken, not only on this Committee.

When we travel abroad as a Committee, we are struck by how brilliant at languages our diplomats are. That really makes a difference. The fact that, in any country that we visit, the vast majority of our senior diplomats speak the local language fluently has tangible benefits, albeit that they are difficult to quantify, for the UK. I am concerned that that might be put in jeopardy for what seems to be, frankly, a very small saving; okay, it is taxpayers' money, but it is a saving of only £1 million a year that could put in jeopardy the immense diplomatic good will that we enjoy from having very well-trained linguists in the FCO. That is something that I am concerned about. Is that concern shared? And are you confident that there will not be damage to the linguistic ability of our diplomats?

Sir Peter Ricketts: Thank you very much, Mr. Pope. Let me say first of all that I commit myself 100% to this Committee to maintaining the excellence of our language speaking abilities in the FCO. I think that you are completely right to express this concern. I believe that 94% of our Heads of Mission speak the language of the country that they are accredited to, and other key people in embassies do as well. I make a commitment to you that we will maintain excellence of language ability in the FCO. I also want to say that we are genuinely grateful for the work over many years of the dedicated staff that we have in the FCO language centre, who have taught many of us languages, myself included.

Two pieces of work came together so that we made this decision. One was a review that we did, with wide consultation of users of the language centre in the FCO, on how we teach languages. It concluded that it would be more efficient to use more group training; that it would be better to have more immersion abroad, because that is the best way of getting up to high levels of language capacity; that we should devolve the budget for language teaching to our geographical directors, so that they could make sensible decisions about what they needed; and that we should particularly focus on ensuring that when a Head of Mission and other key people go to embassies, they have a really high level of language ability.

That review was one piece of work that examined how we carried out language training. The second piece was in the FCO Services context. FCO Services looked at the language school, benchmarked the costs against private sector providers and concluded that the school was not commercially viable in the
way that it was being operated. Compared with private sector providers, it was actually more expensive—I think that we have said that it was between 15 and 40 per cent. more expensive—and productivity of staff was lower. That is not a criticism of the staff, because having a full-time member of staff who is a language teacher depends on there being a regular supply of students in order to maintain the teacher’s productivity. We found that our requirements rose and fell, depending on who was being posted and whether they already spoke the language or needed training.

So we concluded from those two pieces of work that FCO Services was not willing to continue with the language centre because it did not regard it as commercially viable. We then had a choice. We could have taken the language centre back into the FCO and run it as part of the FCO, but given the lack of commercial viability and the changing nature of our need for language training, we concluded that our comparative advantage is not in running language schools; it is in being diplomats and in speaking languages well. Therefore, we concluded that it would be a better use of public money to outsource the language teaching requirement, while making sure that we maintain standards and quality and that we can continue to offer the same level of language access to our Government Departments and Members of the House who wish to have it, but on a private sector basis rather than maintaining an in-house language school. Unfortunately, that will mean the prospect of redundancies, and we are going through that process carefully now, because we want to be good employers and follow absolutely best practice in that area.

I wanted to explain that decision fully because I know that there has been concern in the House and I do not want to leave any impression that we are somehow short-changing language training in the FCO. Frankly, the efficiency savings are not the only reason or even the main reason for the closure; the main reason is to have the most flexible and efficient way of teaching languages.

David Warren: There will be a number of reasons why the figure is so volatile. In a sense, the number of people receiving language training will reflect what the business tells us it needs. As Sir Peter said, we are committed to providing high quality language training; the underlying principle of the reforms to language training is to concentrate our training on those who really need to speak the language, in some cases to a much higher quality and proficiency than they have done hitherto.

Several factors go into a fluctuation in the numbers receiving language training, one being the number of posts; we are localising slots and not deploying UK-based diplomats. Another factor is that we are reusing diplomats who have existing language skills. In some cases we are recruiting diplomats with language skills. We are fast-tracking diplomats with the specific language skills that we want at the recruitment stage. There are a variety of reasons why the number fluctuates; we are not looking at any systemic or structural decline in the numbers receiving language training.

Q70 Andrew Mackinlay: There are reports that staff morale is low. In any organisation there are some who are happy and some who are constantly discontented, but I believe that data are available, following one of your internal examinations, which showed a disturbingly low sense of morale among staff. Can you comment on that?

Sir Peter Ricketts: That is not my sense. Mr. Mackinlay, although perhaps people do not tell me. I travel around quite a bit, as I know the Committee does, and I always make a point of talking to local staff as well as UK staff. My impression is that there is a lot of enthusiasm in the organisation, a lot of the sense that the organisation is doing valuable things, a lot of willingness to volunteer—I am always impressed that we get so many volunteers to go to the really difficult places—and a real sense of commitment.

Q71 Andrew Mackinlay: In a valedictory e-gram, one of your colleagues wrote that “too much of the change-management agenda is written in Wall Street management speak already discredited by the time it is introduced. Synergies . . . best practice, benchmarking, roll out, stakeholder, in power, silo-working, fit for purpose, push back, and deliver the agenda are all prime candidates for a game of bullshit bingo”—those are his words, not mine—“a substitute for clarity and succinctness. A personal aversion is the utopian mission statement—so 1980s—which should be dispensed with rather than affronting me every morning on my Firecrest screen, and even appearing on my pay slip.” Was he talking rot?

Sir Peter Ricketts: He is a distinguished former member of the Diplomatic Service.

Q72 Andrew Mackinlay: You recall it?

Sir Peter Ricketts: I do indeed, sir. He speaks from the vantage point of someone on the point of retirement—I would guess the retirement age of 60 or somewhere near it—and I do not think that that is the
impression of all the younger members of staff. Of course you can poke fun at management speak, which I try to avoid where I can, but the idea that the Civil Service is trying to manage itself in modern ways, make efficient use of public money and open itself up to the same disciplines as the private sector is not stupid, actually, and it is a pity to suggest that it is. I have great respect for the individual concerned, who was a fine diplomat, but the younger generation coming on behind him are much more comfortable looking at the public service in that way. Andrew Mackinlay: I am happy to leave it there. Later on, we will come to relations with Parliament.

Q73 Chairman: We have been talking specifically about FCO Services. How would you assess morale there, given the reductions in jobs that we have been discussing?

Sir Peter Ricketts: It is always going to be difficult when you have an organisation that is going through a period of real, profound change, as FCO Services is, with some reductions in numbers. Equally—Mr. Pope was quoting the figures for the sense of progress—let me say that it is increasing the amount of work it is doing outside the Government and improving satisfaction with what it is doing for its customers, including the FCO. There is a real sense of purpose in the organisation now. When it is through the transformation, which is going to be difficult, there will be quite a sense of pride that it has converted itself from an internal department of the FCO into a Trading Fund that can go out in the market and do good work against the competition—which I think it will. It offers some really top class services in the areas that it has concentrated on. There is a very strong, forward perspective for FCO Services, and that will lift morale.

Dickie Stagg: I want to make a point from the side of FCO Services, as I have been its sponsor for much of the past five years. I know that it is aware that the Committee is interested in going to Hanslope Park, which is its core base, and I know that it would take this as an indication of the Committee’s interest in that aspect of its work, rather than more traditional foreign policy, as a very positive signal.

I am particularly interested in the contribution to the International Atomic Energy Agency, which this Committee recently visited in Vienna. It said that it was facing only an inflation-based increase in its subscription from the UK in the coming year. However, that does not come from the Foreign Office—it comes from the Department of Trade and Industry. I do not need to tell FCO officials about the importance of the IAEA in the context of Iran. In my view, about the only hope is to try to enforce its rules and back it up in efforts to separate civilian use from military use. However, is it not slightly alarming that this all comes under the DTI? You have not got an obvious interest in that aspect of the agency’s work.

Sir Peter Ricketts: The DTI probably lead in Whitehall on civil nuclear issues, including those in the UK. There will be aspects of the IAEA’s work about civil nuclear regulation in the UK and other western countries that will mainly be of interest to the DTI. The FCO, and indeed the whole Government, certainly have a strong interest in the IAEA’s effectiveness in Iran. I would need to look into the matter, and perhaps come back to you in writing about whether keeping the organisation’s budget to zero real growth—an inflation-only increase—has been assessed against that very important national need.

With regard to many international organisation subscriptions, we try very hard to keep budget increases down to inflation or even below inflation if we can, because international organisations have a tremendous tendency to grow, to extend their activities and to require more and more money. When such sums come out of departmental budgets—the UN and others come out of ours—Departments have a very real interest in keeping strong discipline over their budgets. I referred to that point earlier. That said, may I take away the point about the IAEA’s work in Iran and write to you?

Q76 Mr. Heathcoat-Amory: If you would, because the Iranian issue is of great interest to this Committee, as you know, I would like to know what discussions took place in your Department and the DTI, because our ambassador in Vienna was under instruction to limit the increase. I am completely with you about the dangers of mission creep as a result of international bureaucracies, but in this particular case, if there were creep into Iran, I think that we would all be rather grateful.

If I may, I would like to raise another matter about our network of posts overseas. Again this is crucial. In the past, this Committee has been critical about post closures, and the Foreign Office was perhaps a little slow going into new areas of the world. Meanwhile, there are very big historic embassies in which, perhaps, some of your best staff serve. We are always in danger of lagging behind international development in deployment terms. What is surprising is that there is no discussion of that in your report. This is the second time that that has happened. Can you explain why you do not discuss it and justify the allocation of your valuable staff overseas?
Sir Peter Ricketts: If there is no discussion of the matter, it is an oversight and we should correct it. We have done a lot of work, and we will be doing more, on the right shape for our overseas network given the opportunities and threats ahead of us. We have been making some considerable changes. They have not involved post closures so much as movement of staff away from the classic west European embassies and towards places such as India and China. From memory, we have moved about 25% of staff out of posts in Europe, or working on Europe in the FCO, towards places such as China, which has seen a 10% increase in staff, and India, which has also seen a 10% rise. We will have increased the size of the embassy in Afghanistan by about 50% to reflect the scale of UK interests there. We now have large missions in Iraq. We have increased the size of embassies in countries such as Brazil, which are involved in global issues. Therefore, there is a considerable movement of staff without involving the closure of major posts.

If I understood your implication correctly, I agree with the thought that we should be doing more of that. If you look carefully at where FCO staff add most value these days, it is probably not in posts in western Europe, but in posts that are further away, where language skills are required, where the working environment is difficult or where there are conflict issues. Over time, that is the trend that you will see in the FCO. I think that we should be driven in that direction by trends in other Departments’ engagement with overseas, because very largely they can now take care of their own interests around Europe. They have the right links with their counterparts in Europe, but they need embassies and staff in places such as China and India in which they cannot operate separately.

That is the trend that we will see, and I think that it will accelerate under the pressure of tight resources and a growing demand for the FCO to engage in a whole range of global issues, such as climate, energy and migration.

Q77 Mr. Heathcoat-Amory: Will you undertake to analyse that in next year’s report? Will you then give us a report on how staff are being redeployed and how you see that developing in the years ahead, so that you can match your human resources to the requirements on the ground and the pursuit of British interests, wherever they may be?

Sir Peter Ricketts: I will undertake to do that and to keep the Committee informed in between departmental reports if we are taking decisions on that.

Q78 Chairman: Before I bring in Paul Keetch on a different area, may I ask you a question, Sir Peter? In a period in which other Departments are getting increased resources and you are under pressure to reduce a number of posts, thereby withdrawing from some countries in the Commonwealth and elsewhere, is it not time to adopt a UK-post approach? That would mean, for example, that the Department for International Development, which has a much bigger budget than you and a bigger footprint in Africa, could take up some of the slack of funding the representation in countries abroad. That would ensure that there was a UK post in those countries, even if there is no longer Foreign Office-funded diplomatic representation. Surely it is absurd that we are not represented by a diplomat in countries such as Swaziland, Lesotho, Madagascar, Vanuatu and places in the Caribbean, and yet we have projects that are funded by HMG and people who are in that country for considerable periods of time.

Sir Peter Ricketts: Essentially, I agree. We should not be thinking of FCO posts, but of HMG and UK posts. You will find that 10 or 11 Government Departments have staff in many of our posts from the law enforcement agencies, the Ministry of Defence, the Department for Transport. In Africa, we have an agreement with DFID to try to co-locate wherever we can, so that we are working together on the same compound, sharing transport and life support arrangements, and getting the best value for money possible. I am sure that that is the right way to go. In many of our posts around the world, FCO staff are a minority, and a majority now come from other Departments. So the idea of a platform, of which we are only the small but enabling part, is increasingly going to be true.

Q79 Chairman: But there are places where we are not there at all any more, or we have an honorary consul. Swaziland, for example, has just appointed one. Is it not time that we started to think in a more imaginative way, so that we have an embassy or high commission, even if it is not funded through the Foreign and Commonwealth Office?

Sir Peter Ricketts: Also, thinking imaginatively, there are all kinds of ways in which we can be more innovative about the way we do things, in terms of visiting embassies, which involves people who are based in a neighbouring country spending a certain amount of time in a smaller country.

My only reservation is that if we have a British representative resident in a country, they have to be ready to take on the full range of things that might happen. If a member of staff from DFID were going to be the British representative in the country, they would have to be prepared to deal with a terrorist attack, a consular emergency, a hostage taking, an abduction, a natural disaster or any of the things that can happen and that can require the British representative to take on a wider role. That would be essential, because you never know what is going to happen or where. In the end you have to have confidence that a British representative will take on the totality of what might happen.

That said, I basically agree with you, Mr. Chairman. I think that there are imaginative ways in which we can be present in the world without necessarily being there in the form of a classic embassy. Mr. Stagg might want to add to that, but I think that it is an important point that we will increasingly have to think about as resource pressures mount.

Dickie Stagg: I would add one small point, referring back to the Future Firecrest discussion. One of the benefits of the new structure is that we have an
agreement with DFID that it will move towards our platform from 2010-11, because we will have a lower tier with less security. That will meet its business needs in a way in which it finds our current structure does not, so there is a FCO/DFID silver lining on that front.

Q80 Mr. Keetch: To follow on from the Chairman’s excellent line of questioning, if you have a post that is FCO-led and people from the DTI, DFID or wherever are involved, presumably you ensure that you charge those Departments for the services that they are getting from that post?

Dickie Stagg: Yes, it is a big issue because, as ever in a quasi-commercial relationship, there tend to be different perspectives on what is a fair price. But we are keen to ensure that those who are working with us from other Departments are paying their share of the overall costs.

Q81 Mr. Keetch: And you would do the same if there were people from the Scottish Executive, the Welsh Assembly Government or the west of England tourism development council?

Dickie Stagg: Yes, there is a more-or-less standard Service Level Agreement, which we would apply to any and all that wanted to come along. Obviously, it can get difficult if you have a fixed building and you get too many people wanting to share it, but in principle we have very clear rules, which are accepted by others. Indeed, Prism has been helping us to clarify the underlying costs of the operation so that we can charge those costs out.

Q82 Mr. Keetch: I am grateful. May I ask about the estate, because we are always interested to receive your quarterly reports about what buildings you have sold off? We know that in July to September 2006 you sold residences in Tel Aviv, Kingston, Bordeaux and Nassau for £1.59 million, and bought something in Palma for £570,000. We were also delighted that after our visit to Mumbai, excellently led by our colleague Mr. Illsley, you took on our recommendation that we needed better accommodation there, and you splashed out on a new building to the extent that we have been told that you cannot afford any more of your building programme. After accepting our wonderful recommendation, what have you put on hold as a result of investing in Mumbai, as well as investing in Baghdad and Kabul, which now seem to be your three principal areas of expenditure?

Sir Peter Ricketts: There is a great deal happening on the estate side, but you are absolutely right. You are also right to underline how expensive it is to take on accommodation that is secure for our staff in a place that is booming, such as Mumbai. The Committee was absolutely right to urge us to make the move and to take on space that is adequate for us in the long term. However, that is extremely expensive. I think that it is costing us about £30 million to rehouse the mission in Mumbai with adequate accommodation, both because Mumbai is booming and property prices are rocketing and because we need security measures. Given the size of our capital budget, we cannot get many Mumbais out of a year’s worth of estate budget.

Coming back to what I said earlier, we are genuinely squeezed doing the things that we really need to do in the estates operation. That said, we manage it very actively and do what we can to realise capital by selling assets where they are no longer essential to us, or where a lot of value is locked up that we can perhaps use elsewhere. We are following rules laid down by the Chancellor, who has asked all Departments to look at their capital asset base and see whether they can do more recycling. That is managed by our investment committee, which is chaired by Mr. Stagg. Perhaps Mr. Stagg can elaborate on what we have had to put on hold in order to pay for expensive but high priority items such as Mumbai.

Dickie Stagg: The sorts of places at the top of our list, other than the ones just referred to, are the likes of Warsaw, Jakarta, Tbilisi and Sarajevo. We manage that by seeing when we have the opportunity to take action, which we very much had in Mumbai at the time of your Committee’s visit. For example, in Jakarta, which is a high security risk post, for reasons that you will understand, there is a site that we want to buy and have been negotiating for over the past 18 months. However, there are complications over the title, so the money is waiting to be spent until we are sure that the site is going to be ours, if and when we go through with the deal. We are looking to buy a plot in Sarajevo, but we want some assurances from the local authorities on the title and on the removal of ordinance on the site before we acquire it. Those are complicated issues. Those are the sorts of projects that might be impacted on by the decision to move in Mumbai, which is very urgent as you collectively know as well as me.

Q83 Mr. Illsley: Perhaps we should console ourselves: I think that 30 of the 100 richest people on the planet live in Mumbai, which is probably why the real estate is so expensive.

Sir Peter Ricketts: We are in a competitive market.

Q84 Mr. Illsley: I am sure.

Will that stretch on the budget lead to any short-term decision to sell other parts of the estate to balance the books by the end of the year? Is there a worry that that is likely to happen? I fear an issue arising, such as the New York or the Dublin situation, where you are rushed into a sale in order to meet a target imposed upon you, and therefore, lose out by having to sell an asset that, ordinarily, you would not have wanted to sell at that time.

Sir Peter Ricketts: I am very conscious of that risk. I do not want to go there, if it can be avoided. The answer is that we are not looking at sales in desperate urgency, but we have to look at opportunities to sell parts of the estate in order to help provide the money for the higher priorities. We are bidding vigorously to get the Treasury for more money next year. It is our programme, and the Treasury is bound to look to us to do some of it by realising some of the capital that we have locked up in estates around the world. We have
learned lessons from the past and will aim to do that sensibly in order to ensure that we get proper value. If that takes a bit more time, it will have to take a bit more time. However, certainly, we will come to the Committee to inform you on decisions on asset sales while I am in this job. The one that is going through at the moment is in Madrid, where we are leaving an empty building that is not satisfactory and moving to good quarters in a new build office building and selling the original site, for which we will get capital value. Exactly when we get it will depend on the market. We will need to let that take its course.

Q85 Mr. Hamilton: Sir Peter, you will know that, in the past, the Committee has taken an interest in some of the previous sales. One example is the sale of property in San Francisco, on which we had a special hearing. In looking at when and how we sell properties overseas on the estate, does the FCO consider the huge value that some of those properties have not only for our country, but for our diplomatic work? An example is the residence in Cape Town, which attracts massive numbers of members of the South African Government and Members of the Parliament. Other estates have enormous value to the nation of some of our key properties.

Sir Peter Ricketts: Yes, we certainly do. This can only be subjective, but we try to look for assets that have a high value but are relatively low priority. That is what we are looking for. Of course, the highest value and lowest priority assets have been sold already, so it is a progressive process. However, we would also need carefully to consult Ministers, who pay much regard to the issues that you raised about the wider value to the nation of some of our key properties.

Q86 Chairman: Sir Peter, we have so many subjects that we still want to touch on—I am afraid that we are going to have to write to you on some of them—so I would like to move to asking you about overseas passport operations. Under the new arrangements, what is the average distance that you would expect people to have to travel for interview?

Sir Peter Ricketts: Gosh! You have floored us, Mr. Chairman.

Q87 Chairman: Perhaps you could write to us on that.

Dickie Stagg: Absolutely, we could probably write a little more fully than that and describe the sort of concept that we are going to introduce.

Q88 Chairman: Is it going to take longer for people to get their passports under the new arrangements?

Dickie Stagg: Yes, there will be an increase in the time between application and receiving the passport.

Q89 Chairman: How much more?

Dickie Stagg: For most applicants, it will be a matter of two or three days for them to get a passport back. Of course, it depends hugely on where they are and how close they are to one of our consulates.

Q90 Mr. Hamilton: Sir Peter, in May 2007, you closed the online service for facilitating Visa applications from India, Nigeria and Russia after a security breach. I know that members of the previous Committee visited the VFS facility in Delhi during the last Parliament. Lord Triesman has announced an independent investigation, which I understand began earlier this month. However, I want to know what steps you are taking to ensure that there will be no further breach of security of visa applicants’ personal data, because that is pretty serious, is it not?

Sir Peter Ricketts: It certainly is and, as you said, we responded very quickly to it by appointing Linda Costelloe Baker as our independent inquirer with a remit to lay a report before Parliament before the summer recess, so that we can learn the lessons very rapidly. As you have said, however, we took immediate action on the relevant parts of the VFS website. Perhaps Mr. Stagg will fill in the detail on that.

Dickie Stagg: The action that we took was to get the websites closed down so that there were no longer being used. They were already, in a sense, part of our historical arrangements with VFS. We have now signed new contracts with it and with CSC for the global delivery of visas starting in April this year. So, we have moved into a new contractual environment in which they will be replacing those systems anyway. But the VFS system in India, as you say, had been breached or broken—I am not sure what the correct term is—by one person that we know about.

Q91 Mr. Hamilton: Let me just interrupt you. Who takes responsibility for the breach of security? Is it VFS, which is a contracting company—a commercial organisation, as I understand it—or is it the Foreign Office?

Dickie Stagg: I have to be quite careful about getting into the legal area here, but in principle and from our point of view, it was contracted to provide an online application service that was meant to meet all our requirements, and it appears that that is not what happened. I would rather wait until the piece of work being done by Miss Costelloe Baker is reported before trying to say where the responsibility lies, as that is one thing that she is looking into.

Q92 Chairman: We will pursue that with you in writing over the next few weeks. May I move on to ask you about the results of the capability review, which found that strategic and change management need improvement in the FCO? Does that mean that you have not made much progress since the previous Collinson Grant review?

Sir Peter Ricketts: No, it does not mean that. It means that we have a very ambitious series of change programmes going on that cover the shape of our network, which we have talked about, a shared services programme to reduce the cost of our back-office functions, the future Firecrest programme, and improving the way we do finance. We also have...
important reforms going on in the consular and visa side, and UK Trade and Investment is introducing a new strategy.

Everywhere you look in the FCO, a lot of change is going on. The capability reviewers were not disputing the need for that change; indeed, they suggested that we might need to be more radical than we had planned, but they were concerned to ensure that we had the resources in place to be successful and that we had the capacity to manage that change effectively. We are responding to that vigorously.

Mr. Heathcoat-Amory paid a glowing tribute to Mr. Stagg, for which I am grateful; unfortunately, he is moving on shortly to become our High Commissioner in Delhi, one of the most important jobs in the service. He is being replaced by James Bevan, who will have a rather reconfigured job. He will be responsible for change: his job will be Director-General for Change and Delivery. He will have a Director working with him, recruited from the Civil Service, who has a lot of experience in managing change projects, and he will have a unit with more capacity. A committee of the Board will oversee the change programme.

We found the capability review very useful from that point of view; it galvanised us to make sure that we had the resources needed to pull together all the various changes and to ensure that they are coherent.

Q93 Andrew Mackinlay: You will recall the fear of your staff when involved in grievance procedures. The matter eventually came before the National Audit Office. The NAO produced a report, and you wrote to the Committee indicating that you accepted the NAO recommendations. You acknowledged the deficiencies found in the grievance procedures. However, you rejected one of the recommendations. It was in respect of the three people who had initiated the NAO review, and it said that independent arbitration should be set up to deal with those three aggrieved people.

You rejected that recommendation, which caused some dismay. It seemed that the NAO had found deficiencies in the stewardship of the grievance procedures, and it had found them through the initiative of the three aggrieved people. The NAO was not adjudicating on those three cases, but it did suggest that there should be an independent system of mediation, and you rejected that. That seems demonstrably unfair. It also seems that you were acting as judge and jury. What say you to that?

Sir Peter Ricketts: First, the NAO report showed that our grievance procedures, as they existed before September 2004, had flaws. The NAO picked them up, and we recognised that. The NAO also found that the new arrangements that we introduced from 2004 onwards were an improvement. It came up with some additional ways to improve them further, and we accepted 15 of the 16 proposals.

As you say, the 16th was for further mediation with the three members of staff to whom you refer. We thought long and hard about that, and we concluded that in those three cases we had been through all the steps that any good employer could reasonably be expected to have gone through—that we had done everything that could be expected of us. In those circumstances, it was not right to accept mediation.

We concluded honestly that it would not add to what we had already been through over a number of years. We thought seriously about that, and we would never have decided not to accept a recommendation of the NAO without serious thought. These were advisory recommendations and in the end, as the management of the organisation, we had to take a view on whether mediation would add to what we had already been through with these particular members of staff. That is the conclusion that we reached.

Q94 Andrew Mackinlay: I invite you to pause for a minute, step back and look at this. You have reiterated your view and are quite firm in it. Indeed, I would almost expect you to be firm in your view, but the NAO has taken a different one. An independent assessment has been made, there is no finding in favour of the aggrieved people and it just says that, as good employers, you should allow this to happen, so it is breathtaking that you, as a Government Department, or any employer, should be saying, “We are good employers, we have looked at it and we don’t think anything should change.” Return to it: you are being judge and jury. Is there not a case, even now, for you to reflect on this and follow the recommendations of the NAO? It looks, on the face of it, extraordinarily arrogant to ignore this.

Sir Peter Ricketts: I certainly do not seek to be arrogant. Mr. Mackinlay—quite the reverse. I am always ready to reflect further on everything, but we have thought quite carefully about this. I wonder if I can ask Mr. Warren, who has been even more closely involved in this to—

Q95 Andrew Mackinlay: No disrespect to Mr. Warren, but he is the judge and jury that I am referring to. He is the man who had stewardship over this matter. He dealt with it diligently and to the best of his ability, but he is also the man who is saying to you, “I am not going to agree to this independent review because I have decided on the matter.”

Sir Peter Ricketts: I wonder if I could ask him just to respond.

David Warren: Thank you. I understand the point that Mr. Mackinlay is making. This was an exceptionally difficult issue for us. The NAO made it clear in its report that it did not have the legislative power to examine specific grievances. The report was on our grievance procedures and the value for money of our procedures, and individual cases were outside its terms of reference.

As Sir Peter has said, we found the report extremely valuable. It is worth pointing out that it found good things and bad things in our old procedures. It found more good things in our new procedures, but it quite rightly invited us to address ways in which we could strengthen things, and we are doing that.

The only issue of contention between us and the NAO was this specific recommendation, and we make no secret of that. It was reflected in the discussions that we had with the NAO, which we found valuable. The NAO invited us to consider—and made it clear that we were at liberty to reject—the
suggestion that we should reopen old cases that we considered to be closed and should invite independent mediation to resolve issues that we no longer considered to be disputes.

It is an important point of principle for us that, having gone through what we believe are exhaustive and very careful processes, and having done all that any responsible employer could reasonably be expected to do to resolve these disputes, we believe that we have done all we can. I offer that humbly to the Committee as a genuine statement of what we believe we have done as an employer.

We believe, in those circumstances, that it would not be correct to reopen these cases, which we believe to be closed. We said that to the NAO. I recognise that that leaves an issue of disagreement, as it were, between us and the NAO. However, the NAO was content for us to respond in that way, as this was a report to FCO management.

Q96 Andrew Mackinlay: Is that the final word on the matter or will you review it?
David Warren: That is the final word on the matter. We believe that these issues are closed.

Q97 Chairman: I think that we need to move on, Mr. Mackinlay.
In the five minutes left to us, can I just ask you about public diplomacy? We are taking evidence tomorrow from the BBC World Service and the British Council. Are you satisfied with the operation of your new Public Diplomacy Board, which was established quite recently? What were the reasons for the choice of three particular strategic priorities as the focus of the pilots on public diplomacy that you have established?
Sir Peter Ricketts: Yes, we are satisfied. We think that the Public Diplomacy Board has developed very well as a forum where we meet at ministerial level. The BBC and the British Council can come together, with others involved, to ensure that the activities of the BBC and British Council in particular are well lined up with the strategic priorities that we in the FCO are pursuing. We do that without cutting across the World Service's editorial independence or anything like that, but while ensuring overall strategic coherence. We think that that is working well.

We chose the three particular pilots because we wanted separate, quite different sorts of area to test whether a more targeted approach could achieve something. The ones we chose: climate, democratic development and governance, and the economic and business link to UK Trade and Investment, seemed to us to be quite different areas, where public diplomacy could work in different ways, but each of them were important tests to see whether the money that the Government were spending could actually achieve something useful. So they were chosen for their variety as test cases, really.
Chairman: Thank you, Mr. Mackinlay, do you want to take the last question?

Q98 Andrew Mackinlay: On parliamentary relations? Yes.

Your predecessor, Sir Peter, volunteered to give us some management information—I have the quote here; brevity will not allow me to deal with that, but I think that you are well rehearsed in this—and yet you snatched it back. Why would you do that?

I understand that it now has the imprimatur, as it were, of Margaret Beckett. Is that personal to her? If we asked you again on Friday, would you revisit it with a new Minister? I am not being sarcastic, I assume that there will be a new Minister. What is your personal view? Your predecessor gave us an undertaking that he would make these things available. He went to great lengths—I have a whole screed here of how he was poring over the Committee saying, “You can have this information, delighted to let you have it,” and then, under your stewardship, the Committee is refused the management information.

Chairman: You are talking about the quarterly reports?
Sir Peter Ricketts: Particularly the quarterly reports? I think, to be fair, Mr. Mackinlay, your Committee gets an enormous amount of management information about the FCO—

Q99 Andrew Mackinlay: That was not my point though, was it? Your predecessor came to us and said, “You can have this, I am going to give it to you”. He was almost forcing it through the letterbox—
Sir Peter Ricketts: I do not believe that the Committee is under-resourced in terms of management information. In fact, I think probably that what we offer the Committee compares favourably with what any other Department engages their Select Committee on, and quite rightly. I am very committed to working in an open and transparent way with the Committee. If I may say so, we very much value the Committee's interest and oversight, and the fact that, when you travel, you engage so well with our staff. I looked at the amount and volume of information that we have supplied for the Committee over the years, and it is very, very substantial.

Q100 Andrew Mackinlay: Nobody is arguing about that.
Sir Peter Ricketts: There is a line over which we believe it is not wise to go, which is that it is up to us in the FCO to manage the organisation and, of course, for you to hold us to account and scrutinise us for the way we do that.

If Margaret Beckett was concerned, then I would share her concern that sharing with you on a routine basis all our management papers would inevitably involve you in the management of the organisation, because they have commercial sensitivity, staff sensitivity, and so on. Routine supply of all management board papers seemed to us to cross a line. We also took the view that, given all this information that we supply to you on a very regular basis, adding a quarterly management letter from the Permanent Secretary would not add materially to the flow of information available to you. That was Margaret Beckett’s strong view and I also believed
that that was the case, given how much we share with you. However, if you believe that a quarterly letter is of real importance to the Committee, may I take that back as an issue and reflect further on it?

Andrew Mackinlay: We do.

Chairman: I am grateful to Peter. Can we wrap it up there? You have covered a lot of ground, as have your three colleagues. We will, no doubt, be pursuing a number of issues with correspondence; some of those we were not able to get around to raising today. Whatever happens tomorrow and on Thursday, and whoever we will be dealing with as a Minister in the future, we know that, at least for the foreseeable future, we will be dealing with you in your present role and we look forward to seeing you again in future, thank you.

Sir Peter Ricketts: Thank you very much, Mr. Chairman, and the Committee.

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Letter to the Chairman of the Committee from the Permanent Under-Secretary of State, Foreign and Commonwealth Office

THE FCO 2006—2007 DEPARTMENTAL REPORT: PETER RICKETTS’S APPEARANCE BEFORE THE FOREIGN AFFAIRS COMMITTEE ON 26 JUNE

I undertook to provide the Committee with further details on some of the questions Members raised during my appearance before it on 26 June.

QUARTERLY LETTER ON MANAGEMENT INFORMATION

I have discussed this with the Foreign Secretary. Given the importance the Committee attaches to regular reporting on management issues, I would be happy to provide a quarterly retrospective round-up on management issues, starting in September.

Other questions on which I undertook to provide further information are as follows:

What proportion of the CSR bid related to increasing security on the estate?

The Committee asked for an indication of how we have used the £200 million capital uplift we received in SR04 for improving the physical security of our overseas Estate, and our plans for similar works during the CSR07 period. In the first two years of SR04 we spent £32 million and £54 million respectively on major security-driven infrastructure projects. In addition £11.4 million and £9 million were spent in 2005–06 and 2006–07 on smaller scale security works, such as installing rising vehicle access ramps and fitting anti-shatter film on office windows. In the current financial year we anticipate spending in excess of £75 million on major security related infrastructure projects and approximately £9 million on smaller-scale security measures. In addition to the total of £190 million expended directly on security-driven projects over the SR04 period, the FCO has spent a significant amount on security measures within estates projects not aimed purely at making premises safer. We plan to carry this programme forward during the CSR07 period and envisage spending around £60 million a year on major security-driven infrastructure projects and a further £7 million on smaller-scale measures. Our ability to carry out these plans will inevitably depend on our final CSR settlement, which on the capital side is being considered by Treasury from a zero base.

What assessment has been made of the impact of zero real growth on the UK’s subscription to the IAEA on the effectiveness of the IAEA’s work, including on Iran?

The FCO gives the highest priority to preventing the spread of nuclear weapons to Iran, to North Korea or to any other country which has signed the Nuclear Non-Proliferation Treaty as a non-nuclear weapons state. We also attach importance to maintaining a high standard of nuclear safety and security worldwide. The IAEA plays a crucial role in this process and there is no question of this work being undermined by under-funding. The UK pays its subscriptions in full and on time.

There is a general policy across Government of pursuing zero real growth (ZRG) in the budgets of international organisations. We wish to see international organisations use their budgets efficiently, devoting adequate resources to high priorities, screening out lower value work and delivering value for money. We monitor performance closely. There is broad consensus amongst major IAEA contributors that ZRG has been necessary to drive through much needed efficiency savings and that there remains scope for significant further gains. Discussions amongst contributors over the next budgetary settlement are now taking place. The UK will ensure the settlement enables the IAEA to carry out its vital work in Iran and elsewhere, whilst protecting taxpayers’ interests.

The Department for Business, Enterprise and Regulatory Reform, and not the FCO, is responsible for the UK’s annual subscription to the IAEA. Under standardised UN contribution rates the UK pays 6.135% of the IAEA’s budget. This will rise to 6.591% in 2008. The UK’s subscription to the Regular Budget, which covers most of the IAEA’s work and its running costs, was £10.786 million in 2006–07.
The Government also makes significant additional voluntary contributions. The UK paid £2.425 million in 2006–07 to the Agency’s Technical Cooperation Fund, which supports development programmes in less developed countries. The UK also paid a further £226,129 to IAEA safeguards work, which assists the Agency in ensuring the continued and improved effectiveness of its safeguards system, including in priority countries such as Iran and North Korea. Finally the former DTI has donated some £3 million towards the IAEA’s Nuclear Security Fund since its inception in 2002.

What is the average number of miles that a British citizen will have to travel to get his/her passport? How long is it going to take to get passports back after an application has been made?

In order to improve the security involved in issuing British passports, applicants will be required to provide finger scans when applying for a passport from 2010 onwards, both in the UK and overseas. Certain first-time applicants will also need to be interviewed by passport officers. The Identity and Passport Service (IPS) will be aiming to provide offices where applicants in the UK can apply within 60 minutes of where they live. Overseas we will not be able to match that in all places, but it is impossible to give an average number of miles that a British citizen will have to travel. We aim to offer the facilities to apply for a passport and give biometrics at all of our Embassies and Consulates, and are also looking at whether we can make use of alternative methods of collecting biometrics, such as through commercial partners. For interviews, we are looking at introducing remotely-operated solutions such as webcams. We also hope that other innovations such as a greater use of on-line application processes will make the process easier for applicants.

On the question of the time it will take to get a passport back, this may depend on where the applicant is living. The arrangements are still being designed and tested and an agreed global target time has yet to be reached. However as a rule of thumb we expect to be able to offer all our overseas clients a similar service to that being provided by IPS to their UK customers. For those abroad who have an urgent need to travel before their full passport can be issued we will continue to offer an alternative temporary travel document.

Who will cover the additional costs in altering the specification for Future Firecrest?

Increased threats to the integrity of secure systems via the internet have meant that central government guidance has been revised and the FCO has had to change its requirements for Future Firecrest. The FCO will cover the cost of meeting the new requirements but we are working with the supplier to keep these to a minimum. We hope to be in a position to write to the Committee by the end of August providing further details.

Where does responsibility lie for the visa security breach that occurred in India?

The circumstances surrounding the security breach are still subject to an ongoing investigation. Once this investigation has been completed, we will write again to the Committee.

DEFENCE ATTACHÉS

I listened carefully to the Committee’s views on the FCO’s decision to cease tasking the Defence Attaché network to help deliver FCO objectives and hence to ask MOD to bear its full cost in future. The FCO remains keen to provide a platform for the Attaché network through our overseas diplomatic posts. MOD and FCO officials are working closely together on a new Service Level Agreement between the two Departments which will ensure that the Attaché network is supported in the same way and on the same financial basis as are staff from other Government Departments located in our overseas posts. For the forthcoming financial year we have agreed interim arrangements, with full charging taking effect from April 2009. The new arrangements will bring greater clarity to the respective contributions of the MOD and FCO to meeting the Government’s Strategic International Priorities, with the MOD funding and tasking defence and military personnel and the FCO funding and tasking its own civilian staff. The FCO is confident that all the members of our overseas posts will continue to work together very closely. Our aim throughout is to maintain the effectiveness of close FCO/MOD collaboration in the UK and overseas in delivery of the Government’s defence and international security policy.

COMPREHENSIVE SPENDING REVIEW

The CSR07 efficiency targets set out for all government Departments in the Pre-Budget Report are challenging and are requiring us to look hard, as we should, at how we use our funds efficiently and effectively to deliver the Government’s Strategic International Priorities. This is consistent with the wider process of business transformation on which the FCO is already engaged. We will continue to discuss these issues with the Treasury in the run-up to the CSR settlement.

Peter Ricketts

10 July 2007
Letter to Richard Cooke, Head, PRDT, Foreign and Commonwealth Office, from the Second Clerk of the Committee

Thank you for your letter of 29 June.

At the Committee’s evidence session with Sir Peter Ricketts, the Chairman explained that the Committee would be pursuing a number of issues in correspondence. I would be grateful to receive a response to the attached questions by 15 August.

Gosia McBride
Second Clerk of the Committee
18 July 2007

EFFICIENCY SAVINGS

Treasury’s DAR-2007 guidance [PES 06/18, December 2006 ] stated that reported efficiency gains should be clear in “defining how gains claimed in previous years have been audited, and outlining the auditors’ conclusions.” Additionally, the Treasury Committee 2nd Report 2006–07 [The 2006 Pre-Budget Report, HC 115] recommended that departments should report their efficiency savings with reference to the Office of Government Commerce (OGC) classification of “provisional”, “interim” and “final”, to help the reader to assess whether reported savings have been independently verified. The OGC guidance on this is attached.

1. The Committee would like an analysis of the Department’s reported efficiency savings according to whether they are “provisional”, “interim” or “final”, as classified by the Office of Government Commerce (see Annex).
2. The Committee would also like to have copies of the Department’s latest quarterly efficiency monitoring reports submitted to the OGC. We note that other committees have already requested and obtained such documents, and like them we would, if the Department requested, treat these as confidential.

DRAFT TARGETS

The Committee would like to know when the FCO will be in a position to provide briefing on the draft PSAs and Departmental Strategic Objectives (DSOs), as offered in your response to the Clerk’s letter of 22 February. The Committee would also like to request copies of the draft PSAs and DSOs.

RISK MANAGEMENT

4. The Committee would like to request a copy of your current strategic “Top Risks” register.

CONSULAR SERVICES

5. What assessment have you made of the impact of providing support to other EU Member State’s nationals on your consular network?

SHARED SERVICES

6. What are the greatest risks you have identified in the Shared Services Programme and what are you doing to counteract them?
7. What expertise or experience are you intending to draw on when setting up Global Process Centres?
8. You have informed us that projects in the Shared Services Programme could potentially reduce the FCO’s baseline by £22 million. Does this include savings that are potentially to be made through sharing services with DFID and if so, by what proportion?
9. You have told us that the FCO-DFID shared services seeks to increase the proportion of co-located offices by over 10% and the proportion of DFID staff in co-located offices by over 25% by the end of the CSR07 period. What are the current number and proportion of co-located offices and the current number and proportion of DFID/FCO staff who work in co-located offices?

TELEPHONE SERVICES

10. How many telephone inquiry lines at British Embassies are handled by companies such as Abtran Ltd and what is the average cost of a call to such an outsourced line?
CAPABILITY REVIEW

11. Given the levels of confidence in performance and management expressed by FCO Senior Management Staff in the recent Cabinet Office survey, how confident are you that you have the necessary staff skills to drive forward change?

12. You have told us that increased flexibility is being introduced to give Heads of Mission greater day-to-day control of their human and financial resources. Could you give some examples of how Heads of Mission are getting increased flexibility and also, of what impact this increased flexibility is having on resource allocation?

CAPITAL UNDERSPENDS

13. What steps are you taking to improve programme management to ensure you do not have capital underspends in the future?

SMALL POSTS

14. What considerations were taken into account in the FCO Board’s decision to review the definition of a “Small Post”?

ESTATE SALES

15. What is the extent of estate projects that you have put on hold and what is the expected cost of their delay?

16. What is your target for capital in the urgent review of asset sales described in your May Board minutes?

17. What is the amount outstanding on your Treasury target of achieving £140 million in asset sales?

UK VISAS

18. What was the “earlier security breach” on 21 December 2005 referred to in your letter of 13 June 2007?

FREEDOM OF INFORMATION ACT

19. The percentage of freedom of information requests the FCO has responded to has improved to 92%, according to the last quarter for which DCA statistics are available. Do internal reports suggest that this positive trend has continued through 2006?

Annex

EXTRACT FROM OFFICE OF GOVERNMENT COMMERCE (OGC) WEBSITE ON CLASSIFYING EFFICIENCY CLAIMS

EFFICIENCY MEASUREMENT AND REPORTING GUIDANCE—SIGN OFF

http://www.ogc.gov.uk/measurement_guidance_sign_off.asp

A department classifies its reported Efficiency Gains as Preliminary, Interim or Final. These classifications combine a number of factors: the measurement of efficiency gains, assurance about quality of service delivery and data maturity, as shown in table 1.
Table 1: Efficiency gains route map

<table>
<thead>
<tr>
<th>Classification</th>
<th>FINAL</th>
<th>INTERIM</th>
<th>PRELIMINARY</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Measurement methodology &amp; baselines defined and agreed</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>B. Data maturity</td>
<td>Will not change</td>
<td>May change</td>
<td>Likely to change</td>
</tr>
<tr>
<td>C. Quality measure agreed &amp; quality evidenced</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

For an Efficiency Gain to be classified as “interim” or “final” the measurement methodology which allows the financial value of the gain to be quantified must have been agreed with the OGC Efficiency Team. Further details about efficiency measurement can be found in the Guidelines for Measuring Efficiency.

In addition to an agreed measurement methodology an Efficiency Gain can only be classified as “final” if:
- The data can be described as “will not change” in terms of data maturity; and
- The method of assessing service quality (including a service quality baseline) has been agreed with the OGC Efficiency Team; and
- Evidence that quality of service has been maintained is available and has been generated by an appropriate and reliable process.

Data relating to a single initiative can be reported across more than one classification. For example, this may be appropriate where older data has been subject to post-year end adjustments but more recent data has not.

Letter to the Second Clerk of the Committee from the Parliamentary Relations and Devolution Team, Foreign and Commonwealth Office

FCO DEPARTMENTAL ANNUAL REPORT 2006–07

UK VISAS: REPORT OF THE INDEPENDENT INVESTIGATION

When Peter Ricketts appeared before the Committee on 26 June 2007, he promised to send the Committee a copy of the report, when this became available, of the Independent investigation into the breach of data security in the VFS online UK visa application facility, operated through VFS websites in India, Nigeria and Russia.

The report, and the government’s responses to the recommendations contained in the report were laid before Parliament this morning. I enclose a copy of each of these documents.

At question 18 of your letter of 18 July you also asked about an earlier breach of security. You will note that this is covered in the report.

Richard Cooke
Parliamentary Relations Team
26 July 2007

Letter to the Second Clerk from the Parliamentary Relations and Devolution Team, Foreign and Commonwealth Office

My letter of 23 April informed the Committee that no property had been sold or purchased in the third quarter of financial year 2006–07. I enclose our latest report, which lists the properties sold (Annex A) and purchased (Annex B) in the fourth quarter of 2006–07. For the Committee’s convenience, I also enclose a full list of estate sales (Annex C) and purchases (Annex D) for financial year 2006–07.
As with previous reports, the figures shown for estate sales are the gross sales proceeds. Transaction costs will vary, but can be expected to average 6-8%. The properties in Vienna and Mbabane were the Residence of the Permanent Representative to the United Nations Organisations in Vienna and the Head of Mission respectively. The Vienna sale reflects the appointment in September 2006 of HMA Vienna as the Permanent Representative to the UN in Vienna, whilst the sale in Mbabane follows the changes to the FCO overseas network announced in the House by the then Foreign Secretary in 2004.

In July 2006, we informed the Committee of the sale of residential property in Tel Aviv (the previous March). I am afraid that we incorrectly reported that the amount received represented a deposit of 60%, in fact, the £885,000 represented a 70% deposit. We are still waiting for the full balance of funds and will inform the Committee once the transaction has completed. In October 2006, we informed the Committee of the sale of offices in Asuncion. We will include the final balance of funds in our report for the first quarter of 2007–08.

Further estate returns will be incorporated into the Permanent Under Secretary’s quarterly letter on FCO management issues.

Richard Cooke
Parliamentary Relations Team
1 August 2007

Letter to the Second Clerk of the Committee from the Parliamentary Relations and Devolution Team, Foreign and Commonwealth Office

FCO DEPARTMENTAL ANNUAL REPORT 2006-07

Thank you for your letter of 18 July in which the Committee asked a number of questions Members did not have time to raise personally with Peter Ricketts at the evidence session on 26 June. I will reply to the questions in the order in which they appear in your letter.

1. The Committee would like an analysis of the Department’s reported efficiency savings according to whether they are “provisional”, “interim” or “final”, as classified by the Office of Government Commerce (see Annex) Please see the chart attached at Annex A to this letter.\(^{19}\) May I request that the Committee treat this information, and that referred to in Question 2 below, as Confidential and not for publication or release to a wider audience.

2. The Committee would also like to have copies of the Department’s latest quarterly efficiency monitoring reports submitted to the OGC. We note that other committees have already requested and obtained such documents, and like them we would, if the Department requested, treat these as confidential.

The FCO’s quarterly efficiency monitoring reports that are submitted to the Treasury are attached as Annexes A (the same annex as for Question 1), B, C and D. I should point out that these charts contain Q4 data, applicable up to the end of March. The FCO is currently working on new figures that will be ready at the end of this month. I would also like to emphasise that the information provided in these charts is for use as an internal management tool, subject to revision and change as the numbers come in.

DRAFT TARGETS

3. The Committee would like to know when the FCO will be in a position to provide briefing on the draft PSAs and Departmental Strategic Objectives (DSOs), as offered in your response to the Clerk’s letter of 22 February. The Committee would also like to request copies of the draft PSAs and DSOs.

We would be happy to provide the confidential briefing the Committee requested on the FCO’s contribution to the new PSA set and our Departmental Strategic Objectives (DSOs) at the Committee’s convenience. Our DSOs are being updated at the moment to ensure they are aligned with the new PSA set. We will ensure that they are forwarded to you in good time for you to pass them on to Committee members ahead of the briefing they have requested.

\(^{19}\) Not printed.
**RISK MANAGEMENT**

4. *The Committee would like to request a copy of your current strategic “Top Risks” register*

   Peter Ricketts will incorporate details of the TRR in his quarterly management letter for the Committee’s information. Because the Register itself is a confidential internal document to inform the Board of Management on resource and operational decisions, we do not propose copying it to the Committee.

**CONSULAR SERVICES**

5. *What assessment have you made of the impact of providing support to other EU Member States’ nationals on your consular network?*

   In line with our obligations under Article 20 of the TEC, our consular staff overseas offer assistance in third countries to EU citizens whose own country is not represented. This assistance is offered on a reciprocal basis, with locally agreed arrangements for which EU mission will help which unrepresented countries’ nationals.

   During 2005–06, we recorded 120 serious cases in which we provided consular assistance to unrepresented EU citizens. To put this figure in context, the number of serious cases involving British nationals during the same period was over 26,000. Provision of help to EU citizens does not, therefore, currently represent a significant drain on our consular resources. We remain, however, alert to the risk that demand for our services may rise, particularly if the number of EU citizens travelling beyond the EU climbs. We will continue to work with the Council Secretariat, the Commission and EU Partners to monitor the situation, and to find new ways to co-ordinate our consular networks to ensure a fair, effective and efficient means of providing consular assistance in third countries to all EU citizens.

**SHARED SERVICES**

6. *What are the greatest risks you have identified in the Shared Services Programme and what are you doing to counteract them?*

   A number of our greatest risks are financial. There is the possibility that the Programme may not meet its required savings targets within the CSR period. There is also the possibility that HM Treasury may refuse to fund redundancy costs, thus impacting on Programme affordability, and that implementation costs will be greater than expected. The FCO has made a bid to Treasury for Restructuring Funds to help meet the costs of staff redundancies in the short-term. We regularly review our ongoing costs to ensure that the business case still stands up. We have appointed a benefits manager whose role is to put in place the processes that will help define, record and measure all the benefits for the programme, ensure that these are monitored on a regular basis and the results reported back to the FCO Board.

   We have also identified operational risks such as preparing posts for the Shared Services implementation/cut-over phase, and “change-fatigue” leading to a loss of morale and key staff leaving, with implications for maintaining business as usual. Our communications team and business change teams are working to mitigate these risks.

   To further mitigate risk, we have also had an early OGC Gateway 0 review of the Programme to help ensure that we have identified all the major risks and issues.

7. *What expertise or experience are you intending to draw on when setting up Global Process Centres?*

   Shared Service or Global Process Centres (GPCs) are a well-established technique for improving corporate services in both the public and private sectors. They do require a high degree of technical expertise in order to implement successfully. The Shared Services Programme has brought in contractors and consultants with relevant experience and skills in this field, and has also engaged a senior OGC consultant to help manage the programme as a whole. We have consulted other private and public sector organisations to study their experiences. We are also using skills that exist within the FCO already by employing officers with experience of corporate services work within the Programme, and ensuring that FCO officers acquire skills from external contractors.

8. *You have informed us that projects in the Shared Services Programme could potentially reduce the FCO’s baseline by £22 million. Does this include savings that are potentially to be made through sharing services with DFID and if so, by what proportion?*

   Our figures for savings do not currently include potential savings made through sharing services with DFID. However, once final decisions have been made on which offices are to be co-located the overall savings to HMG will be captured as part of the Programme’s benefits management strategy.
9. You have told us that the FCO-DFID shared services seeks to increase the proportion of co-located offices by over 10% and the proportion of DFID staff in co-located offices by over 25% by the end of the CSR07 period. What are the current number and proportion of co-located offices and the current number and proportion of DFID/FCO staff who work in co-located offices?

DFID and the FCO, respectively, have 64 and 245 overseas offices and approximately 1,400 and 12,900 overseas staff. Forty-five DFID offices, and approximately 600 staff, are co-located with the FCO. This means that 70% of DFID’s Offices and 43% of its staff are currently co-located.

TELEPHONE SERVICES

10. How many telephone inquiry lines at British Embassies are handled by companies such as Abtran Ltd and what is the average cost of a call to such an out-sourced line?

Most calls at FCO posts are handled by in house staff, at normal telephone rates.

In February 2007 UK Visas signed contracts with two prime contractors, CSC Computer Sciences Corporation and VFS Global Ltd, for the provision of telephone inquiry services for visa applicants in 199 countries. These are currently being rolled out for completion by the end 2007. The approximate average cost per call across all countries receiving the service is US$ 6. Actual costs vary according to location.

A number of posts have outsourced phone handling to deal with the large volume of passport enquiries. Some posts have entered into contracts locally, but we do not hold a central record of this information. As a reference, eight of our ten largest passport-issuing posts do use the services of an outsourced partner for passport enquiries. There is at present only one central framework contract covering 7 posts in Europe and North America (Abtran). We do not have the average call costs for those contracts negotiated by individual posts. But we do have the detail of the Abtran charges. As there are differing telecommunications regulations in the countries covered, the call charges vary by country. For example a call made from Spain would cost an average of £3.00, from Germany £3.32, from the US, £5.00, and Canada £8.00.

CAPABILITY REVIEW

11. Given the levels of confidence in performance and management expressed by FCO Senior Management Staff in the recent Cabinet Office survey, how confident are you that you have the necessary staff skills to drive forward change?

We recognise that we have to improve the skills of our staff to deliver transformational change at the corporate level and at the local level. Centrally, James Bevan, Director General Delivery and Change, will lead the strategic management of change at Board level. He has consulted widely among our network of Posts and has taken early action to improve how we manage change. He has also appointed an experienced Director of Change, Louise Boyle, on secondment from HM Revenue and Customs, to lead our new Change Unit. This will act as a focal point for change and its co-ordination in the FCO. We are also increasing the project and programme management skills of our people by ensuring an increased level of professional qualification among our people directly employed on our major change initiatives. At a local level we will introduce a Change Management course for FCO managers in the autumn designed to improve the skills and confidence of our operational staff to deliver and implement the major changes planned.

12. You have told us that increased flexibility is being introduced to give Heads of Mission greater day-to-day control of their human and financial resources. Could you give some examples of how Heads of Mission are getting increased flexibility and also, of what impact this increased flexibility is having on resource allocation?

We have launched an initiative to encourage Heads of Mission to consider using local nationals to fill a wider range of jobs in our missions overseas. Some of the savings generated by using local rather than UK based staff will pass to the Mission to be used to fund local staff slots or for other uses. We are monitoring the impact of this initiative.

CAPITAL UNDERSPENDS

13. What steps are you taking to improve programme management to ensure you do not have capital underspends in the future

We continue to develop our monitoring and reporting mechanisms to provide more accurate and timely management information on capital expenditure. This data is being used by our Investment Committee to better align available capital to our spending requirements.
14. **What considerations were taken into account in the FCO Board’s decision to review the definition of a “Small Post”?**

In the context of its review of issues affecting Small Posts in March 2007, the Board agreed to re-examine the definition of Small Posts. It had concerns that the then current definition failed to recognise adequately the characteristics of a Small Post and, as a consequence, the current grouping of the really small Posts, and the problems that arise for them.

The Board also considered whether subordinate Posts (ie Consulates General) should be included in the definition of Small Post. It was noted that these Posts tend to have a limited range of tasks (eg they generally specialise in consular, entry clearance or commercial work). Thus they do not face the tensions arising from prioritising sometimes competing demands for work on Strategic Priorities, an issue that may affect sovereign Small Posts or those in Overseas Territories. Moreover, subordinate Posts can look to their superintending sovereign Post to handle tasks falling outside their specialist remit, a flexibility not available to sovereign or Overseas Territories Small Posts.

15. **What is the extent of estate projects that you have put on hold and what is the expected cost of their delay?**

Our estate investment programme contains over 80 projects with potential expenditure in the present and next three financial years. In 2007–08 we envisage a full programme totaling over £100 million, including major new office projects in Algiers, Doha, Harare, Manila, Madrid, Mumbai and Warsaw, phase two of the Residence refurbishment Moscow, and a new ICT Building at Hanslope Park. For the CSR period, our planned programme includes new offices in Abuja, Bandar Seri Begawan, Damascus, Jakarta, Sarajevo, Tbilisi and Tripoli. However, until we have our CSR settlement we do not know how much of this programme for the subsequent three financial years will be affordable. Our programme provisionally shows expenditure totaling about £70–75 million in each year with additional expenditure in Iraq and Afghanistan.

This outline programme has required postponing a number of projects, including a new Consulate-General compound in Jeddah, the replacement of our office in Georgetown, and the refurbishment of the High Commission in Bridgetown. We have also decided to look at a sale/leaseback approach in Ottawa, where we have been planning a traditional office refurbishment. We have also postponed new offices in Erbil and refurbishment of buildings at Hanslope Park. Our present estate situation at these locations is manageable, but far from ideal. Other projects are delayed for reasons other than funding. For example, we cannot yet build new permanent Embassy offices in Damascus, Jakarta and Sarajevo because we have not yet been able to acquire sites. In Tehran, structural strengthening in rebuilding of accommodation is held up due to the political climate. In most cases, the most significant cost of the delay comes in the form of carrying additional risks for an extended period until the new facilities have been completed.

16. **What is your target for capital in the urgent review of asset sales described in your May Board minutes?**

Our first concern is to satisfy the agreed Treasury target of £140 million of asset sale receipts in the period 2004–05 to 2010–11. How much we shall need to raise beyond that will depend on the outcome of the CSR. Some assets may need to be sold if our CSR settlement fails to meet an investment programme of £70–£80 million through the next spending period.

17. **What is the amount outstanding on your Treasury target of achieving £140 million in asset sales?**

In the financial years 2004–05 to 2006–07 we generated £85.6 million in receipts from estate sales. This leaves £54.4 million to be realised in further sales between 1 April 2007 and 31 March 2011. We believe the target remains challenging but achievable.

UK Visas

18. **What was the “earlier security breach” on 21 December 2006 referred to in your letter of 13 June 2007?**

The full circumstances surrounding the VFS security breach have been set out in the independent investigator’s report to the Foreign Secretary, which was laid before Parliament on 26 July. My Parliamentary Section provided the report to the Clerk of the Committee on the same day.
FREEDOM OF INFORMATION ACT

19. The percentage of freedom of information requests the FCO has responded to has improved to 92%, according to the last quarter for which DCA statistics are available. Do internal reports suggest that this positive trend has continued through 2006?

Yes. Performance improved steadily throughout 2006 with 96% of requests being answered within permissible deadlines in the final calendar quarter. The improvement continued with a figure of 98% for the first quarter of 2007.

The Committee may be interested to see a more detailed analysis of the FCO’s FOI performance in the attached FOI Annual Report 2006 (Annex E).

Richard Cooke
Head, Parliamentary Relations Team
15 August 2007

Letter to the Chairman of the Committee from Sir Peter Ricketts KCMG, Parliamentary Under-Secretary of State, Foreign and Commonwealth Office

FOREIGN AND COMMONWEALTH OFFICE: MANAGEMENT ISSUES

1. I agreed to provide the Committee with a quarterly update on FCO management issues. This letter covers the main developments over the past quarter.

CAPABILITY REVIEW

2. The Capability Review published in March 2007 (sent to the Committee on 27 March) noted that the “FCO is regarded by other foreign services as one of the best in the world. It is widely admired for the high caliber of its staff and its ability to articulate a coherent UK government view and to project that view in negotiations”. The Review concluded that the FCO faced four major challenges and identified four Key Action Areas:

   — 1: domestic and international issues are increasingly interlinked, requiring the FCO to define more clearly its distinctive contribution and to work more closely and more effectively across government

   — 2: FCO needs stronger change management capability and communications

   — 3: strengthen the strategic management of Human Resources and knowledge to support the future role and shape of the Department

   — 4: strengthen business planning processes

3. Our response: The Foreign Secretary in his Chatham House speech (Annex A) launched a public consultation on three questions: What should our priorities be? What is the best way to coordinate across UK Government? How can the FCO engage beyond Whitehall? We have collected responses and are analysing them. In parallel, I have held discussions with counterparts in other Departments to establish what they look to the FCO to do for them and where. This has given us a clearer picture of other Departments’ expectations of the FCO. These strands of work will be drawn together in the next few months to produce a strategic vision for the FCO, what its priorities should be and its distinctive contribution to the achievement of the Government’s international priorities.

4. Our response: I have re-structured the Board, creating a Director General for Change and Delivery-James Bevan, who started his job in July. The Board leads the FCO change programme adopted in July (the High Level Change Plan is attached at Annex B). James Bevan chairs the Change Committee, which works with and supports the programme. We recruited Louise Boyle from HM Revenue and Customs to be our Change Director and we have created a Change Unit to support activity and communications across the range of change programmes in the Office. We are piloting a new Change Management development course and tools for senior managers, to enable them to champion change in their posts and departments and to manage its impact on our people. We will conduct more frequent surveys, to take the views of staff on the change programme.

5. Our response: we have recruited, by open competition, a professionally qualified HR Director. The successful candidate was a member of FCO staff, Susan Le Jeune. We are analysing the impact of various change programmes underway on the FCO’s staffing requirements. Taken together with our commitment to maintain a global network and to have a higher proportion of our UK based officers overseas, we are starting to plan how to achieve a smaller workforce with the right skills to meet the requirements identified by the Capability Review. We remain committed to achieving diversity in the FCO’s workforce. We will continue to recruit talented people to senior and middle management positions from outside the Office, and have decided to open all of our senior jobs up to Whitehall competition. Our IT Strategy takes account of the need to use to better effect the FCO’s knowledge and expertise. A critical step in this will be the deployment of Future Firecrest, our next global IT platform, which will begin in 2008 (see below). We have launched a strategy for the management of our locally engaged staff in order to get the best from their talent and skills.

   — 4: strengthen business planning processes
6. Our response: we have trialled a new process for all Posts and Directorates, based on the principle of matching resources used against delivery of our Strategic Priorities. Based on responses from our Posts and Directorates, we have made some alterations to the process. Our management information system, Prism, is now giving us better data. We are confident that the evidence gathered will provide a sound basis for making strategic resource allocations following the Comprehensive Spending Review.

SHARED SERVICES PROGRAMME

7. We have established a Shared Services Programme to transform the way in which we provide management support to the FCO at home and abroad, and ensure that in future we spend less time, effort and money running ourselves. This Programme consists of two main projects. By setting up Shared Service Centres, we plan to deal with all financial, procurement, and ultimately HR, transactions in a more centralised and professional way. At the same time we are also working to set up regional or global Shared Contracts—using the negotiating power of the FCO as a whole to secure better value for money from suppliers of goods and services than we can by allowing each Post to negotiate its own local deals. This will include developing regional contracts for the outsourcing of Facilities Management at our overseas Posts.

8. The Programme aims to ensure that the FCO’s staff, customers and suppliers will benefit from simplified, standardised and streamlined services. It will further strengthen our accounting and systems of financial control. And it will improve our ability to deliver our priorities through better management information and a streamlined and more agile network. The Programme has already begun to centralise invoice processing for FCO departments in the UK, and to negotiate a Facilities Management contract for certain Posts in Europe.

COMPREHENSIVE SPENDING REVIEW

9. Discussions with the Treasury on financial allocations to the FCO for the three years of the CSR07 period have continued over the summer. The Foreign Secretary has underlined to the Chief Secretary to the Treasury his determination to pursue an active global diplomacy, and to ensure that FCO resources are concentrated on the issues where foreign policy and the FCO can make a real difference for Britain. At the same time, he has pointed to pressures arising from the increased security threat to FCO staff serving overseas and the strong growth in the cost of the UK’s subscriptions to international organisations, as well as to the need to invest now to reap longer-term benefits by further simplifying, standardising and streamlining our management support systems and structures.

10. The Foreign Secretary has stressed the FCO’s determination to maximise operational efficiency and help meet the various budgetary pressures we face through an ambitious programme of value for money efficiency programmes. But he has made the case also for focussing limited additional resources on delivery of key foreign policy objectives such as counter-terrorism. As I write the final points in the FCO’s settlement, which are still being negotiated. The result will be announced by the Chancellor as part of the overall Comprehensive Spending Review.

CHANGES IN THE MACHINERY OF GOVERNMENT

11. The Prime Minister announced in July his intention to integrate more closely the work of the Border and Immigration Agency, Customs and UKvisas. Detailed discussions are now underway including on the potential merger of UKvisas, currently a joint Home Office/FCO Directorate, with the Home Office’s Border and Immigration Agency.

12. Negotiations for the transfer of the Defence Export Services Organisation’s (DESO) responsibilities from MOD to UKTI are ongoing. The FCO is keen to ensure that resources consistent with maintaining an appropriate level of defence trade promotion are transferred as part of that deal.

UKVISAS

13. For a comprehensive overview, please refer to UKvisas’ Annual Report for 2006–7. (Annex C). UKvisas received 2.75 million applications in that period, up from 2.5 million in 2005–06. The roll-out of the biometric programme continued, and as of 1 September, 100 visa issuing Posts can now take applicants’ fingerprints. The biometrics programme is enabled in many locations through arrangements with commercial partners who take the biometrics and the other aspects of the visa application. New visa application centres are being opened in conjunction with the biometrics programme. This streamlining will also enable UKvisas to take forward a programme to restructure its operations in order to reduce costs and drive up consistency and performance.

14. In May 2007 Lord Triesman announced an independent investigation into an alleged breach of security in the online application facility operated by one of UKvisas’ commercial partners, VFS. The investigation was completed in July and the full report published by the Foreign Secretary who accepted all of the
recommendations (a copy was sent to Committee on 26 July 2007). The VFS online facility was closed in May 2007. In future online applications will be made through UK visas’ own system, visa4UK which should be available in all locations by the end of 2007.

15. The Independent Monitor for Entry Clearance continued to scrutinise our decision-making quality. She found 90% of our decisions to be reasonable.

FCO SERVICES

16. FCO Services has enjoyed a successful first year trading as an Executive Agency—converting a FY 2005–06 loss into a £4.5 million surplus—and it continues to make good progress on its journey to Trading Fund status next April.

17. The organisation will, this month, face a significant milestone on this journey when the NAO conducts a “Fit to Trade” Review. This review will look closely at FCO Services’ financial capability and its commercial viability and sustainability in order to determine whether it will be able to operate successfully as a Trading Fund.

18. Earlier this year, the OGC completed a review of the overall preparations for TF status and will return in November for a final Gateway Review on the readiness of both FCO Services and the FCO for the transition.

19. All indications are that we are on track to make this transition successfully. Since July, FCO Services has been operating its own separate set of financial books and has produced its first Annual Report and Accounts (copies of which we sent to you). The latter, which were prepared for the first time in accordance with full UK accounting standards, were subject to a rigorous audit process by the NAO before receiving a clean audit report.

20. As part of its preparations for the move to TF status, FCO Services has embarked on a comprehensive change programme to allow it to develop the commercial, financial, operational and human resource capability to operate effectively as a TF. Those projects which are critical to demonstrating that the organisation is “fit to trade” are being taken forward as a priority. A key focus is to embed key commercial and business processes across FCO Services, demonstrating that the organisation is developing the commercial capability needed to realise greater efficiency and deliver service enhancements.

21. The FCO is developing its capability as an “Intelligent Customer” of FCO Services and we are standardising and simplifying our procurement structure and process. This will enable more professional procurement to be carried out by a smaller number of people, allowing the FCO to focus on its core business of diplomacy.

22. We are conducting a Public Consultation on FCO Services’ planned move to TF status. This consultation period ends on 9 October 2007 with the results published soon afterwards. The consultation exercise will have lasted three months and those consulted include staff, trade associations, competitors, suppliers, Other Government Departments (OGDs) and FCO Services’ Wider Market customers.

23. Following the Fit to Trade Review and HMT approval for the move to TF, we anticipate that the necessary Statutory Instrument will be laid before the House early next year.

LANGUAGE TRAINING

24. When I wrote to you on 23 March, I explained the implications of FCO Services’ new business strategy for staff and for the future direction of the business and I made particular reference to Language Training. I also covered this in my oral evidence to the Committee on 26 June.

25. Following FCO Services’ decision to discontinue the provision of language training services and our decision to put in place a new business model for language training in the FCO, our in-house language training function will close on 2 October.

26. Those staff wishing to be redeployed elsewhere in the FCO, and who are eligible on nationality grounds, will attend assessment centres for redeployment later this month. The remaining staff have received notices of redundancy or will do so soon. Our HR team has been working closely with the staff affected and with the Trade Union Side in order to provide as much support as possible through this difficult period.

27. We have also been working to put in place the new arrangements for language teaching provision in line with our new business model. The Invitation to Tender has been published. The deadline for receipt of bids is 26 September and the new Framework Agreement should be in place by the end of October.

DEPARTMENTAL STRATEGIC OBJECTIVES (DSOs) / PUBLIC SERVICE AGREEMENTS (PSAs)

28. The FCO has been working with colleagues across Whitehall over the last year to develop the government’s new performance management framework for the CSR07 period. The new set of cross-governmental PSAs will form the central plank of this. The FCO has been leading work on developing the Conflict PSA and has contributed to PSA development in a range of other areas including Counter-Terrorism, Climate Change, Migration, and International Poverty. In parallel we have developed a departmental
performance management framework, centered on delivery of the Government’s Strategic International Priorities, as set out in the March 2006 White Paper “Active Diplomacy for a Changing World”. We plan that these should act as the FCO’s Departmental Strategic Objectives for the CSR07 period. I will brief the Committee on these developments in more detail on 3 October.

**Risk**

29. We continue to make progress in embedding conscious risk management as an integral part of all FCO business. Staff awareness and expertise is growing thanks to our range of training courses and a significant expansion of our Intranet guidance. We now have well-established processes for reporting risks, providing a flow from posts overseas right through to the FCO Board.

30. We have responded to the FAC’s recommendation to consider a broader range of strategic risks by introducing a Strategic Risks Register from which the most pressing risks are elevated to the Top Risks Register (TRR). The TRR also covers major operational risks and focuses on resource or reputational implications for the FCO as an organisation. The FCO Board reviews the full TRR every quarter. When updated in June, the TRR included six operational risks (Physical Security, FCO Resources, Systems of Internal Financial Control, Workforce Planning, IT Systems and UKVisas Control) and six strategic risks (Iran, Terrorist Attack, Afghanistan, Iraq, EU Constitutional Treaty and Pakistan). The Board also discusses individual risks in detail at its monthly meetings, most recently Iraq (June) and IT Systems (July).

**Future Firecrest**

31. The additional cost due to the FCO’s altered specification for Future Firecrest was originally estimated at £53 million. Following negotiations with HP this was reduced to £36 million. An updated contract to reflect the new specification and cost was signed on 31 July.

**Estates**

32. In June we completed the fit-out of new offices for the British Embassy Office Almaty. The new offices provide modern fit-for-purpose accommodation for staff in the business centre (and former capital city) of Kazakhstan. Offices for the new Embassy in Astana were completed in December 2006. We completed new visa offices in Amman and Istanbul providing entry clearance teams with modern offices. In Islamabad and Karachi we have completed new staff housing, despite difficulties with the original contractor, Britannia. Because we were very dissatisfied with Britannia’s performance we terminated their contract. A new contractor has now finished the project and we are seeking damages from Britannia under our contract with them. However, Britannia entered voluntary liquidation earlier this year with limited assets and we do not expect to recover a significant percentage of the £2 million we believe they are liable for. We are in discussion with the liquidators and will keep the Committee informed of progress.

33. As agreed with the Clerk, I enclose a further report listing the properties sold (Annex D) and purchased (Annex E) in the first quarter of Financial Year 2007–08. Unlike previous sales reports, we have included the transaction currency and the FCO’s monthly exchange rate in use at the time of the sale. As with previous tables, the figures shown are the gross totals. Transaction costs vary, but can be expected to average 6–8%. None of the properties sold were the Residence of a Head of Mission.

34. The list of properties purchased (Annex E) includes the purchase of three floors in the Naman Chambers building, Mumbai, of which the Committee is already aware. In Portimão we have taken on new premises, as our current offices are no longer fit for purpose. Design work is currently underway and we expect the project to be completed later in the financial year. The purchase of land in Tbilisi, Georgia, will enable us to design and build a new secure Embassy which fully meets our needs.

35. In our last quarterly estate report we undertook to let you have the final balance of funds for the sale of offices in Asuncion. The transaction has taken longer to complete than anticipated and we have yet to receive the final balance. Once received, we will record the balance in a later quarterly report.

I look forward to seeing you and the rest of the Committee on 3 October.

*Peter Ricketts*

*25 September 2007*
PSA HIGHLIGHTS

— Want to use the CSRO7 to set a PSA on conflict prevention and resolution that:
  — sets testing goals,
  — drives a step-change in the way the UK engages in conflict issues,
  — helps maintain the largely positive global trend in the number and impact of conflicts,
  — reflects latest thinking around R2P,
  — links human rights and conflict,
  — embeds the concept of a “comprehensive approach”,
  — links conflict prevention and resolution and poverty reduction—the latter being the subject of a DFID-led PSA,
  — avoids repeating the problems with past PSAs on conflict prevention—an over-reliance on quantitative measures/statistics (SR02) or purely narrative assessments (SR04).

— Four pillar structure measuring specific types of progress:
  — A: downward trend in the number of conflicts globally,
  — B: reduced impact of conflict in specific countries and regions,
  — C: effectiveness of international institutions to prevent, manage and resolve conflict and build peace,
  — D: effective UK capability to prevent, manage and resolve conflict and build peace,

— Indicator A will give the overall headline assessment of global trends subject to regional breakdown (eg sub-Saharan Africa, Europe, Central and South Asia, and the Middle East and North Africa). Will rely on proven statistical analysis.

— Indicator B covering Afghanistan, Iraq, Balkans, Middle East, Sierra Leone, DRC and the Great Lakes region, Horn of Africa, Nigeria and Sudan. Illustrative selection of countries/regions demonstrating HMG engagement in different stages, types and scales of conflict, showing how FCO, DFID and MOD activity, when combined, can be effective. Not totality of HMG’s interests. Nor reflecting HMG’s priorities. Baskets of quantitative and qualitative measures. Effort to focus on impact of HMG activity on the outcomes.

— Indicator C will measure effectiveness and capability in key areas including early response to prevent conflict; effective peace support operations; sustainable peacebuilding; the use of a comprehensive approach; effective use of resources etc.

— Indicator D will drive the improvement in HMG activity in several fields including resource allocation; the deployment of civilians; early warning/horizon-scanning capacity leading to policy change; conflict sensitive approaches; more effective use of non-government actors; while maintaining the ability to intervene military when and where necessary.

October 2007

Letter to the Chairman from the Secretary of State, Foreign and Commonwealth Office

I am writing to let you know about an internal review which we recently undertook of our representation in the Eastern Caribbean.

As you may recall, we carried out a review in 2003 which led to the decision not to replace our Resident Representatives in St Vincent & the Grenadines and in Grenada. As my predecessor let you know, we then closed the residual administrative offices in St Vincent.

Following this most recent review, I have agreed the recommendations now to close our residual administrative office in Grenada and not to replace our current Resident Representative in Antigua & Barbuda. Our High Commissioner based in Barbados will remain accredited to all of the Eastern Caribbean States as before and will visit regularly. We will appoint Honorary Consuls in both Grenada and in Antigua and will also keep a Consular Officer in Antigua.

The conclusions of the review were that this approach currently represented the best way of delivering on our international priorities, and will improve our consular, visa and passport services and ensure that they meet the demands of a changing global environment. The implementation of the recommendations should also result in savings of over £400,000 pa operating costs and will also result in revenue from the sale of a building in St John’s.

I would be happy to let you have any further details you may require.

David Miliband

9 October 2007
Wednesday 27 June 2007

Members present:

Mike Gapes (Chairman)

Mr Fabian Hamilton  Mr Greg Pope
Mr John Horam  Mr Ken Purchase
Mr Eric Illsley  Rt hon Sir John Stanley
Andrew Mackinlay  Ms Gisela Stuart

Email to the Clerk of the Committee from Kate Buxton, Parliamentary Officer, British Council

I am writing to give you, and committee members, information on British Council plans for West Jerusalem as part of our overall strategy to be more effective in our operations in Israel.

The need for reassessment and change arises from the reality that our West Jerusalem Office and its public access service, despite their modernity and branding, are not well used. There are only 690 members of our library of which only 380 can be considered as “active”. 80% of our library members fall outside our target audience.

We recognize that there is a strong emotional attachment to our library from some, particularly in the older Anglo-Jewish community in Jerusalem. However there are other community libraries and information resource centres that Israelis can use around the city which provide English language materials. These are supplemented by a good choice of English language book sellers, film suppliers and music stores.

Against this background we have today announced the closure of our library services and our current office. We intend to continue working in Jerusalem through placing our staff in a new office space in West Jerusalem shared with a trusted international partner (currently being identified). In addition we are confident that we will find a long-term partner and appropriate location for the library collection so that the people in the West Jerusalem area can continue to benefit from this resource.

The changes outlined above will take up minimal funds, allow us to shift resources into higher impact programmes and demonstrate more efficient use of UK taxpayer resources. They will also help us reach our target audiences more effectively. We know that we consistently reach more people in Jerusalem when we take our project work out to them than when we try to get them to come to us.

I would like to stress that our proposed changes do not diminish in any way the continued importance that British Council attaches to the UK’s relationship with Israel nor do they distance us from West Jerusalem. To that end, our programme visibility and commitments to partners will be fully maintained and relationships with key Jerusalem-based stakeholders will be managed from our new partnership office.

Examples of upcoming project work in Jerusalem are:

— Beautiful Science; our new regional product in science communication: working with Jerusalem partners in informal education sector including Bloomfield Science Museum
— Design for Thought; working with design schools and museum partners in Jerusalem eg Hadassah Design School and the Israel Museum
— BI-ARTS; our professional development and exchange scheme eg. Bezalel Academy and Ulster University exploring urban architecture together.
— English Learning Centres; our new partnership with CLORE Foundation, Ministry of Education and Hebrew University focussing on marginalised secondary schools across Israel
— British Film Festival; including educational partnerships with Cinematheque and Sam Spiegel Film School
— Education UK briefings will continue to be offered for students and teachers in various Jerusalem locations.

The British Council remains solidly committed to building closer ties of understanding between Israel and the UK. If you would like any further specific information I would, of course, readily provide it.

Kate Buxton,
Parliamentary Officer,
British Council

30 November 2006
Letter to the Clerk of the Committee from the British Council

In the light of your interest in Russia, I am writing to inform you that the British Council’s Teaching Centre in Moscow will cease direct English language teaching at the end of the academic term in December 2006. This is due to a number of new administrative issues raised by the Russian authorities which have made it impossible for us to continue teaching. Although we have complied with all operational requirements to date, new developments in Russian legislation have made direct teaching of English untenable for the British Council in the immediate future. All our other programmes and services including exams, education, library and information, arts and science will continue as normal.

The British Council’s long term strategy in Russia is to extend its reach beyond the major cities and enable more people to benefit from its English Language services through investment in more widely accessible English Language programmes. We plan to expand programmes in teacher training for Russian teachers of English and further develop on line English Language support for students and teachers. In addition, we will grow our exchange programmes to give more young Russians the opportunity to study in the UK. The British Council and Russian authorities are working to establish a Cultural Centres Agreement to provide a framework for the British Council’s work across Russia over the next few years.

We continue to work with the Russian authorities on the establishment of a Cultural Centres Agreement to provide a framework for the British Council’s work across Russia over the next few years. We hope to have this framework agreed in early 2007.

We remain committed to our cultural relations and educational work in Russia and to working with our Russian partners to enhance mutual understanding between our two countries.

Please do not hesitate to contact me should you require further detail on any aspect of these recent developments.

Kathryn Board
Geographical Director
Europe, Americas, Middle East and North Africa
British Council
19 December 2006

Letter to the Chairman from the British Council

I am writing to let you know about changes in the British Council’s strategy for EU countries, Norway and Switzerland.

The British Council has operated in Europe for many years with a strong bi-lateral focus. In 2006 we undertook detailed research (including the Options for Change report, country level blue-printing exercises) which resulted in the development of a new strategy for our work. This will be based on a more multi-lateral approach and will build on our excellent network of relationships. This new strategy forms part of the British Council’s overarching 2010 strategy.

It was clear from our consultations that the UK faces new challenges in common with its EU partners which would benefit from a co-ordinated, pan European approach. Challenges include Europe-wide issues such as social inclusion of minority groups (particularly integration of Muslim populations), migration and identity, strengthening open societies in EU neighbourhood countries as well as global issues such as climate change and competitiveness in a global economy.

At the same time as refocusing our grant-funded work in EU countries, we want to move resources out of Europe to other regions where we need to maximise the impact of our public funding, notably in Central and South Asia (including Pakistan, Iran, Bangladesh and Afghanistan), and in the Middle East. We are therefore planning to move 30% of our grant-funded resources out of Europe over the next two years to fund high-priority initiatives in building shared understanding with the Muslim world and to work with partners in building greater opportunities for younger populations in these regions.

There are four major themes in the new strategy for EU countries, Norway and Switzerland:

— Open Europe—championing open dialogue about citizenship, inter-cultural issues, tolerance, alienation and diversity.
— Creative Europe—fostering knowledge sharing and awareness in arts and science.
— Competitive Europe—offering new skills in the English language, in teaching and in learning, access to qualifications, and creating new partnerships in education and skills development.
— Global Europe—supporting the UK’s contribution to global topics which reach beyond the EU—such as climate change and inter-cultural dialogue.

We will continue to draw young and professional people into contact with the UK through full cost-recovery teaching operations in countries such as Spain, France, Portugal, Greece and Poland. While we will close public-access information services funded by grant-in-aid, we will increase the provision of information through our web presence, particularly for prospective students who wish to study in the UK.
We also look forward to working with the education sector both formal and non-formal in the UK on major EU programmes such as the Youth in Action and Lifelong Learning and Skills programmes, targeted at young people in the UK and Europe (Erasmus, Comenius).

Changes at country level are already underway and will continue through 2007–08 and 2008–09, with a particular focus on North and Central Europe over the next few months. Change does not take the form of one size fits all so there will be a range of delivery models in different countries which reflect our assessment of how best to have the greatest impact. We will have smaller, more flexible operations and teams which will deliver new larger scale regional projects against the four themes mentioned above, leveraging new partnerships for such initiatives.

We remain strongly committed to working in Europe, and in particular to helping meet the UK Government’s international priority of building an effective and globally competitive EU in a secure neighbourhood. We believe we can achieve greater impact by reducing bi-lateral work, and concentrating resources on working multi-laterally with partners on a small number of high-priority objectives.

If you would like further information about these changes, or you need to respond to enquiries you receive, please do not hesitate to contact me, one of our regional directors listed below or Julien Dedman in our London office on 020 7389 3014.

Kathryn Board
Geographical Director
Europe, Middle East and Americas
23 February 2007

Memorandum submitted by the British Council

This submission summarises the main features of the British Council’s work in 2006–07, sets out plans for future strategic direction, and comments on the development of co-ordination with public diplomacy partners and of the Public Diplomacy Board. The paper is submitted in response to the committee’s call for comments on the FCO’s annual report for 2006–07.

1. Summary

1.1 We expanded the UK’s engagement overseas, increased our range of partners in the Muslim world and achieved greater reach for the UK in the fast-growing economies of India, China and East Asia in 2006–07.

1.2 The increasing shift of resources into the Middle and Near East, and into Central and South Asia, is enabling us to draw in new partners untouched by more traditional diplomacy, and thereby to tackle the challenges posed by radicalisation and alienation of younger populations.

1.3 Growing prosperity in India, China and in parts of East Asia, sets different challenges in raising the UK’s levels of influence and reach among the professional young and future leaders.

1.4 The answer is partnership. In 2006–07, we launched new initiatives with partners to enhance the UK as a leading world-class player in international education and in culture and creativity. These included a second phase of the Prime Minister’s Initiative on international education, the launch of the UK-India Education and Research Initiative, and the Connections through Culture initiative in China.

1.5 The numbers of people taking part in our events and direct activity internationally rose by nearly 10% in 2006–07, from 15.1 million to 16.5 million people. We achieved a substantial increase in our remote reach, attracting audiences of 80m. These results were achieved whilst continuing to drive down operating costs and improve efficiency. We continued to meet efficiency targets of 2.5% per annum.

1.6 We have worked closely with the FCO on issues of oversight. We signed a new Memorandum of Understanding and implemented other recommendations of Lord Carter’s report on public diplomacy, to improve co-ordination of public diplomacy and accountability.

1.7 We now work to a new definition of public diplomacy agreed in the report as follows:

“work aiming to inform and engage individuals and organisations overseas, in order to improve understanding of, and influence for, the UK in a manner consistent with governmental medium- and long-term goals”. (Ref: Review of Public Diplomacy, Lord Carter of Coles, paragraph 2.5, p 8).

1.8 This definition provides us with clarity about how our work relates to the Government’s international strategic priorities. Our purpose continues to be:

“to build mutually beneficial relationships between people in the UK and other countries and to increase appreciation of the UK’s creative ideas and achievements”

1.9 We have begun, with the FCO and BBC World Service, to establish a public diplomacy measurement framework which will accommodate the different roles and functions of the various partners and which will permit comparative evaluation to take place.
2. STRATEGIC CHANGE AND FUTURE DIRECTION OF THE BRITISH COUNCIL

2.1 We are undertaking significant strategic change, to meet the challenges of the changing international environment, UK priorities, greater efficiency targets and what is likely to be a tighter financial settlement in the comprehensive spending review.

2.2 Restructuring undertaken in 2006-07 and continuing in the current year is positioning the organisation for delivery of objectives in the 2008-09 to 2010-11 triennium.

Priority areas for our work

2.3 We are restructuring our areas of work around the following four objectives:

— Inter-cultural understanding, with an emphasis on the Muslim world.
— Increasing ties for the UK’s creative and knowledge economies.
— Helping tackle climate change.
— Making the UK a strong multi-lateral partner in tackling agendas of common interest in Europe and its neighbourhood.

Developing inter-cultural understanding

2.4 Under our new Reconnect initiative, we will provide leadership training for 10,000 young people with potential as leaders across communities and cultures, facilitating leadership development as part of a wider programme of engagement with the Muslim world. The objective is to create a wider impact on millions of younger people experiencing alienation through lack of opportunity.

2.5 The programme will be reinforced by a strengthening of our education reform work at school, vocational and higher education level, working closely with ministries and change agents, particularly in the Near and Middle East, as well as in Pakistan (see paragraphs 3.2 and 3.3). We will also undertake a multi-country project in Europe, called European Islam, which will aim to raise shared awareness of the roots of European culture drawing on both Islamic and Christian roots and traditions, and exploring the contribution made by Islam through the centuries.

2.6 The Reconnect initiative builds on work building trust with institutions, ministries and non-governmental bodies in the Muslim world, including religious schools and voluntary associations in countries as diverse as Turkey, Indonesia and Pakistan.

Moving Grant-funded resources to high priority regions

2.7 We will increase Grant-in-Aid funding for regions of high priority for the UK, namely the Near East and North Africa, the Middle East and Central & South Asia, with a particular emphasis on Pakistan, Afghanistan and Bangladesh. To achieve this, we will move 30% of our funding out of European operations. We moved £1m our from Europe in 2006-07 and by early 2008 will have placed an extra £2 million into the Middle East, £2.5 million into the Near East and North Africa, and £3 million into sub-Saharan Africa.

Building ties for the UK’s creative and knowledge economies

2.8 The speed of growth in emerging economies requires us to re-think how we respond to the increasingly large demands for access to UK educational opportunity, the English language and to the UK’s creativity and arts.

2.9 In particular, strengthening our educational and cultural position in China (paragraph 3.14), ensuring the UK is seen as a active partner in engaging with India’s growing education and research base (paragraphs 3.15 to 3.17) are of critical importance for our future work.

2.10 A renewed Prime Minister’s Initiative on international education to strengthen the UK’s position in student recruitment and to ensure it can take advantage of trans-national educational partnerships is central to the strategy (paragraphs 3.23 and 3.24).

Climate change

2.11 We are committed to a significant increase in work in climate change, reflecting the need for urgency outlined in the Stern review. We will launch a new programme called Low Carbon Options in 2008 and are now holding detailed discussions with DEFRA about how we can contribute to the UK’s overall work in this area. We have also embarked on three pilot projects on climate security in partnership with the FCO (paragraphs 3.8, 3.9 and 3.17).
Europe

2.12 The rapidity of change, both in western Europe, and in the 2004 EU accession countries, signals the need for a new approach in the region. Future emphasis will be on building pan-European networks with the UK as a leading partner country. There will be less traditional bi-lateral activity—though this will continue where the bilateral relationship is of great importance such as with France and Germany.

2.13 We will reduce the Grant-in-Aid funds committed to the region initially by 30% by 2010–11. But we aim to increase impact through partnership funding. We will focus on areas of importance to the UK: tackling extremism and promoting social cohesion; encouraging competitiveness and the Lisbon agenda; and working to support EU standards, democratic institutions, and empowerment of open and civil societies in EU neighbourhood countries.

2.14 We will retain direct public access facilities, such as teaching centres, in Europe only where services are paid for on a full cost recovery basis by individual users. We will continue to offer high quality teaching and exams services where there is demand and customers are prepared to pay. We will expand web-based products and services to reach larger audiences. Our focus will be primarily on students, young professionals and young leaders up to the age of 35.

3. PERFORMANCE AND MAIN ACTIVITY HIGHLIGHTS OF 2006–07

3.1 We achieved a number of significant results for the UK and for broader public diplomacy in 2006–07.

New partnerships in tackling alienation and radicalisation

3.2 With increased resources for the Middle East, Near East and North Africa, and Central and South Asia, we are now expanding our range of partnerships for work tackling misunderstanding between the West and the Muslim world and in developing cooperation with Islamic institutions, including madrassahs and other educational institutions.

3.3 In Pakistan, we are extending our school links programme, with the objective of working with 100 schools in promoting intercultural dialogue and skills for employment. We are trying out new approaches, including working with clusters of schools—public, private and madrassahs—and with partners in North-West Frontier Province, and semi-rural areas in Punjab and Sindh/Balochistan.

Iraq-UK higher education agreement

3.4 In March we brokered a landmark agreement with the Iraqi Ministry of Higher Education. This will fund 1,000 Iraqi scholars over five years, and provide partnerships for all of Iraq’s 18 universities with UK counterpart institutions. We are managing a four-year programme funded by the Iraqi government, Capacity Building for Iraqi Higher Education. This will enable Iraq’s universities to overcome decades of isolation, improve standards and facilitate access to UK expertise in university management, and high-level academic and research capacity.

Continued engagement in Iran

3.5 Despite the tensions with Iran, we continued to raise the UK’s profile, both in educational and in environmental work. More than 2,000 medical professionals took part in our UK/Iranian medical week, while 3,500 potential students visited the first ever UK stand at the Tehran international education exhibition.

Tackling issues of migration, identity and security in Europe and its neighbourhood

3.6 Throughout Europe we worked with partners raising co-operation on the inter-connected issues of migration, economic competitiveness, identity and community cohesion. This included the European launch of our British Muslims: a Media Guide as the springboard for future dialogue. A series of 50 high-profile events, called Conversations, brings together policy makers, NGOs and think-tanks to share experience and ideas, particularly across France, Germany, the Netherlands and the UK.

3.7 A second initiative, Network Effects, draws together young leaders from northern, central and eastern Europe to build up networks of collaboration for the UK. So far, the participants have tackled diversity and integration in the wake of the Theo van Gogh murder in the Netherlands, the role of NGOs in the post-Soviet/Iron Curtain era, ageing Europe in a young world, and Africa in Europe.
Climate change

3.8 We built on the success of our ZeroCarbonCity initiative, which involved 8 million people internationally, with specific projects in Russia, China, Brazil, where changes in behaviour and commitment to action on carbon emissions is essential.

3.9 In China, our three-year Climate Cool programme centres around an exhibition on the role energy efficiency and the greater consciousness of consumers need to play in a society growing by 10% per annum. In 2006–07, this included a 100-minute documentary produced with China Central Television, Environmental Cellobuloid, on how individual behaviour impacts on climate change, seen by 10 million people; and the training for 100 Chinese journalists in writing creatively on climate change. In Brazil, we are establishing an extensive Internet-based programme to reach younger audiences on climate change issues such as the preservation of the Amazon, and on extending links on areas such as bio-fuels. In Canada, we are working with Cape Farewell and its forthcoming Arctic expedition, with a schools programme in English, French and Inuit.

Increased engagement with large-scale emerging economies

3.10 The exponential growth of China and India, and the steady but cumulatively strong growth of Brazil, means that for the UK to retain or strengthen influence we need to reach larger young professional audiences and encourage them to use British educational opportunities and engage with UK creativity and the arts.

3.11 There is a strong demand in the UK for expanding ties with institutions in mainland China, both in education and in the arts, museum and creative sectors. We have responded to these demands.

3.12 We designed and launched the UK-China Connections Through Culture programme. The programme, which we manage, runs in partnership with DCMS, FCO and the Scottish Executive. It forges new partnerships between Chinese and British cultural institutions. So far 484 cultural institutions in the UK, mainland China and Hong Kong/Macau have become members.

3.13 We worked with the Royal Opera House Covent Garden to create, through the initiative, the first international link for the National Grand Theatre. We mediated between the British Museum and the Capital Museum to enable agreement to take place on exhibiting the Treasures of the World’s Cultures as the first international project Beijing’s newly opened museum, seen by 500,000 people.

3.14 In education, the challenge has been to safeguard the UK’s position as a leading destination of study in the face of competition from other suppliers. We have been building on the reputation of the UK as a trusted partner and increasing the take-up of UK qualifications, especially in areas such as finance and management.

3.15 In India, the challenge is to enable the UK to make the most of the new opportunities now opening up as a result of economic expansion and the strides being made in research, particularly in areas such as bio-medicines, IT and the service sector.

3.16 The first tranche of awards under the UK India Education and Research Initiative, managed by us in partnership with DfES, the FCO and DTI, took place in March. So far, £5 million for 30 collaborative research projects involving teams in the UK have been awarded. £12 million has been committed by partners to fund research and higher education collaboration. There is growing evidence of the commitment of Indian ministries, agencies and institutions.

3.17 Seven projects to develop and deliver undergraduate and postgraduate collaborative programmes have been established. More will be agreed over the next three years. We plan a total of at least 40 by 2010–11. The Indian government’s Department for Science and Technology is supporting projects in five areas: stem-cell research and animal biotechnology; next generation networks in telecommunications; advanced materials and nanotechnology; weather science and climate change; and new energy technologies including hydrogen.

3.18 In Brazil, we are assisting the federal government in programmes in education reform, including school leadership, reform of school governance, and social inclusion in education. Under the Memorandum of Understanding signed with President Luis Ignacio Lula da Silva last year we are supporting pilot courses for 60,000 in-service teachers with assistance from UK specialists in changing attitudes and tackling discrimination in the classroom.

3.19 We reported on Russia in our recent submission to the committee in its inquiry on Russia and global security. Despite the difficult operating environment, we succeeded in reaching 2 million young Russians through our programmes, and have continued with high-profile events, including the recent Whistler exhibition in partnership with the Tretyakov Gallery in Moscow. The DfES-funded BRIDGE programme which we manage has so far brokered 37 new partnerships between Russian and British higher education institutions.
Africa

3.20 More than 900 leaders from the private, public and voluntary sectors have now taken part in the pan-African Inter.Action programme of transformational leadership. This is now providing new networks of influence for the UK, and has enhanced the UK’s reputation across the continent.

3.21 We are now extending the scope of the programme with spin-off activities across sub-Saharan Africa. For example, we are providing training for the Cabinets of Malawi and Cameroon, and more generally for women’s affairs and local government ministries of Commonwealth countries. We have undertaken programmes for the south Sudanese judiciary, for 97 Tanzanian women MPs and for young African English-speaking and Francophone leaders in partnership with the UN Economic Commission for Africa.

3.22 During the year we played a major part in the commemoration of the 1807 Abolition of the Slave Trade Act. We were invited by the Ghana 50 celebrations committee to organise the commemorative event for the 200th anniversary. This was attended by the President of Ghana, and the UK’s deputy Prime Minister. The event formed the centrepiece of our wider Africa 2007 programme developing links between the UK and the region.

Expanding the international capacity of UK education

3.23 A new initiative on international education was launched by the Prime Minister in April 2006 to build on the success of the first Prime Minister’s Initiative (PMI) which professionalised the UK’s overall approach to international marketing of its education sector.

3.24 After fulfilling ambitious targets in the first PMI, the successor initiative (PMI 2) sets stretching targets in partnership with DfES and the education sector. These are 70,000 additional students in higher education and 30,000 in further education. PMI 2 is designed to meet the challenge of tougher international competition through greater specialisation and improved professional marketing. In the first year we held a series of international education policy dialogues between educationalists and policy leaders in the UK and other countries (Vietnam, Malaysia, Pakistan, China). The events examined joint ventures, strategic partnerships and international alliances.

Developing the non-Grant funded operations of the British Council

3.25 Our full-cost recovery operations continue to make a substantial contribution to our overall reach and impact. In 2006–07, 1.3 million customers took English language lessons or UK examinations administered by us, an increase of 7% on the previous year. We taught English to 325,000 learners in 53 countries, in 1.1 million class hours. Our overall out-turn for 2006–07 reached £546 million. Our revenue-earning services accounted for 65% of our turnover, in comparison to 35% for our Grant-in-Aid, up by 3% on the previous year.

Performance indicators

3.26 Our performance indicators for overall impact show an improvement on four of our five corporate outputs, and in all cases results were ahead of the 2006–07 targets. The one exception was on international view of young people, which was down by 1% though still ahead of our target by 4%. Customer satisfaction at 80% was 2% up on the previous year, and our reputation with customers was up 1% at 81%. We made considerable progress on the evaluation of long-term outputs, undertaken through independent assessment, which measures our longer-term relationships, and viewed as being particularly robust. The indicator of those who felt ties with the UK were strengthened as a result of our activity rose from 61 to 74.

<table>
<thead>
<tr>
<th>Corporate output</th>
<th>Measure</th>
<th>2005–06 results</th>
<th>2006–07 target</th>
<th>2006–07 results</th>
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<tbody>
<tr>
<td>1. Internationalism Relationships brokered by the BC broaden the international view of young people.</td>
<td>Index of extent to which young people believe understanding of other cultures has broadened through interaction with BC.</td>
<td>80</td>
<td>75</td>
<td>79</td>
</tr>
<tr>
<td>2. Quality relationships An increase in the number of quality relationships between the UK and other countries.</td>
<td>Index of reporting strengthening of ties with UK resulting from new/continuing engagement with BC. Index of reporting significant personal/</td>
<td>61</td>
<td>78</td>
<td>74</td>
</tr>
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3. Positive social change

UK increasingly recognised as country of choice for partnering positive social change.

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<tr>
<th>Measure</th>
<th>2005–06 results</th>
<th>2006–07 target</th>
<th>2006–07 results</th>
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<tr>
<td>organisational beneficial changes from new/continuing engagement. Index of view of UK valuing relations with own country.</td>
<td>73</td>
<td>75</td>
<td>78</td>
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<tr>
<td>Index of changed perceptions of UK vis-à-vis democratic processes, embracing diversity, offering expertise.</td>
<td>75</td>
<td>75</td>
<td>76</td>
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<tr>
<td>Index of changed perceptions of learning opportunities.</td>
<td>75</td>
<td>78</td>
<td>77</td>
</tr>
<tr>
<td>Index of changed perceptions of UK vis-à-vis creative ideas, creativity in arts, innovation in science, diversity</td>
<td>73</td>
<td>78</td>
<td>75</td>
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3.27 Efficiency savings established under the Gershon review, as a component of our Grant-in-aid settlement, were realised across all areas, with targets of £8.6 million (£4 million cashable, £4.6 million non-cashable) for 2006–07 being achieved in full. Under the targets, we had already met £5.1 million in 2005–06, and the challenge now is to meet the more stretching target of £13 million for 2007–08.

4. ACCOUNTABILITY ISSUES AND CO-ORDINATION OF PUBLIC DIPLOMACY

4.1 Along with our public diplomacy partners, we have been working to implement the main recommendations of the review of public diplomacy undertaken by Lord Carter of Coles. Our chief executive sits as a full member of the six-member Public Diplomacy Board.

4.2 We share the objective with the FCO of increasing the impact of public diplomacy through greater co-ordination, and are committed to contributing actively to the Board’s thinking about extending the use of public diplomacy tools and developing measurement systems so we collectively capture more effectively the impact of public diplomacy work.

4.3 We welcome the comments of the Foreign Secretary in the foreword of the FCO annual report that the job of diplomacy today is “to persuade people around the world that our common interests—and common values—mean we have to work together to tackle shared challenges, and then turn that consensus into real action on the ground”.

4.4 The definition of public diplomacy agreed through the report by Lord Carter was as follows:

“work aiming to inform and engage individuals and organisations overseas, in order to improve understanding of, and influence for, the UK in a manner consistent with governmental medium- and long-term goals”. (footnote ref: paragraph 2.5 p 8)

4.5 The British Council Board has taken the view that our work should continue to fulfil, and be measured against, our purpose rather than directly against the strategic priorities of the FCO. We will however be clear about the contribution which our work makes to meeting the medium- and long-term objectives of the UK internationally.

4.6 The ability of the British Council to operate with institutional safeguards to preserve day-by-day operational independence was endorsed by the Foreign Affairs Committee in its report on public diplomacy (3rd report, 2005–06, paragraphs 15 and 29).

4.7 We remain of the view that the distinctive nature of the British Council, and our ability to deliver through our operational independence from the FCO, expands the scope and effectiveness of the UK’s overall public diplomacy. As a cultural relations organisation, we remain committed to ensuring that there is mutual benefit and longer-term engagement in our work, rather than short-term messaging and campaigning.

4.8 In the past year, we have established nine public diplomacy pilots in partnership with the FCO on climate change, supporting UK business and on democratic development. These will enable us to assess jointly with our partners the effectiveness of different types of public diplomacy tools. We jointly
commissioned with the FCO a consultancy on measurement which will permit the development of common indicators across public diplomacy partners, thereby contributing to a greater assessment of the value of our work to the UK’s overall public diplomacy effort.

4.9 The first year of the Board has assisted in establishing closer collaboration with other public diplomacy partners and in ensuring that there is more effective co-ordination and planning for future events and public diplomacy opportunities.

4.10 We also joined with the FCO to commission a report by Professor Nicholas Cull of the University of Southern California Los Angeles called Public Diplomacy: Lessons from The Past. This has studied terminology, models and categories of public diplomacy, such as listening, advocacy, cultural diplomacy and exchange diplomacy, and will act as a useful tool in the overall shaping of the UK’s public diplomacy.

12 June 2007

Witnesses: Lord Kinnock, Chair, Martin Davidson, Chief Executive, and Margaret Mayne, Director of Finance, British Council, gave evidence.

Q101 Chairman: Can I ask members of the public to switch off their mobile phones, or take the batteries out, please?

Can I welcome our witnesses today on this historic occasion? Neil, it is very good that you are here before us on this historic day. I also welcome your colleagues, Margaret Mayne, and Martin Davidson. We know Martin, but he is here for the first time in his new capacity. We welcome you all.

Can I begin by asking if you could give us a sense of how your discussions with the Treasury are going about the comprehensive spending review and what would be the impact on you and your work of a flat settlement? Would it cause serious problems? Do you think that you will get a flat settlement, or are you more optimistic? Finally, are there any particular problems that you have that might help you to make the case with the Treasury for greater funding?

Lord Kinnock: Thank you, Mr. Chairman, and thank you for your historic welcome. It is, of course, a delight to be here with Margaret and with Martin; although Martin is an old hand, there is always a first time, certainly as chief executive.

I feel a certain dilemma in responding to your question, because if I were to claim in any way that our discussions with the Treasury are going very well, that might mislead one or two interested officials and indeed from Ministers in the Treasury.

With difficulty—indeed, in the public expenditure discipline, it is bound to be like this, with difficulty—we will accommodate a flat-cash settlement. It will impose strains on the organisation, but we can adapt to take care of it. Where we would be in trouble, even jeopardising the continuation of operations in several countries, is if we had a settlement that was significantly below that level. However, on the basis of rational and highly objective argument, supplemented with a lot of factual information, it is unlikely that we will be dealt with more savagely than a flat-cash settlement.

Mr. Chairman, you asked about any additional requirements we might have that would justify a settlement to meet those proven needs. We do have two sets of requirements: the first relates to the very nature of our major, fundamental restructuring, particularly with regard to the reduction in our expenditure on activities in Western Europe and the use of those savings directly to serve higher priorities in the Middle East, North Africa, and indeed in Islamic countries generally.

It is very clear that if we could get a significant, but not huge, additional sum, we would be able to conduct this significant change, and consequently the returns from making that change in terms of impact and effectiveness in those Islamic countries, especially with young people, would be more rapidly forthcoming.

So we deploy that argument and we have the figures to prove that it would be the case.

The other area in which we can and do make the argument for some additional funding is again based on the proposal that there should be investment in order to achieve change: it is in strengthening our Reconnect programme, which is particularly orientated to working with Islamic youth with the purpose of reducing marginalisation and the possibility of alienation and radicalisation. The reality is that, having undertaken very significant activities with success in several places in this programme, we know that if we could spend more we could extend that success and we could do it particularly in what we can describe as high priority areas.

We are still making those arguments; I cannot report on the conclusion, although I have communicated to the Treasury that we see no advantage for anyone in much further delay in coming to a conclusion, so perhaps we are in the last chapter of this particular set of discussions.

Q102 Chairman: In the current year, and last year, I think, you have received a special payment of £10 million to assist the upgrading of security. Do you expect, or want, to have an additional sum for the future years?

Lord Kinnock: No. In 2004–05 I think we had £4 million; in 2005–06 it was £6 million, scheduled in agreement with the Treasury. It was immensely helpful: it meant an upgrading of security for our staff in particular locations, and of course for users of the British Council and visitors to British Council premises. We have made no further proposals for
addition of sums required specifically for security purposes, although we are assisted by the fact that we know that if evident needs arise the Treasury and the Foreign Office are prepared to be helpful. Obviously, we would not ask for anything that we could not justify. Martin, do you want to add to that?

Martin Davidson: Simply to say that we have spent something like £14 million over the past three years in upgrading security and at the moment we feel that we can manage the security environment that we are in.

Q103 Chairman: What about the cost of the sadly destroyed facilities in Gaza and Ramallah, which we visited?

Lord Kinnock: I am glad you have been there. It is my intention to do much the same thing. It is a supreme irony, to which I draw the Committee’s attention, that on the very same day that our premises in Ramallah and Gaza were destroyed, an independent survey of Palestinian youth was published, which demonstrated that of all the international organisations operational in the Palestinian territories, the British Council was by far the most trusted. As for the restoration of premises there, we accommodate the expense. Our difficulty has been that premises that we have identified as suitable places for the resumption of the activities have not so far been accepted as such by the neighbours. That is what it boils down to. For obvious reasons, the people next to the places that we would choose are sensitive about the prospect of those places becoming a target in the future. We therefore continue our activities in temporary locations; it would be much more satisfactory if we could get substantial, permanent quarters again. The difficulty that we have experienced is not with the expenditure, which we will find, but with getting the acceptance of potential neighbours.

Q104 Ms Stuart: Can I take you to your working programme for 2006-07? You helpfully submitted a memorandum with some of those projects. I want to ask you a three-pronged question. First, that list of projects includes a programme that you are running for the Sudanese judiciary, involving “97 Tanzanian women and young African English and French-speaking leaders in partnership with the UN Economic Commission for Africa”. On the face of it, that looks like a classic project to run in cooperation with the Westminster Foundation for Democracy. Could you say a little bit more about how you work with the foundation?

The second prong of my questioning concerns your operation in Afghanistan, which we went to look at. I fully understand that you charge for English language teaching in normal circumstances, but in a place such as Afghanistan, I would be inclined to chuck the money at them, to put it bluntly. You want to train as many of them as possible to speak English, so you make that your priority, even though you would not do that in other parts of the world.

Finally, from the list of projects, can you select one that did not work, and tell me why?

Lord Kinnock: I am going to ask Martin to respond to those questions. I think that the Sudan operation is in partnership with the Department for International Development.

Martin Davidson: That is correct.

Lord Kinnock: Martin will respond to the other points, because it is best for the response to come from the executive of the organisation.

Martin Davidson: I shall deal with the points in order. I think that the programme in Sudan is in cooperation with the Westminster Foundation for Democracy. We are seeking not only to maintain the existing level of partnership with those partners but to expand it in every case where we can. Our whole approach is moving away from the belief that we have all the expertise within our organisation, towards trying to find expertise from other British organisations that can work in partnership with us. In the coming year, I expect us substantially to increase partnership activity of that kind. The Westminster Foundation for Democracy is one, but there are number of other potential partners for us.

On Afghanistan, we have something of an internal budgeting issue. We have a requirement from the Treasury, quite rightly, to ensure that the commercial aspects of the work are fully commercial, and not subsidised by any form of public money. We are seeking ways in which we can expand our English teaching work. We are doing that in two ways: first, we want to establish whether it is possible for us to find resources to provide cheaper or free places for target audiences for English language; secondly, we could build out from our direct teaching activity to find ways of working with countries’ public education systems, particularly in the area of English language. There is a huge demand for English language right across the globe, as I am sure you are aware. We cannot deliver it directly ourselves, nor should we try to do so. What we should do and will do is build a stronger link with the state education system to create opportunities for people to learn English. We are particularly active in that respect in parts of the Middle East, where we collaborate with virtually every Education Ministry in the area.

You asked what has been particularly unsuccessful. I shall answer that in a slightly generic way, although I think that it will go to the heart of the question. The big shift that we are making is away from a large number of small-scale projects towards a much smaller number of large-scale projects. In doing so, we believe that we will reduce our administration costs.

We know—we have evidence from work that we have already done—that that will have a greater impact. We have nine regional projects in the Middle East, which, rather than being very small and country-specific, are across the region, and in four out of our five areas of measurement, they clearly are providing more of an impact than the individual
projects. I think that that shift away from small-scale
and country-specific projects towards wider projects
gives us a win in terms of running costs and impact.

Q105 Ms Stuart: May I press you a little? You are
quite right; you move to the whole project and the
Foreign Office does a MENA—a Middle East and
North Africa—and you have to fit in. However,
there must have been a point in the last year when
you suddenly thought, “I thought that would work,
but it didn’t.”

Lord Kinnock: Any organisation that produces an
annual report, as we do, that is so comprehensive
and thorough that you can find out every flaw, has
got nothing to hide. I invite you to have a look at it.
It is nicely illustrated, so it will not send anyone to
sleep.

The area with which I would be most dissatisfied
is that we’ve got two vital residual commitments in Western
Europe as a consequence of providing conventional
forms of provision. They have been tailing off. We
are virtually at the end; indeed, we might be at the
end this year. However, coming up to the end of my
third year as Chair of the British Council, I know
that I speak for Martin and other members of the
staff when I express the desire that ideally we would
have finished those a little earlier. But we are doing
that now. If you make your question explicit to
2006-07, there are a couple of things that we are
finishing now that I wish we could have finished in
2005-06.

Martin Davidson: Perhaps I could be a little more
explicit. Picking up on what Neil has said, I would
say that, for example, we are about to close our
library in Athens, as you know. That has cost us
between £40,000 and £50,000 a year for about 300
members.

Lord Kinnock: With noble antecedents and great
necessity 25 years ago.

Martin Davidson: Exactly. It has filled a very
important role for many years, but it no longer does
so. We are moving away from that style of work and
recognising that a very large number of young
people in Europe with whom we are seeking to work
get their information in a variety of ways. I think
that making that shift and taking the money out and
putting it into other things is critical.

Q106 Mr. Horam: May I ask you, Lord Kinnock,
about the purpose of the British Council and how
your strategy relates back to your purpose? I am sure
that you will recall that your fundamental purpose,
as set out in the 1934 statement, is “to build mutually
beneficial relationships between people in the UK
and other countries and to increase appreciation of
the UK’s creative ideas and achievements.”

Those are two very clear statements. You have
now said that you are making significant changes
and restructuring the work around four areas:
intercultural understanding; increasing ties with the
UK’s creative and knowledge economies; helping
tackle climate change; and making the UK a strong
multilateral partner on European issues and its
neighbourhood. It seems to me that the first two are
absolutely within your historical purpose. However,
are the second two? Climate change is very much the
in thing and so forth, but what does it have to do
with your original purpose? Could it not be a
Government objective for the Department for
Environment, Food and Rural Affairs. It is part of
the Foreign and Commonwealth Office’s strategic
objective. Is the European objective, which you have
just discussed to some extent, not an FCO objective
as well?

Lord Kinnock: That is a very good and perceptive
question. The first two are self-evident. On the
second two, it depends on how you go about
projecting and applying a programme relating to
climate change and the European neighbourhood.

Our climate change programme engages huge
numbers, particularly of young people, in a variety
of scientific activities. We use distinguished
scientists, but also promising post-doctoral people
from a British scientific background who are
specialists in the variety of issues raised by climate
change and the further potential of climatic change.
They generate understanding and appreciation of
expertise and the inquiring nature of British science
and society. They are utterly consistent with the
1934 objectives, which we continue to honour, of
getting appreciation and understanding of the
United Kingdom, its values and achievements. That
continues to be the case.

Much the same applies, in a slightly different way,
to the European neighbourhood. Great challenges
are posed in respect of countries that have the
potential to join the European Union and are in the
arc around the present EU. We are engaged in many
of them in a variety of conventional British Council
activities, from English language teaching to our
science programme, our sports leadership
programme “Dreams and Teams”, music, the arts—
the whole gamut.

It is useful if we can take note of one of the
Government’s strategic objectives, as we do in any
case, and continue our activities knowing that they
complement those objectives. That, again, is
completely consistent with the business of spreading
appreciation, understanding and a mutuality of
knowledge and values in the way that we have been
trying to do for the past 73 years. It certainly applies
in that theatre, the neighbourhood, in north Africa,
right around the Levant and into the former Soviet
Union in a way that we find utterly consistent with
our original objectives and the best form of our
conduct and pursuit of programmes.

Q107 Mr. Horam: That is a very clear answer. To
come back to the two main points of the four, which
we agreed were obvious—intercultural
understanding and increasing ties for the UK’s
creative and knowledge economies—in the case of
the first you say, “With an emphasis on the Muslim
world.” We all understand that just like climate
change and terrorism, the Muslim world is a big
current issue, but are we not really neglecting Russia
and China?
Lord Kinnock: No.

Q108 Mr. Horam: I know that there are difficulties with Russia and China, which perhaps are even greater than with the Muslim world. Why exclusively focus on the Muslim world?

Lord Kinnock: We are certainly not exclusive. I shall give you two examples of what is happening in Russia, even with the degree of tension that currently exists between the United Kingdom and its institutions, including the British Council, and the Russian authorities in some respects. Half the primary schools in Russia are using British Council English language primers. We have huge programmes of cultural, economic and scientific activities that attract immense attention and strong commitment from Russians, especially young Russians.

In China the story is spectacular. To use one statistic, through collaboration with China’s main information technology portals, in the past year 46 million Chinese had contact with—

Q109 Mr. Horam: That is not very many.

Lord Kinnock: No, as a proportion of China it is not, but if you are from Wales it looks pretty big. That is just one way in which we established contact and tried to generate understanding and appreciation. Part of the challenge there is cultural and a lot of it is to do with understanding of our scientific commitment and economic prospects as well as the values that we naturally try to spread. Our activities in the intercultural dialogue area are not completely transfixed by the challenge of getting a higher level of understanding and mutual comprehension with Islam; it spreads much more widely. We draw attention to the Islamic challenge for the reasons that you inferred and which I know you understand.

Q110 Mr. Horam: Yes, but I think in a way you are probably underplaying yourself, because if you are making those efforts, despite the difficulty, in Russia and China, for example, which are equally important parts of the world as the Middle East, just to mention the Middle East seems rather strange.

Lord Kinnock: That is a fair point.

Martin Davidson: May I add to that? With the statement, we were also giving an indication of some of the shifts of resource that we are making. While we have over the last few years made substantial shifts of money into the Middle East and central and south Asia, into those largely Islamic countries—we are making more shifts to deal with them—that does not underplay the importance of Russia and China to us in those two critical areas of intercultural dialogue and so on.

Mr. Horam: I hope you made that apparent, that is all, because I think it is equally important.

Q111 Mr. Pope: I want to ask about Europe, but just let me say a word on China. The Committee visited the British Council in Shanghai about a year ago and I think we were all impressed by the operation there. It is absolutely outstanding—I just pass that on.

Lord Kinnock: Thank you; they enjoyed having you as well.

Q112 Mr. Pope: You are shifting about 30% of your grant in aid out of European operations into areas of other priorities—countries such as Pakistan, Afghanistan and Bangladesh—and I think that that is sensible. My question is: what effect will that have on European operations? You will obviously have a different style of operations in, say, France, than you would in an emerging, developing country such as Bulgaria, Romania or Turkey. Can you give us an indication of the effect that that change in emphasis in funding will have on your European operations?

Lord Kinnock: First, I would distinguish between the countries that you mention—Bulgaria, Romania and Turkey—and other countries already in the European Union where we are making either no or very little shift in the level and form—I emphasise the word “form”—of activity. In the countries mentioned, we will have back-office operations, but the front office will be open as well. It will be very active, very obvious and very tangible.

I distinguish between those operations and, say, the operations we have conducted in Germany or Austria and our operations in France—since you mention France—because of the level of capability there among our partner and potential partner operations, including the established international cultural organisations, such as the Goethe Institute, the Instituto Cervantes in Spain and the Alliance Française. That is now at a mature level and permits us the opportunity, with them, to sustain a very high level of activity, but without having to allocate the physical resources and maintain the front-office presence that has been necessary for most of the last 70 years, particularly in the immediate post-war period and running up through the cold war. So there is a second category, if you like.

There is a third category, which I suppose we could allocate to Spain and Italy, where in addition to a plexus of cultural and other activities, we have very strong English language teaching programmes, which generate substantial revenue and work to the benefit, of course, of our students, but also to the benefit of our budget. So there are three categories and it is just as well to distinguish between them.

Q113 Mr. Pope: How do you maintain some level of control when you are working in partnership with the Goethe Institute, for example? I can see—this is almost a metaphor for the European Union—that there are advantages in pooling sovereignty, but how do you maintain some level of control over the activities that you wish to promote?

Lord Kinnock: It is because they literally are partnership activities. We also have the context of a European international committee, which includes, I think, 27 cultural institutions from the European Union member countries. We have played a substantial part in founding and developing that.
That is a useful form of exchange of views and co-ordination of general policies. The most important thing in the actual delivery of programmes is the transparency and dependability of the kind of partnership, including contractual partnership, that we have. Martin, do you want to add to that?

Martin Davidson: I would just add a couple of things. First, while we will have a partnership approach to those major organisations, the individual partnership will be on a project-by-project basis. It will be a clearly defined project, with a clearly defined set of inputs and outcomes, so that we ensure that we are putting resources into things that matter only to the UK rather than more generally.

Also of importance is that in western Europe in that particular category, we will be moving out of public presence across almost the entire range of countries and will maintain a public presence only when we can do so with resources from the public who want to use it. The second thing worth saying is that we will also put more resources into providing assistance to other UK organisations that want to represent themselves in Europe. Rather than putting money into a particular arts visit or tour—any number of other organisations are able to fund that—we will emphasise the knowledge, contacts and non-financial support that we can provide for that sort of activity.

Q114 Sir John Stanley: Without wishing to overcomplicate your response to Mr. Pope, I suggest that there is a fourth category over and above the Bulgaria, Turkey, Romania group. You mentioned Spain and Portugal as well as France and Germany, but there is also the critical area of the Balkans, which are earnestly in need of a strong British Council presence. I trust that you will be able to assure us that the British Council’s approach is fundamentally different from the withdrawal posture in some of the more developed parts of western Europe.

The Balkans have high levels of poverty and are recovering from the combination of a long period of communist domination and one-party rule. They are trying to move towards democracy, but many parts of the area are recovering from horrendous strife and civil war. I hope that those countries are very much to the forefront when you are thinking about the disposition of resources in Europe.

Lord Kinnock: I certainly accept your point, Sir John. I did not put those countries in the European category not because they are not in Europe—they manifestly are—but because we are actually engaged in strengthening and, in several cases, further developing our activities in several of those countries, both those already in the European Union and those that are still outside. I suppose that they could be a fourth European category, but they are beneficiaries of the transfer and reorientation strategy and are not countries in which commitment or presence will be reduced.

Q115 Mr. Hamilton: Lord Kinnock, may I ask you about other parts of the world a little further away than Europe? When we had our last inquiry, we asked the Foreign and Commonwealth Office to explain why you were proposing the closure of the British Council’s teaching centres in places such as Istanbul and Tel Aviv, and whether it had made an assessment of the effects of the British Council’s withdrawal from those cities in terms of the benefit that language teaching brings to our overall public diplomacy effort. Can you tell us why we were told in November last that the library services will be closed in Jerusalem and that you are relocating the Jerusalem office, which I suggest is a key place? Why are you closing library services in Jerusalem and moving the office?

Lord Kinnock: The level of provision that we can make and the participation that we attract in Jerusalem does not now justify the continuation of that commitment. In the course of closing our library, which a couple of decades ago had huge relevance and was an immensely valued asset, we have shifted all our resources into the public library in Jerusalem, with full accessibility and the same quality, releasing ourselves from the obligations of making provision so that we can deploy resources more usefully. That is the kind of strategic managerial decision that has to be made on an objective basis. We have explained it to everybody who has been interested in the provision and future of the library in Jerusalem. People have recognised the common sense of our making the move without removing the facility in the accessible public library, if people want to use it.

Q116 Mr. Hamilton: Can you make, have you made or do you plan to make an assessment of the effect that that library closure, or move, will have on our public diplomacy effort and the teaching of English?

Lord Kinnock: Yes, we have. I do not think that anybody could claim that it is even marginal. If Martin has any substantial addition to make, I would welcome it, but we have certainly undertaken exactly that kind of examination.

Q117 Mr. Hamilton: How long have we been in Jerusalem?

Lord Kinnock: Since 1946.

Martin Davidson: Perhaps I could add something. To take your Istanbul example, I have just come back this weekend from Istanbul. The city has between 15 million and 20 million people, depending on how you add the numbers. We were offering teaching to about 500 or 600 individuals within Istanbul, and there was a huge diversion of our time and effort from management and other resources into doing that. We are now working with education authorities across all the major cities in Turkey on the use of English within the public education system.

Our assessment in the case of Istanbul was that that diversion of effort, from working with a very small number of people at the elite end, to working in the main state education system, was worth while in terms of the impact that we can have. Obviously,
we are continuing to test that, to see whether that is the case; we will do the same in Tel Aviv and Jerusalem. At the moment, the initial indication is that by moving the resource from our own library into the public library in Jerusalem, we are getting greater use of the material than we did when it was on our own premises.

Q118 Ms Stuart: Just help me understand. The use of materials is fine, but I would like people to know that they are using British Council material. For example, in an earlier answer you said that half of Russian primary schools are using primers in English. Do they know that the British Council is involved, rather than just that it is English? Do we know why the use of the British library in Jerusalem has been falling? Have we missed a trick? When in the main library people use materials from the British Council, will people know that they are from the British Council? Forgive me, but what is important to me is not that people are using English language material, but that they know that it is British Council English language material.

Martin Davidson: Our starting point is that people have to know that such material is the UK’s contribution to their learning. That is the critical thing. We absolutely ensure that that is clear in respect of the material that is being used. Yes, of course we want the British Council name to be on it, but that is secondary. I would suggest.

Why has usage fallen? That is largely because of alternative availability—the availability of books and materials, and how young people access information, are changing radically. We have to make sure that our provision remains relevant, so we are putting much more effort, for example, into providing educational information through internet-based services. Again, such services are clearly signposted as being about the UK and from UK institutions. We are putting considerable effort into providing English language material through virtual services. We have, for example, a service now in Arabic, called Go4English. It is in partnership with the BBC. We have more than 200,000 individuals using that service regularly. It is on a completely different scale from that which we can deliver through our direct teaching operations. That is not to say that I do not think the direct teaching operations are important; they are important in particular areas, but they are not sufficient in themselves. We have to begin to deal more widely.

Q119 Mr. Hamilton: Can I move on?

Lord Kinnock: On the Russian question, we are engaged in the training of 30,000 primary school teachers in Russia so far and I think that unless they have been going round with their ears and eyes shut, they know that that is being managed and provided by the British Council.

Q120 Mr. Hamilton: On Russia, you have kindly told us the excellent news about teaching English in Russian primary schools, which is really good to know; well done on that. However, we were in Russia earlier this month and some of us went to lunch with the British Council. If I remember rightly, we—our predecessor Committee—were there three years ago and I think that it was just after, or perhaps just before, that the tax authorities raided the offices there.

Lord Kinnock: I do not know if it was connected with the visit to the British Council.

In December 2006, you informed this Committee that you were closing down all language teaching in Moscow because of this licence requirement, which, of course, you had previously been told was not necessary. You have now stopped teaching in St. Petersburg, and I think just last week the Russian authorities demanded that you move out of the offices in Ekaterinburg. What progress are you making on trying to agree a new cultural centres agreement with Russia? It seems from everything we have heard and read that that is the key to being able to carry on our work in Russia.

Lord Kinnock: We greeted the news in early 2006 that the Russians wanted to return to discussion and negotiation on a very advanced, near-final draft of a cultural centres agreement. That is because the hope that we had and the intention that we had of concluding a satisfactory agreement was then nearly eight years old. Frankly, we did not build our hopes too high, but we thought this was evidence of a fresh initiative from the relevant Russian Ministries. Those discussions continue. We are now in the middle of 2007. The impression is conveyed that there are only one or two small outstanding issues, and it could be concluded. We attach great importance to the conclusion of that agreement, because it would, hopefully for once and for all, settle exactly what is our taxation status, our diplomatic status, and the status in citizenship terms and migration terms of people working for the British Council—both Russian nationals and British people. Obviously, that stable negotiated agreement, signed by both sides, would have great value. Presumably, that is why it still has not been concluded.

I am naturally constrained in some of the views that I can express publicly on these matters. We are certain, of course, that the conclusion of a satisfactory agreement would be of mutual worth, because by any judgment the demand for our services and the interest in everything that we provide anywhere that we do it in Russia is huge. It was a matter of great regret to us that because of an absolutely intolerable statutory environment, which suddenly came upon us, we were not able to continue our teaching English language in Moscow, and, for similar reasons, we had to cease our very well attended, over-subscribed classes in St. Petersburg a year before that.
We persist in our efforts. We are always ready to undertake fresh initiatives. Some of our interlocutors give us the impression that they are just as anxious as we are, but for reasons of what I will call superior political consideration in the Russian authorities, we have not yet been able to conclude that agreement.

Q122 Mr. Hamilton: I understand the sensitivity. If there is anything further that you could add but are not able to say in open Committee, perhaps you could write to us.

Lord Kinnock: We could relate the full litany of our relationship with the Russian authorities over, let us say, the past four or five years. There is nothing scurrilous about it, nothing that will lead to an international incident, but a letter would enable us to put everything into context with great accuracy.

Mr. Hamilton: That would be very helpful to us. Thank you.

Q123 Mr. Illsley: Is our relationship with Russia and the obstacles and problems unique? Is there any other country in which the British Council is based with similar problems and tax demands?

Lord Kinnock: No, not to the same extent. We have an active operation to ensure that our status everywhere is regularised. Where it is not regularised to our satisfaction, it is generally—I say “generally” because this does not apply in every case—because of the relatively relaxed view that authorities have taken of our status: whether it is commercial or non-commercial, whether we are a non-governmental body, a charitable organisation or a provider of trading services. Of course, the views about that vary from country to country. We strive with some success to regularise the position in every country. It would not be true to say that our encounters in other countries are the same as they are in Russia.

Martin Davidson: I would only add that we are looking at every country at the moment, as Lord Kinnock said, to ensure that our status matches both the range of activity that we undertake and the shifts and changes in the nature of cultural relations around the world. Many countries find our insistence on discussing our status curious, if not slightly uncomfortable, because many of them are actually very happy with the arrangements that we have at present, but, clearly, we come from an environment where we have to move towards much greater clarity than is normal.

Lord Kinnock: It is worth adding that in Russia we are not the only international cultural/educational organisation encountering the form of difficulties that have come upon us. We may be unique in degree and intensity, but other international cultural organisations—for instance, others from Europe, some of which we have mentioned in the course of this afternoon—are also suffering similar problems, although they are not afflicted to the same degree as we are.

Q124 Mr. Illsley: I want to turn to the idea of shared services. As you are probably aware, the Foreign and Commonwealth Office annual report states that it is planning to share services with you. Could you give an account of what that will entail and perhaps some examples of what services would be shared?

The obvious example that comes to mind is premises. I wondered whether the plans would entail your sharing premises, and whether that would impact on staff relocations and so on.

Margaret Mayne: Shared services is certainly a topic of the moment. It is actually a catch-all that is used to describe a number of different activities that we can share. We collaborate very closely with the Foreign Office in a number of areas. For example, we currently undertake shared arrangements for the provision of our web services, which means that a third-party supplier can supply both us and the Foreign Office, and that we can share procurement and software licensing costs. We can work together to ensure that we have best practice and share knowledge about how to use the tools within the organisations. We also work closely on procurement through Office of Government Commerce contracts.

We have used them particularly to look at things like our mobile phone, travel and hotel contracts. Those shared services are already in place and working very effectively.

With the implementation of our SAP system—a new global business software for systems applications and products—we have been looking much more intensively at our arrangements for banking and managing our foreign exchange. We have been talking to the Foreign Office, and indeed DFID, about those arrangements and about how we might collaborate on using them and working more effectively to create a better solution—in a sense, a shared service.

We are in the early days of exploring shared services in accounting terms—basically, the back-office accounting function. The Foreign and Commonwealth Office has recently also implemented a new accounting software, which is different from ours. We are looking at combining our accounting service on a regional basis, and the FCO is very interested in what we are doing in that respect. As our conversations develop, we will be able to look at opportunities for sharing services in transaction processing as well.

Q125 Mr. Illsley: Would it be true to say that you are looking more at efficiencies, joint working and saving money where these things can be achieved?

Margaret Mayne: It is, absolutely.

Chairman: I have been told that we are going to have a vote very soon, but we will plough on.

Lord Kinnock: You always do when the British Council comes.

Chairman: I am sorry, but that is the fate of meeting on a Wednesday. I will call Ken Purchase, and if you have to stop halfway, we will come back.

Q126 Mr. Purchase: Thinking about value for money, efficiency, the early days of the NAO inquiry and Gershwin—sorry, Gershon—
Mr. Pope: It would be better if it was Gershwin.

Mr. Purchase: Yes, yes, absolutely—“Rhapsody in Blue”. On the Gershon efficiency savings, you met the £8.6 million target for savings last year, but the figure for this year is greater, at £13 million. How can you produce those efficiency savings without affecting the quality and breadth of the services that you offer?

Lord Kinnock: The first thing to be understood—we try to make this clear at all times, but I understand if it is not absolutely clear—is that the £13 million target for efficiency savings, which we are certain of reaching in the coming financial year, is a cumulative figure, just as the £8.6 million figure was. What we are really doing is adding £4.4 million to the savings that we have managed cumulatively to make over the Gershon period, if I can call it that. We think that that is a spur to efficiency and we welcome the discipline of it. Of course, we are reasonably proud of the fact that we have been reaching targets, and satisfaction has been expressed by external examiners at the way in which we have achieved that. Martin, do you want to add to that? Sorry, Margaret.

Q127 Mr. Purchase: I hope not to put words in your mouth, but I am happy that you are assuring the Committee that the breadth and quality of services is compatible with the kind of savings that you are looking at.

Margaret Mayne: It is. Let me just add that efficiency savings do not get turned on and off; they are part of a planned programme of change.

Mr. Purchase: Of course, we appreciate that.

Margaret Mayne: So, in many ways, the roll-out, for example, of our new IT software has already led to some efficiency savings, and it will lead to more next year. Likewise, on our IT programme, we have already, for example, implemented voice over internet protocol, which will save us quite a lot of money next year. So, it is an ongoing rolling programme, which, in a sense, comes to fruition year on year.

Q128 Mr. Purchase: I understand, and the Committee is fully on board with what is happening in management terms, but I want to move on a little further. I have some ambivalence about targets, performance indicators and so on. None the less, you have a scheme that is designed and which is in place. Last year, you suggested to us that part of the reason for your failure in reaching targets was due to the impact of negative perceptions of the UK arising from the military presence in Afghanistan and Iraq. Now, you are still a little below three out of five of the targets. Against that, you have also had quite a large rise in participant numbers. Can you shed some light and common sense on that?

Martin Davidson: The point that I would like to make is that an organisation, we have been subject to such efficiency savings over such a long time, there is no longer the space simply to find a bit of money here and there to meet them. The disciplines that we are under mean that we have to shift substantially and radically the way in which we do our work. So, for example, the move from a large number of small-scale activities to a smaller number of large ones is part of the process of trying to get much more benefit out of a given level of expenditure. So, the move towards regionalisation is again about making a step change in the way in which we work, which gives us the capacity to draw efficiency savings. Of course, it also has an impact on effectiveness, and the critical thing for us is making sure that we are aware of the likely impact of any change on how effective we will be as an organisation.

On the sort of change that we have made in the last year, traditionally we have looked at our effectiveness at the end of each year, and said, “We hit this one, we missed a little bit there.” What we are now doing is trying to test these things quarterly. So, instead of looking backwards and saying, “We have missed,” we are beginning to try to look forward and say, “How are we going to make sure that we hit them?” Of course the problem with all targets is that if you drive the whole of your activity to hit a particular target, they can distort the nature of the shape of the work.

Q129 Mr. Purchase: All right. Can I just go quickly still on the performance side? Colleagues earlier spoke of the restructuring of your work under the four main objectives. Do you plan to make any changes in the scheme of performance measurement to take account of those changes?

Lord Kinnock: The best woman to answer this is Margaret; the best man to answer it is Martin.

Q130 Mr. Purchase: So which one am I having?

Martin Davidson: You are going to get me first of all, and then Margaret will correct me.

Mr. Purchase: That is a proper woman.

Martin Davidson: I am reluctant to change the major measurement, because there is always a danger of constantly shifting your measurement, and then it is difficult to demonstrate year-on-year. But, as part of the relationship through the public diplomacy board and the whole of the move towards a more joined-up measurement system, I think that we will probably add some measurements, taking into account the shift to the four. We will not add a lot of data; we have a huge amount, and it is really a question of how we utilise the data and the evidence that we draw from it. So, the emphasis will be on a more intelligent use of the data that we have, rather than on the collection of a lot more, and on finding ways in which we can match the measures that we take, so that they are comparable with those that the World Service and the Foreign Office take.

Q131 Mr. Purchase: Just one final point, because my colleague Eric Illsley also touched on the question of shared public diplomacy. Is there an evaluation framework developing for that, too?

Martin Davidson: Yes, there is. As you probably know, the public diplomacy board commissioned a study on measurement across the three
organisations earlier this year. That has reported, and we are considering ways in which we can find common measures.

Chairman: We will take questions from Sir John Stanley. There will hopefully be a couple more questions, and then we will conclude.

Q132 Sir John Stanley: You kindly sent us your draft annual report for 2006-07. Could you tell us of the 7,900 staff whom you employ, how many are employed in the UK and how many are employed in the rest of the world?

Lord Kinnock: I am now going to ask the chief executive, because the last time you asked me that question, I got the answer wrong. I answered with huge confidence, then went back to the office and realised that I was a couple of hundred out. So, Margaret?

Margaret Mayne: There is a note in the annual report which sets this out very clearly. In the UK we employ 1,097 staff on average throughout the year, and overseas we employed—the number is the balance, so I shall have to add this up in my head—5,019 staff on operational activities and 1,809 teachers. In total, that was 7,925 staff for a year.

Q133 Sir John Stanley: Is it a surprise that approximately one eighth of your staff in this international organisation are based in the UK?

Margaret Mayne: It is not a surprise. A lot of our support services sit within the UK, and of course, the staff in the UK are a very important link between our stakeholders in the UK and our customers overseas. I do not find it that surprising. We have reduced our number of staff in the UK over past years, and our restructuring within UK operations will see a further reduction in that number next year.

Q134 Sir John Stanley: Lord Kinnock, you will be aware that amongst a number of the major, originally UK-based, international overseas aid charities, there has been a sustained pattern of redeploying staff entirely outside the UK to the countries in which they work. Is that a policy that the British Council is considering?

Lord Kinnock: Our efficiency changes and the closure of a substantial number of British Council offices in the UK, because of changed mission, all subscribe to the improvement of the use of personnel in the UK. The reason why we have this proportion of staff in the UK is, as Margaret says, entirely to do with the organisational and executive functions that they must carry out to facilitate work elsewhere.

It is possible that we will see further changes. Margaret mentioned the way in which we are regionalising some back-office operations. It is conceivable that some functions could be transferred out of the UK and into those regions, so there would be a change of the proportion of staff in the UK. It is also conceivable that there will be a reduction in staff, which consequently would affect marginal labour costs. Those changes can come about, but we must do things carefully, because we cannot afford to lose links in the chain when international connections and conformity to high standards are fundamental requirements.

Q135 Chairman: Finally, may I ask you about public diplomacy? There has been a new structure to the relationship since the permanent under-secretary was no longer a member of your board, and you have the public diplomacy pilots that have been developed. What impact are those changes having, and how is the new public diplomacy board working?

Lord Kinnock: Before I go to Martin, who is a member of the public diplomacy board, I must say that I had great reservations about the FCO's decision not to have the permanent under-secretary on the British Council board. I will say, however—without withdrawing those reservations—that the increase in the number of meetings between me and Ministers and at official level between the British Council and the FCO is entirely healthy. We are not living in each other's pockets, but there is an improved flow because we cannot take the relationship for granted because the FCO’s senior civil servant happens to be on the board. So, although I regret the way in which the number of board members came to be reduced by one, there have been compensatory developments.

Will you say something about the board, Martin?

Chairman: Briefly, as there is a Division.

Lord Kinnock: Yes, indeed.

Martin Davidson: We have made a start with the board. We welcome the pilots because they give us an opportunity to see how the three organisations work together. We would like the board to focus more on the broader strategy and less on the detail of operations.

Chairman: Perhaps you could send us a note if you have anything to add to what you have already sent us.

I conclude this part of this afternoon's session. Thank you Lord Kinnock, Mr. Davidson and Ms Mayne. No doubt, we will be in touch with you in the coming months and will see you again next year to discuss these matters.

Lord Kinnock: We welcome all contact from this Committee.

Chairman: We will, I hope, restart the session with our next set of witnesses in 15 minutes, after the Division. If there are two Divisions, it will be in half an hour.
Letter to the Chairman of the Committee from the British Council

Further to our evidence session on the 27 June 2007, regarding the progress of the Public Diplomacy Board, I can confirm that we have nothing to add to the statements made by myself and Lord Kinnock.

With regards to the British Council’s relations with the Russian authorities, in the light of recent developments we are studying any possible effects these might have on our operations. We will keep you informed of any conclusions that are reached. May I refer you to our earlier submission to the committee’s recent inquiry into Global Security; Russia. I have attached a copy for your information.

If you have any specific questions on these topics that have not been covered please do not hesitate to contact Kate Buxton, Parliamentary Officer on 0207 389 4878 who will be happy to help.

26 July 2007

Memorandum submitted by the BBC World Service

PART I

The Year in Review—2006–07

BBC World Service responded well to the key challenges it faced in 2006–07. It continued to build audiences in its priority markets whilst pressing ahead with the new developments outlined in its 2010 strategy, first unveiled in October 2005. This had to be achieved whilst ensuring that the World Service’s trademark values of accuracy, impartiality and independence continued to shine through in all its output, at a time of major conflicts, especially in the Middle East.

The year was the second successive one in which the BBC’s international news audiences leapt to record levels. The latest research indicated that BBC World Service’s audience had increased by 20 million a week to 183 million, the highest it has ever been. Additionally, the number of international users of the BBC’s online news sites reached almost 12 million a week, and there was also a big increase in the viewership of BBC World television, which went up to 76 million viewers a week. This brought the BBC’s combined global weekly audience figure to 233 million. These are remarkable figures at a time when the pace of change in global media markets is accelerating and the clamour for people’s attention is greater than ever.

It is clear that a tri-media approach, combining radio, television and online is essential if BBC World Service is to compete in some parts of the globe. Radio will remain the best way of reaching big audiences in much of Africa and rural Asia for many years to come. However, in developed markets, more people now look to television for news. Where people have access to broadband internet and mobile devices, text and video services will play a proportionately bigger role, and BBC World Service is responding fast to these needs.

Continued investment in technology will be necessary for BBC World Service to compete in a world where the ability to find and share information and content is fundamental. In the most sophisticated markets, the generation growing up with social networking sites such as YouTube and MySpace takes sharing video content for granted. BBC World Service has taken significant steps this year with the launch of broadband video news in six languages, in addition to English, and new sites for downloading content to mobile devices.

Preparations to launch BBC Arabic Television in the autumn of 2007 are well on track and its staff will be the first part of BBC World Service to occupy the new Broadcasting House centre. Funding to expand the service from the planned 12 hour service to a 24 hour service has been requested as part of the World Service’s Spending Review bid this year. For the long-term credibility of the Arabic TV service, it is very important this extra funding is forthcoming.

The go ahead for a Farsi TV service announced by the Chancellor in October 2006 was very welcome. Provided the appropriate funding is confirmed in the Spending Review 2007, it will enable the World Service to build on the tremendous record of BBC Persian radio and online services, which provide news, information and a forum for debate both within Iran and between Iran and the rest of the world.

BBC World Service is on track to implement its 2010 strategy, but its ability to deliver it fully will depend on the outcome of this year’s Government Spending Review and its impact on BBC World Service funding. Details of the World Service’s bid are given in Part II.

Audiences

The large increase in BBC World Service’s audience to 183 million, and in the BBC’s international news audiences overall, was a very welcome indication that the BBC is strengthening its impact around the globe in this highly competitive multimedia age. It showed that people around the world are increasingly turning to the BBC when they need quality news and information that is independent and trusted.
The growth also vindicated BBC World Service’s recent strategic shift in resources towards the Middle East and the Islamic world. An extra million people are using the Arabic Service, bringing its total reach across a number of countries to 13.2 million. In Iran audiences were steady, despite difficulties with audibility. In the wider Islamic world, in countries like Pakistan, there are now more than 10 million World Service listeners—1.5 million more than a year ago.

In Bangladesh, troubled by political unrest, the weekly audience figure almost doubled in a year, demonstrating once again how listeners return to the BBC at times of crisis. In Afghanistan, the first nationwide survey showed that there were 10 million listeners a week, 60% of the adult population.

With four million listeners, BBC World Service is the biggest speech radio station in Iraq, where it has established a network of eight FM transmitters. Over 20% of Iraqis listen to the BBC Arabic Service.

Audiences overall are going up in some of BBC World Service’s biggest markets in Africa and Asia, including Nigeria and India. This is a significant achievement because these markets are highly competitive and such large numbers are always vulnerable to rapid falls.

New figures from the Democratic Republic of Congo were included in the global total, adding a significant extra audience. In the United States, listening has now reached 5.3 million, another record, showing a niche audience in robust health in one of the world’s most saturated media markets.

It is a more mixed picture in other regions. The difficulties faced as markets develop are apparent in Latin America and parts of Eastern Europe, such as Romania and Ukraine, where burgeoning choice has led to a decline in audiences.

English language audiences for radio dropped back in parts of Africa, contributing to a decline from 42 million to 38 million in the global English radio total.

New Media

The BBC’s international facing online news sites attracted a record 763 million page impressions in March 2007, up from 546 million compared to March 2006. (This figure includes traffic for Global News Division index pages which were not included in last year’s total. Without these the total would be 704.3 million.) There were a record 38.5 million unique online users across the globe during March 2007, up from 32.8 million a year ago. The weekly figure for the number of international online users is almost 12 million.

As the digital revolution gathered pace, BBC World Service strengthened its commitment to future media with more interactive programming and the launch of online video content in six languages (Arabic, Portuguese for Brazil, Persian, Russian, Spanish and Urdu). An increasing range of programming in English and other languages was made available through podcasts and more web content became accessible on mobile phones.

The process of changing from a radio broadcaster into a multimedia network is a fundamental part of BBC World Service’s strategy to compete as the digital age transforms the way millions of people access news and information. A new generation of users is increasingly likely to opt to listen to or view content on mobile phones, mp3 players or via high speed broadband connections.

Interactive programmes such as World Have Your Say and Africa Have Your Say already make it possible for audiences to share their views and contribute directly to news programmes every day, whether by telephone, email or text message. Divisions between communities, which are separated by geographic location and language, are being eroded as BBC World Service’s online teams share content in different languages.

The BBC is building partnerships with major portals to showcase its work better and increase traffic. This has proved particularly effective in competitive markets such as Latin America, where BBC content in Spanish and Portuguese is widely accessed through partner sites. In China, where access to BBC news websites is blocked, partnerships have established portals for BBC learning and education material, delivering 13 million page impressions over a short period of time.

Editorial Overview

The past year has been one of further innovation in programme making, helping audiences to make sense of a world that is increasingly globalised and interconnected. BBC World Service extended its commitment to ‘big picture’ journalism through special seasons which explored major themes underlying world events. Interactive programmes enabled thousands of people around the world to take part and share their perspectives, building bridges across national and linguistic boundaries.

BBC World Service’s creative use of radio and online media was extended to television through the growing involvement of both domestic and international BBC news channels.

Highly topical seasons like the Iraq and Iran weeks have drawn a vivid picture of people’s lives behind the daily headlines. In addition to topical weeks from countries in the news, the seasons illuminated issues beyond the regular news agenda. Generation Next took a fresh look at the world through the eyes of under-18s, who are often neglected in the mainstream media. This was the year’s most ambitious project. It
included a week of special programmes across all 33 language services that gave under-18s an opportunity to express their views on the world in new and unconventional ways. The season broke new ground in getting closer to young audiences.

As part of this season School Day 24 linked up schools across international conflicts and divides, ranging from Israel and the Palestinian territories to Mexico and the US and even urban and rural China. “We had so many misconceptions and so had you, now after this programme most of them have been cleared,” a Pakistani student told pupils at an Indian school. When students in Iran compared experiences with their counterparts in the US and the UK they were able to watch their contribution televised on BBC World despite a ban on live coverage by the Iranian authorities. There were moving exchanges between Serbian and Albanian students on either side of the ethnically divided town of Mitrovica in Kosovo, and between Tamil and Sinhalese pupils in Sri Lanka.

Other seasons included India Rising, which offered a deep insight into winners and losers in this booming Asian economy and Ghana at 50, which took the nation’s pulse as it celebrated half a century of independence and brought a wider African and international perspective to the story.

Reporting conflicts

Coverage of the Middle East is a challenge that tests all broadcasters. Events and conflicts there engender deeply passionate views in a climate of mutual distrust and intolerance. Every phrase in a broadcast report is under scrutiny.

In order to help audiences navigate this plethora of contradictory opinions, BBC World Service strives to offer impartial, balanced, accurate and brave reporting of this region’s long-running conflicts. It has worked hard to provide in-depth analysis and context alongside the daily twists and turns of the story.

In reporting the war on the border between Hezbollah in Lebanon and Israel in 2006, the BBC sent news teams to both sides. Correspondents were on the spot from the start, and BBC Arabic reporters co-presented programmes from Beirut and Haifa covering different viewpoints. The interactive programme World Have Your Say was instrumental in helping people on both sides talk to each other.

Investment in news resources, such as a new production centre in Cairo, boosted the ability to respond to breaking news across the Middle East. Extra reporters are being recruited and many have been television trained, in readiness for the arrival of BBC Arabic TV later this year.

News coverage of Iran was extensive in a year of growing international tension over the country’s nuclear programme. A week of special programmes, Iran in Focus, took a close look at the country’s place in the world and asked Iranians for their views about life, politics and issues such as women’s rights. BBC Persian interviewed leading figures, including the Secretary of Iran’s Supreme National Security Council, Ali Larijani.

The blocking of the BBC’s Persian website by the authorities in Iran proved only partially successful. Although traffic fell, it remained among the top three BBC World Service sites and over 50,000 people registered to get daily emails with the latest news. Radio audiences were unaffected.

In Iraq, where the BBC maintained its bilingual bureau, moving around the country became much more difficult. Reporters are unable to stay in any one spot for more than 15 or 20 minutes in parts of Baghdad because they attract attention and must be protected by security guards. BBC Arabic responded by strengthening its network of contacts throughout Iraq, where there is an audience of four million listeners. Its aim is to give the bigger picture, not just report how many people have been killed each day.

The ability to talk to ordinary Iraqis played a leading part in Iraq Week, which marked the fourth anniversary of the US-led invasion. Programmes told the stories of a cross-section of Iraqi society, such as a child psychiatrist, a baker, a police diver and a barber. Had their lives improved, did they have more access to water and electricity, could their children go to school safely?

Audiences in most markets see the BBC as a trusted leader, setting standards for others. The World Service’s determination to uphold these principles is undiminished, but the price of doing so is self evident in a year that saw the abduction of Alan Johnston, the only remaining full time correspondent in Gaza from a Western-based news organisation. At the time of writing, Alan has been missing for over 13 weeks—the thoughts of all at BBC World Service, and hopes for his safe release, are with Alan’s family at this difficult time.

Increased violence and intimidation threatened many of our staff in the field, in the Middle East, and elsewhere around the world.

Distribution

The pace of technological change has led to the development of new ways to make and distribute programmes. BBC World Service is now available on about 15 different delivery platforms or technologies, from traditional short, medium and long wave and FM through to proprietary satellite systems, online, DAB, DRM and mobile phones.
The emphasis is on maximum flexibility in responding to the changing market. The year’s key development is a revolution in the way programmes are produced. The launch of the digital Production House of the Future took place at Bush House, with services for South Asia. Traditional studios were replaced by a suite of glass-walled production modules and stand-up “pods” for newsreaders, all communicating through state-of-the-art WiFi and internet links.

Extending the BBC’s network of FM transmitters and partnerships is crucial to maintain audiences in many parts of the world where short wave is inevitably declining. BBC World Service can now be heard in 152 capital cities on FM. Major advances included the establishment of 24 hour FM relays in the Gaza Strip and new FM services in Juba in Sudan, Mogadishu in Somalia and Nouakchott in Mauritania—a first in North Africa.

BBC World Service made a breakthrough in reaching the growing Indian FM market with the launch of a new service in cooperation with BBC Worldwide, the BBC’s commercial arm, and the Indian media group MidDay. BBC Hindi produces up to 14 bulletins a day for the joint venture FM station, Radio One. These cover business, entertainment and sport. Launched in Delhi, Mumbai and Chennai, the service is being extended to five more cities in 2007 and it is hoped to add international news when the authorities permit.

The strength of World Service audiences in Afghanistan would not have been possible without the ability to install and maintain FM networks. New FM relays came into operation during the year in Helmand and Kunar provinces. Five sites are now solar powered to keep them on the air independently of local supplies.

The crucially important transmitter station on Ascension Island, which serves large parts of Africa, will soon be the first wind-powered site, saving £0.5 million a year.

In Russia, distribution problems in a difficult political climate have been a further setback, leading to the loss of FM services in Moscow and St Petersburg and a decline in listening to under one million. But a new FM partnership between the BBC Russian Service and Voice of Russia, the international arm of the Russian state broadcasting network, is being developed and test transmissions of Bolshoye Radio in Moscow are underway, without issues so far.

In China, poor access to BBC news content in what is now a bustling, aggressively competitive market has resulted in a further loss of audience. Short wave broadcasts continued to be subject to persistent frequency interference and BBC news online services were also rigorously blocked. Just 0.1% of the adult population in China listen to the World Service in any language.

It is strategically important that the BBC maintains a presence there, backed by proportionate investment, but it is also important that the World Service distributes its output in the most effective way. Changes were announced in February 2007 with this in mind. Resources were re-allocated so that coverage of domestic Chinese issues could be improved, and programmes were broadcast at times when they had the most impact.

The World Service adjusted its short wave transmissions in line with radio listening in March 2007. Transmissions in English to Eastern and Central Europe ceased and those to Southern Europe were reduced, although the early morning and evening slots have been retained. 648 medium wave continues to serve North West Europe, and programmes are available 24 hours a day via the Hotbird two satellite and via numerous European cable providers. Listeners can also tune in on a number of FM frequencies or download audio online from bbcworldservice.com, bbcnews.com and other content providers.

**Finance**

BBC World Service’s Grant-in-Aid funding from the Foreign and Commonwealth Office for 2006–07 was £239.5 million. The 2006–07 financial year was one of significant transition for BBC World Service. The savings from the 10 language service closures were re-invested in new developments. In addition to these savings, £9 million of efficiency savings were achieved during the year. This re-prioritisation of funding was supplemented by £6.5 million of additional Grant-in-Aid received under the Government’s 2004 Spending Review. New investments focused on the development of new distribution platforms for BBC World Service content and on the preparations to launch Arabic television in Autumn 2007.

Capital expenditure of £28.5 million included significant spend on the Content Delivery Programme, a series of projects to replace and enhance existing distribution systems. Other major developments in the year included Production House of the Future, as described earlier under the heading Distribution. Internationally new offices were opened in Islamabad, Abuja, Delhi and Sao Paulo and work on the Ascension Island oil tanks was completed. These projects reflect the commitment of BBC World Service to the production of high quality programming from both the UK and overseas.
BBC WS Trust

The BBC World Service Trust, the BBC’s international development charity, continued to use the media in innovative ways to reduce poverty and promote human rights around the world. In many developing countries, radio is still the most important way of delivering vital information to poor communities on health and livelihoods. However, the Trust is tracking significant changes in media consumption in the developing world, particularly exploring the potential for interactive technologies, including mobile phones and the internet.

There has been a growing demand for strengthening local and national media, through policy advice, change management and training for journalists and production staff. In Egypt, the Trust facilitated the development of the first editorial guidelines for Egyptian Television. In Morocco, it provided training for almost 200 broadcasters, focusing on editorial values and journalism ethics. In Afghanistan, it has been working with partner broadcasters to manage a reform programme for the Afghan media.

The potential for creating a forum for debate was demonstrated in Bangladesh, where a series of radio and television debates reached more than seven million people a week, giving them the chance to question politicians and commentators. More than 90% of those surveyed felt that the programmes had provided an opportunity to raise the “voice of the people”—particularly those who are deprived. A pilot scheme using video vans to reach people in rural areas without access to television reached more than 184,000 people. Debates included a live link-up between a youth audience in Dhaka and London. Similarly, the Trust launched a new radio programme for young people in Iran, called “Zig Zag”. The weekly programme focuses on alternative youth culture and covers taboo topics such as dress code, slang and high unemployment rates. The programme is supported by a topical online magazine.

There was recognition for the Trust’s contribution to humanitarian efforts in troubled parts of the world. Darfur Lifeline, the BBC World Service Trust’s humanitarian radio service in Sudan, won first prize for its children’s programme Draw Your Place On Earth in the Youth category of the Radio for Peacebuilding Awards. The continued power of simple radio based projects was also highlighted in Somalia. More than 29,000 people have learned basic literacy and numeracy skills through an initiative combining radio programmes, printed study materials and face-to-face tutorials. A new radio drama for Ethiopia also encouraged debate about rural lives and livelihoods. Set in a rural village in the Amhara region, it tackles issues such as access to water, food security, sanitation, crop management and early marriage.

Results published during the year measured the extent to which the Trust’s campaigns are changing attitudes. In India, the long-running TV detective series Jasoos Vijay entered the top ten audience ratings with a weekly reach of more than 20 million viewers. The World Service Trust’s star-studded reality TV show Haath se Haath Milaa also won a World Award at the Asia Media Summit 2007 for its instrumental role in India’s largest mass media campaign on HIV and Aids. Finally, the Trust launched a new television drama series in partnership with Nigerian film and television producers, called Wetin Day (What’s Up?). The show tackles fundamental social issues such as HIV and Aids, in an entertaining and accessible way.

The Trust’s Afghan Women’s Hour radio programme won recognition for the way it has given support and advice to women in Afghanistan. Editor Rachel Ellison was awarded an MBE and her production team, most of who are based in Afghanistan, won the first BBC World Service Award for Team of the Year.

Part II

BBC World Service 2008–11

Building security through global engagement—a synopsis of the BBC World Service Spending Review 2007 bid

A record of success

As it celebrates its 75th successful year, BBC World Service is the best-known and most-respected voice in international broadcasting, bringing significant benefit to Britain.

Around the world, BBC World Service has become a symbol for the values of objectivity, accuracy, fairness and trust, setting recognized standards of journalistic excellence.

In the past 10 years, supported by additional funding received in successive Spending Review (SR) settlements, BBC World Service has:

- grown weekly radio audiences from 138 million to a record 183 million;
- invested in online services across all 33 language services and achieved huge growth, from three million monthly page impressions in late 1998 to 763 million by March 2007—that’s 38.5 million individual monthly users;
- grown the number of capital cities with a BBC FM presence from 94 in 2000 to 152 now;
- cemented its reputation as the most trusted, objective, and relevant international news broadcaster in key markets from the USA to Indonesia, according to independent surveys;
— achieved year on year cashable savings of £40 million in the nine financial years to 2006–07 and plan to make cashable savings of £6.5 million in 2007–08;
— in addition, it reprioritised £10 million of expenditure from the closure of 10 language services to put towards a new Arabic television operation during the current SR period; and
— a recent National Audit Office inquiry accorded “green” status to BBC World Service’s recent efficiency record.

The changing world

Powerful forces are putting increasing pressure on all international broadcasters. It is the most complex and unpredictable news environment ever, dominated by insecurity and interdependence.

The impact of September 11 is still being felt, including the aftermath of the wars in Iraq and Afghanistan and related “terror” campaigns. There is continued instability in the Middle East. The Islamic world and its future are central to the resolution of many of these issues.

At the same time, people across the world are more interdependent than ever. Issues like the globalised economy, climate change, drugs and crime, and AIDS all will require common solutions. Communication and dialogue will be crucial. However, hatred, intolerance and mutual distrust—often fuelled by partisan and biased sources of information—are ripe and intensifying.

The global media environment continues to change rapidly as technology develops and competition increases from international, national and local broadcasters. There is a flood of information—though much of it is partisan and unreliable. At the same time, news audiences increasingly demand the opportunity to set and shape their own news agenda—to feed back, contribute, and communicate.

BBC World Service’s role

In this complex and unstable world, our two-fold mission is growing ever more important:
— to bring impartial, accurate news and information to audiences around the globe, especially in the Islamic world; and
— to provide a trusted and open forum for debate and dialogue.

Over the next three-year period, while looking hard at our existing resources, we are binding in two key areas of investment:
— building services to regions of geopolitical insecurity; and
— enhancing interactive digital services to engage with new, largely urban, influential audiences.

1. Building services to regions of geopolitical insecurity
   — BBC Farsi Television for Iran:
     A daily eight hour satellite Farsi language television service was approved in principle by the Chancellor in October 2006 but its £15 million annual funding needs to be formally allocated in the SR process.
   — BBC Arabic Television:
     Funding for a daily 12 hour service (£19 million) was secured from reprioritisation and efficiencies in 2005. However an extra £6 million would enable a full 24/7 hour service to offer a reliable on-air presence to respond to major events as they happen.
   — BBC Television in Urdu for Pakistan through partner channels:
     Launch daily/weekly news and current affairs programming in Urdu on a suitable partner channel to provide independent, unbiased news and analysis for this critical market.
   — African English television service with local partners:
     Produce a high impact daily African Television news service for the peak-time schedules of key terrestrial television partners across the continent, as a compliment to our popular radio service.

2. Enhancing interactive digital services to engage with new, largely urban, influential audiences
   — Transforming broadband video for key languages:
     To expand on-demand video news reports in Arabic, Persian, Russian, Spanish and Urdu.
     — Enhancing the Global Conversation to engage with key audiences: a global climate change portal:
       Produce a multi-lingual content offer in video, audio, pictures and text generated from around the globe to add greater information, analysis and debate to this critical issue.
— Using digital technology to connect UK diaspora communities with their countries of origin:

Generate new content, marketing and outreach programmes to engage Bengali, Somali and Urdu speaking communities at home and abroad to build mutual understanding and dialogue.

Funding

These proposals come against a backdrop of extremely rigorous reprioritisation and savings over the past ten years. Over the past decade, BBC World Service has made greater efficiency savings than the targets set by the Treasury.

The Chief Secretary to the Treasury set out in the CSR 2007 guidance the requirement for 3% cashable savings per annum. A 3% per annum savings target would mean a cumulative target for World Service of at least £19 million per annum by 2010–11. As the majority of the BBC World Service cost base is made up of staff and related costs, we carry the risk that the level of inflation we may face is above standard RPI measures.

BBC World Service is likely to reduce the scale and scope of its non-news and information English programmes and re-examine its language services once again, with the view to reducing output in areas of lower impact and declining audience need.

In its total Spending Review submission, BBC World Service is asking for an overall increase of RPI plus 1.3% on its 2006–07 baseline of £246 million—a relatively small sum to enable BBC World Service to enhance its impact and competitiveness. Our total required new investments would amount to an extra £16 million pa by 2010–11, in addition to the £15 million pa for Farsi TV already agreed in principle.

BBC World Service is also seeking help with the rising costs of redundancy and is asking for access to up to £9m in this three year period as one-off funding to meet these escalating costs. This additional sum would alleviate some of the need for further reductions in programming and closures of language services, and prevent a delay in the new investments from 2008–09 onwards.

This would take its funding to £279 million in 2010–11.

If these finely targeted and selective initiatives are accepted under the SR process, BBC World Service will continue to remain the world’s best known and most respected voice in international broadcasting, thereby bringing significant benefit to Britain.

It will do this by continuing to deliver reliable news and information services to its top priority markets using the appropriate multi-media tools.

BBC World Service will continue to measure the impact of its work in its top priority markets every year, using independently-produced surveys to capture audience size, and overall perceptions of the World Service’s performance against the key criteria of trust, objectivity and relevance.

PART III

BBC Monitoring

Substantial progress was made throughout 2006–07 on BBC Monitoring’s restructuring programme initiated in response to the 2005 Cabinet Office Review of BBC Monitoring led by Sir Quentin Thomas. March 2007 saw the last of more than 90 staff (24% of the UK headcount) leave Caversham as the business achieved its required savings and completed the initial phase of its restructuring. BBC Monitoring entered the 2007–08 FY with a budget containing 17% savings on the prior year.

During this period of restructuring BBC Monitoring has introduced a new internal structure to optimise production efficiency and quality, a new product and service set and a new commissioning and decommissioning process. In addition BBC Monitoring has successfully trialled a new performance reporting method and submitted a CSR 2007 bid.

Engagement with its Stakeholders (Cabinet Office—the new lead stakeholder, MoD, FCO, BBC World Service and the Intelligence Agencies) is at the highest BBC Monitoring can recall and the partnership with the US Open Source Centre (OSC) remains strong.

During this period substantial benefits have flowed for BBC Monitoring’s stakeholders from new high priority monitoring activities focussing on counter-terrorism, while large capital investment programmes addressing backlogs of work on accommodation and technology have been started. Both programmes are well overdue: the main operational areas in Caversham, for example, date from the mid 80s. On the technology front, while BBC Monitoring’s delivery is entirely digital, its collection, production and archiving processes are a mix of analogue and digital. This is not sustainable in the age of digital multimedia.

The technology refresh programme is also vital to maintaining the OSC partnership, as without it, the free reciprocal flow of material between the partners, delivering a large amount of unfunded benefit to BBC Monitoring’s UK stakeholders, will be progressively diminished.

That is why the CSR bid is so important, as it would enable BBC Monitoring to re-establish the capital investment baseline required to maintain and build its capabilities.
A successful CSR bid will see services maintained and key areas of high priority for UK stakeholders grow, built on the foundations of a modern, efficient infrastructure and a sound reciprocal US partnership. An unsuccessful bid will inevitably lead to further cuts in services since savings will not be deliverable from efficiencies. This will impact BBC Monitoring’s UK stakeholders directly and indirectly through impacts on the OSC partnership.

June 2007

Witnesses: Nigel Chapman, Director, and Ms Alison Woodhams, Chief Operating Officer and Director of Finance, BBC World Service, gave evidence.

Q136 Chairman: Enough people are now back from the vote for us to be quorate, to start again. Others will come, no doubt.

I welcome you, Mr. Chapman and Ms Woodhams, and apologise for the three votes that have disrupted this afternoon. This happens on Wednesdays, unfortunately. Let me begin by saying how delighted we are that you have come today, because we closely monitor closely what happens with the World Service. Could you tell us how your negotiations are going with the Treasury so far, with regard to the comprehensive spending review? Are you in that context confident that you will get the funding which was announced? [Interruption.] Excuse me, we are in the middle of a sitting.

Andrew Mackinlay: Sorry, Sir. I have come straight from a Division.

Chairman: To get back to the question, are you confident that the £15 million announced by the Chancellor last year for the Farsi language service will be confirmed in this spending review?

Nigel Chapman: Let us first of all talk about the overall atmosphere of the spending review and the bid. Obviously, the Treasury and the Foreign and Commonwealth Office have been considering the bid for a number of months now. I think that we are clear about the priorities here. The priorities are that the funding for Farsi TV should be confirmed as part of the spending review outcome, and that the Arabic television money should be forthcoming to extend the service to 24 hours; and to fund other issues around restructuring and issues of that kind.

You ask if I am confident that the funding is going to be forthcoming. In some ways that is a question you have to put to the Treasury, but if you are asking me I believe that it will be. Everyone is signed up to it. It is a major strategic priority. It has been announced by the Chancellor, now the Prime Minister, and in that context I am hopeful that it will be forthcoming. I made it clear to both the FCO and the Treasury, as the BBC as a whole has done—when approval for the project was given back in the autumn of last year—that if there are no funds for Farsi television, there is no service. We are not going to reprioritise a load of our existing services to find £15 million to put Farsi television on the air. If there are no funds there is no service.

Q137 Chairman: You also, with our support, want £16 million extra to be able to extend the coverage—the number of hours—of the Arabic television service.

Nigel Chapman: Mr. Chairman, if I may just correct that, the rest of the bid is £16 million; it is £6 million to extend to 24/7. Again, I think there is a total unity of purpose between ourselves and the FCO about that priority. It is, alongside Farsi, the highest priority of the bid and the case for it is very strong. I think that everybody accepts that. Provided we get a reasonable settlement, I would expect it to be part of the settlement.

Q138 Chairman: But if you do not get a reasonable settlement, you cannot extend the number of hours; you have not got the resources for that.

Nigel Chapman: Indeed. We have been, again, absolutely crystal clear about that. If you remember, the cost of the 12-hour Arabic service, which is £19 million a year, has already been found from the restructuring and reprioritisation of the eastern European language services and some money that was held back from the outcome of the spending review of 2004, so we are already effectively funding over two thirds of the cost of Arabic television from existing resources. That is as far as I can go. If we are serious about this project—and we need to be, for all sorts of very good reasons—the service needs to be 24/7 and needs to be funded accordingly.

Q139 Chairman: You also, as I understand it, want another £10 million for additional investment.

Nigel Chapman: Well, yes, we have asked for a further £10 million to deal with new media investments and to get a foothold in certain other television activities around African English and Urdu.

Q140 Chairman: How is that going to be broken down?

Ms Woodhams: It is £4 million for Urdu television, £2 million for African television and £4 million for the new media developments.

Q141 Chairman: Presumably Urdu television would have a huge audience, potentially.

Nigel Chapman: Absolutely. It would have a huge audience because of the BBC’s brand and effectiveness in Pakistan, although not just in Pakistan, because it would, obviously, be available via satellite and terrestrially via partner stations. So there is an appetite for it, and in the context of what is going on in Pakistan at the moment, there is a very strong case for that sort of development.

Q142 Chairman: Presumably, it would also be watched by the British Pakistani community.

Nigel Chapman: It could be if enough satellite space was booked for it. Yes, absolutely, it could be seen here.
Q143 Chairman: The other issue that I would like to raise is that you are requesting additional money for redundancy costs.

Nigel Chapman: Yes.

Q144 Chairman: It is £9 million.

Nigel Chapman: Yes.

Q145 Chairman: Why is that necessary?

Nigel Chapman: Because most of the World Service costs are around people and if we are going to meet the Treasury’s savings target of 3% a year, which comes to something like £18 million across the three years of the next spending review, we will inevitably have to involve ourselves in restructuring and redundancy costs, and we need support for that. If we do not get that support, we will have to make deeper cuts to fund the redundancy costs that come from the changes, and that takes us down avenues that are not appropriate.

In addition, the World Service should be treated like every other publicly funded area. The Treasury is saying in principle that it will fund up to 50% of the restructuring costs that are brought about by cashable savings, and the World Service should be treated in the same way as the Foreign Office, the British Council or anybody else in that respect. In the past, we have not asked for that, because we have been able to absorb costs in our existing resources, but we have got to the point now where we cannot do that. Therefore, I am saying to the Treasury and the FCO, “Treat us fairly. Treat us the same as everybody else. We can bid for up to 50% of the savings target, which is £18 million, so we can bid for £9 million, and we expect to get a fair share of that in this settlement. Otherwise, you will just heap more difficulties on us than we can cope with in terms of the cost of restructuring and change.”

We have a good record in restructuring and change, which the NAO, by the way, looked at and verified when it came in only a few months ago, and we were one of the very few organisations to be given a green rating—a top rating—for the way we have been conducting ourselves. So we have a very strong record, but there comes a point where, however strong a record your record is, you cannot carry on absorbing all those costs ad nauseam, without their having a deleterious effect on the business because they are just too much to bear.

Q146 Mr. Hamilton: Mr. Chapman, since we saw you last year, quite a lot has happened in the World Service. What do you think your key achievement has been in the past 12 months, since we last had you in front of the Committee, and what is your main disappointment?

Nigel Chapman: One key achievement is that, despite the competition we face around the world, which is intensifying, we have raised the overall audience by 20 million in a given year, from 163 million to 183 million, which is a fantastic achievement. If you had said to me that that was possible, I would not really have believed it. Secondly, it is not just the volume of the audience—the numbers of people who listen and use our services—but what they think about them. We publish a lot of data about our reputation, objectivity, relevance and so, and those are also extremely strong in pretty well every market that we are serving; we are the most successful against those criteria of any international broadcaster in the world.

In addition, we have made steady growth in our online services and the use of them. Our audibility has improved. We have had a pretty good year. There are things that we could do better, and there are parts of the world where audiences have gone down—they are not up everywhere. However, where we have focused our energy, which is around the middle east, the wider Islamic world and Asia—top-priority markets, if you like—it is a pretty well universal story of an improved impact, which is a very laudable achievement. Any organisation that could come along and tell you that would have to take a reasonable pat on the back for its performance over the past 12 months.

Q147 Mr. Hamilton: That is a great achievement. What has disappointed you this year?

Nigel Chapman: What has disappointed me is that it has been a turbulent state of affairs in one or two markets. Russia has been difficult, not because the programmes are not good or the staff are not trying hard, but because of the political climate and issues of distribution, which have been difficult. We have lost some audience in eastern Europe and south America. That is partly as a result of increased competition and partly as a result of partnerships not working as well as we would like. In those markets, the great bulk of the audience comes through third parties—radio stations that carry our content. If we have difficulties with a key partner, as we have in Romania, Ukraine or south America, that has an adverse effect on our performance. I would like to get us back up there in those markets.

Q148 Mr. Hamilton: How are you going to do that in places such as Latin America, Romania and even Ukraine?

Nigel Chapman: Only by finding different and better partners. Direct, short-wave listening in those markets is negligible, so it has to be through third parties, to some extent through internet connectivity but mainly through radio stations carrying our content. That means that our business development people have to work really hard to find alternative means of distribution.

Q149 Mr. Hamilton: There is no FM band space for you at all?

Nigel Chapman: Not directly. In South America, no. In most South American countries we are not going to get our own FM relay transmitters. In Ukraine we have a reasonable service in Kiev but not outside. In Romania we have a sprinkling of them.

The issue in Romania is not so much distribution; in the end, it is what we talked about last time on Eastern Europe—the changing nature of the world
is lapping firmly eastwards to Romania, and people are starting to use their own local and national services more and do not need the BBC as much as they used to. In the end, if we lose 3 or 4% of our audience in gross terms in a year, that sends a signal that life is getting pretty difficult.

Q150 Mr. Hamilton: There has also been a decline in English radio listening in Africa, with notable exceptions such as the Democratic Republic of the Congo. Is it partly because we have been able to measure a bigger area? We have always known that we have a very decent audience in the DRC, but the circumstances that you have alluded to try to reverse that situation in Africa?

Nigel Chapman: Let me just give a bit of context about where in Africa this is going on. One of the key reasons why the audience is falling year on year is the loss of FM opportunities in Nigeria. In the past we had quite a major partnership with a company called Ray Power in Nigeria, but when we surveyed again this autumn, the programmes were no longer on the air and we had therefore lost something like 1.5 million listeners in Nigeria. Interestingly, the Hausa service had increased its listenership, so there were compensatory factors going on.

In the end it is about ensuring that the African schedule—there are programmes purely for Africa, which fit into a wider schedule of global English programming—is scheduled well, of high quality and the sum of its parts for African listeners. If I were being self-critical I would tell you honestly that we have perhaps not focused hard enough on making it the sum of its parts. We have some very good programmes in English for Africa and for the world, but if you are a listener in Africa perhaps it is not as coherent an offer as you would like.

We need to change the schedule, improve the quality and ensure that the FM relays that we use in Africa have a more local sound to identify the role of the BBC and its presence. It is a relatively easy technical thing to sort out. So there are things to do, and then we have to market hard. We have focused a lot on marketing the language services in Africa, and the results have been very good in the Swahili, Hausa and French for Africa services, which are running at an all-time high. I now need to focus more energy on marketing the English output in Africa.

Q151 Mr. Hamilton: Why do you think you have done so well in the DRC? Is it because of the end of the civil war? It is not an English language country.

Nigel Chapman: It is partly because we have been able to measure a bigger area. We have always known that we have a very decent audience in the DRC, but the circumstances that you have alluded to have prevented us from doing any decent audience research. That has now changed and we have some comprehensive national figures. It is a strong story.

Generally, although there are other areas, Africa is the heartland audience of the World Service and continues to be strong despite TV and more competition. We have often exploited—in the best sense of the word—the arrival of new radio stations by making them our partners and therefore improving the distribution and sound quality that people can access.

Q152 Mr. Hamilton: You also have a very good internet presence. Your page hits have gone up in the past 12 months from 546 million worldwide to 704 million. How much of that is due to the increased use of the world wide web and how much is due to your own efforts to get people to log on and see what you are doing?

Nigel Chapman: I could not give you a mathematical answer to that. It is impossible.

Q153 Mr. Hamilton: But you do a lot of promotion, presumably.

Nigel Chapman: Yes. We do a lot of cross-promotion on the English output.

Q154 Mr. Hamilton: Partnerships with major portals as well?

Nigel Chapman: That is critical. It has been critical in South Africa for the Spanish service and the Portuguese service in Brazil. It is less important at the moment for something like Urdu or Arabic services, for which there is not a major portal to have that partnership with. It is going to come and we need to be ready. We have added video to what we offer in some of those languages in addition to text and audio, which is very important. In some ways people have bypassed audio, other than to listen to the radio as a stream, like a radio station. When people listen to individual programmes, they increasingly want to be able to watch them on the web as broadband connectivity increases in the urban centres of the world. Those things are going in our favour, as is aggressive cross-promotion.

Q155 Mr. Hamilton: A short while ago, I think that Farsi was your biggest non-English language website in terms of growth, although that was perhaps a few years ago. What is it now?

Nigel Chapman: It depends on whether you measure it by the number of page impressions or users. According to the number of page impressions, Farsi would still be at the top, despite the difficulties of access in Iran. A lot of Farsi speakers overseas really enjoy going to the website and there is a great diaspora that speaks Farsi. In terms of unique users—numbers of people—the Portuguese for Brazil site is doing really well, partly because of the number of partnerships that it has established. Every major portal in south America, whether it is a Spanish or Portuguese language portal, has some well-displayed BBC content on it and that drives new users to us. It is like a great shop window for our content and is a big factor in why those sites have done rather well.

Q156 Mr. Hamilton: Finally, what have your scores been compared with your competitors on essential issues such as reputation, trust and objectivity in the past 12 months?
Nigel Chapman: In the back of the annual review that we sent you a copy of, we have published the public service agreement target scores. They have always been strong, and there is only one criterion in one place in the world, which is so marginal it is statistically irrelevant—I think it is in Russia or China—where the World Service is not ahead of its competitors in every single criteria that you have talked about for objectivity and relevance. It is pretty much 100 out of 100. I cannot really do much better than that—or maybe I could get from 99 to 100, which would be even better.

Q157 Ms Stuart: May I just probe a little further into the areas that my colleague, Mr. Hamilton, touched upon about falling audiences and more website hits in some areas? What is your vision of what media the world service will use in five or 10 years’ time in various parts of the globe to transmit its message? Will it continue to be radio and television, or are we moving into a completely different world of websites and downloading programmes? If you were to come back in five years’ time, would you still say that radio and television are your main media? What is your vision?

Nigel Chapman: It obviously depends on which market you are talking about. In five years’ time, in many markets it will not even be radio and the web; radio alone will continue to be powerful. I am thinking of large parts of Africa, lifeline services for the Burmese and parts of Central Asia. In other markets there will be a full panoply of tri-media activity, of which Arabic will definitely be one, Farsi will be another, and I suspect that there will be two or three others by then. There will be some people in the middle who still have a radio and have some new media services alongside that. I do not accept the notion that watching or listening to a linear stream of content will suddenly go out of the window in five years’ time and that everyone will access content through the web as their only source. Often it is supplementary to traditional linear media, but not instead of it. It would be a very unwise broadcaster who put all of their eggs into the broadband basket as they would end up with a small, very niche, very selective audience. That would also mean that they were giving up on the purpose of bringing news of the world and of people's own societies to a reasonably mass audience, which would be a mistake.

Q158 Ms Stuart: When you go to the Treasury, you measure your performance against your PSA targets. Does that change in relation to how you are measured in different places of the world? Do you feel that those targets are sufficiently flexible for you and that, when you report back, you have been measured on what is your real performance?

Nigel Chapman: Yes, broadly, I do. Because they match up volume and impact. You need to know how many people use the services, but the targets also measure well what people think of those services. We can then cut and dice the content into more niche segments, so that we can see whether, for example, within a capital city we are particularly effective with opinion formers and people of influence. I am broadly happy with the targets. I have one caveat, which is that it is quite difficult to measure the impact of the web. Radio and television are easier—they have a long history—but it is a bit harder to define the benefits that people get from interactivity with us and taking part in things. In the next two or three years, we will have to work harder on that to find the right measures of success and failure. I think that we must grapple with that intellectually.

Q159 Andrew Mackinlay: First, may I apologise for the hiatus before I came in? I was genuinely surprised that we were in session, but that is a matter for me and my colleagues. I apologise; no discourtesy was intended.

On the technology, I am a bit of a technophobe, but you have things such as 18 Doughty Street station, which basically provides television services over computer. Under statute, the BBC cannot provide the television service. BBC World is commercial—we know the history of that. Can your BBC World Service radio by stealth, come on to a screen? That really follows on from my colleague’s point about the future. Surely, if you are broadcasting in any language your BBC World Service radio programmes, will there not come a stage when incidentally you will start putting in a camera so that people will be able to see the personality talking to them and the discussions going on? If not, why not? I think that in a sense you will develop a television service by stealth. Should we not embrace that?

Nigel Chapman: Yes, but with knowledge of the limitations to that. There are high-quality television services. If we did that—we are not proposing this—in a developed market such as the middle east, we would not be competitive. We would have to make a quality offer. In other areas, yes. I suppose that what you are really driving at is: how can we combine the audio and data? I think that that is more the issue than seeing the person doing the broadcasting. We could do that, but then we would have to think about the device through which that would happen and how we would access it. That is always the proportion issue about investment.

In theory, I could spend quite a lot of money putting cameras into BBC World Service language services tomorrow, but at the moment the audience in a lot of countries does not have the wherewithal or the devices, either mobile or fixed, to make the most of it. Relatively speaking, I would be spending a lot of money, therefore, for very a poor return. However, over the next five years, as internet access and broadband improve, and mobile devices become more user-friendly and screens get bigger, yes, there is a definite possibility of that.

Q160 Andrew Mackinlay: You have two categories of service do you not? There are the foreign language services, which broadcast in Farsi and Kyrgyz and other languages, but the other audience is a worldwide one, often including English-speaking
peoples. Surely, that category could be advanced along the way that I have explained, and at minimal cost? It cannot be rocket science.

Nigel Chapman: No, it is not rocket science, but you must look at that in the context of BBC World’s presence. I would argue that if we want to reach out with a visual medium to people who speak English as their primary means of accessing information from the United Kingdom, BBC World is the way to go. It exists already, is getting more and more popular, improving in quality and getting more widely distributed. It is therefore the primary way in which to reach out to those who do not want to listen to the radio, but listen to a television-type service. Let us say that we put cameras on Robin Lustig doing “Newshour” or “The World Tonight” on the BBC World Service. It might be quite nice to see him and I am sure that some people might like to watch, but it could not compete in English with fully fledged television services—nor should it, because we would end up doubling up our activities and being rather inefficient. We have an English service—BBC World—which I genuinely believe is getting better and improving and whose audience is growing fast.

Q161 Mr. Illsley: May I ask you a couple questions on distribution, particularly in India and China?
First, have you made any progress or are you in negotiations with the Indian Government to persuade them to let you broadcast news over the FM system in that country? Secondly, you announced in February of this year some changes to your endowment plans in relation to the Chinese market, so I am sure that some people might like to watch, but it could not compete in English with fully fledged television services—nor should it, because we would end up doubling up our activities and being rather inefficient. We have an English service—BBC World—which I genuinely believe is getting better and improving and whose audience is growing fast.

Q162 Mr. Illsley: Just remind the Committee of the reason for that.
Nigel Chapman: You have been arguing ever since I have been in the World Service, which is now seven years, and, I think, before then, that we would love to see the Indian Government liberalise the FM market. I see no signs of that happening. What they have agreed is that FM stations, which exist in increasingly large numbers in India, can carry information content on issues like sport, entertainment and business. We have a partnership with a major chain of radio stations, in which BBC Worldwide owns a stake, called Mid Day Radio, but unfortunately, the thing we really want, which is a relaxation in relation to news content—that is, geopolitical news and current affairs; politics, if you like—is not on anyone’s agenda in India. The Indian stations are not even allowed to carry news about India, never mind news from—

Q163 Mr. Illsley: Does that come back to your reply to an earlier question that it depends on the equipment that the listener is using to access the news, and with such a huge—for want of a better word—poor population in India, who might have access only to a radio, the fear is that those classes of individual might be opened up to a whole new world of politics?
Nigel Chapman: If you are worried about volatility in an electorate, you are inevitably concerned about that. That way of thinking runs the risk of damaging the Indian radio industry significantly, because people will increasingly turn to television, which they can easily get. A lot of small Indian towns and villages now have access to satellite television. People wire up their little televisions to a common satellite opportunity and start watching TV. You cannot beat people in that respect. They are going to find ways round it and then—unlike in this country, where there has been a strong radio service for a long time and a strong television service, or in the United States or the rest of the developed world—you end up with a weak radio service alongside a television service, and that damages the media mix that you are offering a society.

In relation to China, we announced some changes in February. It is too early to know what impact they have had, because they have not yet been fully introduced; there are discussions with staff and trade unions about them. But it is about making a proportionate level of investment in broadcasting for China in a world where, despite our best endeavours—and there have been many endeavours—access to the BBC Mandarin Service in China is extremely difficult. Blocking of short wave is very persistent. In China, if you try to access the BBC website for the English news, never mind Mandarin, you are not going to make much progress. Therefore, in the end I have to make sure that the investment is commensurate with the other needs that we talked about earlier, so we are going to maintain a strong presence, but it is proportionate. There is no point in putting out repeats of programmes on short wave that no one can access. It is just in the end a waste of resources.

Q164 Sir John Stanley: Mr. Chapman, you were copied in on a letter that was sent earlier this month by a number of leading figures who have been
championing freedom of expression in Russia and who now live in this country. The letter was headed by one of the, I think, most distinguished and certainly one of the bravest of the Russian dissidents in the Soviet era, Mr. Vladimir Bukovsky. The letter was copied to the Foreign Secretary and to the shadow Foreign Secretary. It is headed “BBC Russian Service’s Lack of Impartiality”, and the opening sentence reads: “We have serious concerns about the BBC Russian Service’s weakening ability to report objectively about Russia.” The letter goes on to detail in considerable depth a comparison of the coverage of what are, in Russian terms, controversial issues; for example, Mr. Litvinenko’s murder and the sequel to it. It compares the reporting of that story by BBC news in this country and worldwide with the coverage of the same event by the BBC Russian service. The detail appears to indicate quite clearly a different type of coverage by the BBC Russian service, less critical than the BBC news of the Putin Government.

The question that I want to put to you is, is it the BBC’s policy as far as its Russian service is concerned to cover contentious issues involving the Putin Government in the same way as they are covered by the BBC elsewhere?

Nigel Chapman: In a word, yes. I saw the letter, and, obviously, I helped supervise the reply to it. We went painstakingly through the observations and criticisms in the letter, but the team could find no justification for them. I do not accept them. I do not accept the insinuation that runs through the letter, which is that we are somehow soft on the Russian authorities for some sort of ulterior motive to do with improving our broadcasting capability inside Russia. I do not accept that. The people who wrote the letter have not proven their case. The quotes are extremely selective, and the comparisons are not contemporaneous. They juxtaposed bits from the English website with bits from the Russian one. That was not fair, because the news was not taken at the same point in time. With respect to those people, who obviously feel passionately about the issue—I understand their passions and concerns—I cannot find any evidence to substantiate their claims.

Q165 Sir John Stanley: I am grateful for the very important assurance that you have given to the Committee that the coverage of events by the BBC Russian service is, in political terms, basically the same as one would expect to find in the BBC news service. I am glad to have that assurance.

I would like to follow that up with a request that you provide the Committee with a copy of the reply that was made to the letter of complaint, so that the Committee can see what response was made.

Nigel Chapman: By all means, and may I just add one further comment? The point is made around parts of the London media—you read it some times—that the Russian service is soft on the Russian authorities because of the need to get better transmission arrangements. All I say to those people is, if the Russian service is so soft on the Russian authorities, why did the Russian authorities come down extremely hard on our partners in St. Petersburg and Moscow? Why did they do that, if we were so lily-livered and lacking in substance and fibre in relation to coverage of Russia?

I am sorry, but when you look at the totality of the story, the Russian service is asking awkward and difficult questions of all parties; the Russian authorities, and people based here, including some of the people who signed the letter. That is its job, and I believe that it is doing a good job. If there were any inkling at all that it was not subscribing to the BBC’s editorial values, I would be down on it like a ton of bricks.

Sir John Stanley: Thank you. We look forward to seeing a copy of the reply.  

Q166 Mr. Purchase: There is nothing the London media mafia likes better than to attack the soft liberal underbelly of the BBC.

Thinking about financial management and efficiency savings, may I pick up on two points? First, you spent a considerable fraction of £28 million on the content delivery programme. Do you have a framework by which you can judge the effects and benefits of that programme?

Alison Woodhams: Well, the main benefits that we see coming out of content delivery include better coverage; the new deals that we have with satellite give far better coverage. The cost of technology and of satellite distribution has come down enormously over the past few years, so we are able to buy a lot more. That is particularly true in places such as Africa, which we talked about earlier, where people do not have access to the internet; we can have much better coverage, and we can do other things, such as direct-to-home via satellite. It gives us increased resilience: there will be far fewer single points of failure within the system, which means that we will have a much more resilient distribution system than we used to have.

Most important, we have much greater flexibility. At the moment, it is quite difficult to change any of our schedules or to introduce any kind of flexibility, because we have limited capacity in our distribution system. That is why we make changes to our schedules only twice a year; it is such a major undertaking.

The change will allow us to have many more channels to distribute via, which means that we can introduce much more flexibility across the services. We can also be more reactive to local events, and we can tailor what we send out much more for our local FM partners. They want more localisation and more tailoring, but until we complete this programme we will not have sufficient bandwidth to get that down to them. It will give us much more flexibility, which will make what we are delivering to them a much more attractive proposition.

Q167 Mr. Purchase: I do not want to press too far—it is early days—but do you have in your mind’s eye any sort of framework to allow you to evaluate things?
**Alison Woodhams:** We will be able to measure a number local stations that are taking different content, or a bigger variety of content, as a result. Where we have rolled it out, we have already started to do that. We will then be able see whether audiences have changed.

**Q168 Mr. Purchase:** So at some stage we will see some positive results—or negative—that can be compared?

**Alison Woodhams:** Yes.

**Q169 Mr. Purchase:** I move on to my second point. The Committee was critical of your decision to close 10 language stations. We asked you to reconsider that decision with the Foreign Office. Can you tell us anything about that? Are you currently re-examining the situation? How much cash would you expect to save if those stations were closed, and what would be the potential impact of further closures?

**Nigel Chapman:** We are not re-examining the decision to close the 10 services that were announced in October 2005. They are long gone. It is history.

As for other services, we continually review them against the criteria that we mentioned last time—the relative geopolitical importance of broadcasting to a society; the impact of receiving a service from the BBC as against competitors, local and national players; and the extent to which there is access to free and independent media in that country. Those are the three criteria that we used last time, and they are still pretty good criteria. We would want continually to reassess them, so I do not close the door on further changes, but I do not think that they will be on the scale of the past. However, we have to judge all that against the 3% savings target that the Treasury is insisting on, which everyone that is part of the process has to meet across the three years of the spending review.

**Q170 Mr. Purchase:** We know that you have been meeting those targets year on year, which is very good news. The Committee is interested to know how you use those savings, when they accrue. Are they to be used for further investment in the service, to ensure that the reputation of the BBC is enhanced and broadened whenever applicable and appropriate?

**Nigel Chapman:** The key words are applicable and appropriate. The way the spending review process can work, in effect, is that we bid for a sum of money—as we said earlier, it is £31 million across the three years, but that is for specific purposes—for Farsi television, Arabic television and so on. The framework is the costs of running the business, and the extra costs of running the core business. You do not get new funds for that; in effect, that is where your savings go. That is how it works. To get into the room to argue about the new investments, you need to commit yourself to the 3% savings targets. When we get the settlement, I will have to go away in the autumn and see what we need to do.

I would say this, Mr. Purchase: I am determined to protect the services and activities that have the greatest impact. I am not a salami slicer by temperament; I do not believe in making everybody save the same. If you do that to organisations, you end up with everything being less good than it needs to be and with no focus and concentration. One of the success stories of the World Service, in the past 10 years in particular, has been a greater sense of focus and energy on critical markets. As a result, we are doing the best that we have ever done in most of those places. That vindicates the strategy, but it does not always make me popular and it means some difficult choices. However, the other way is just to hollow out everything at the same level, and that is not a good strategy in my view.

**Q171 Mr. Hamilton:** As my colleague Mr. Purchase has just mentioned, in October 2005 you famously announced a significant strategic shift as part of your 2010 strategy. We know that that included plans to close the 10 language stations, which you did. It also included plans for the Arabic TV service and increased investment in interactive services and FM transmission facilities, as well as overseas news bureaux and further marketing.

In your bid for the comprehensive spending review, you focused on two key areas of investment for 2008-11: building services to regions of geopolitical insecurity and enhancing interactive digital services to engage with new influential audiences. First, Mr. Chapman, may I ask whether you have had any serious difficulties in your preparations for the launch of the Arabic TV service this autumn?

**Nigel Chapman:** No, I have not.

**Mr. Hamilton:** Good.

**Nigel Chapman:** But we are not yet at the witching hour. The service will be launched by the end of the year and a hard-working, good team—a nucleus of people—is working on it at the moment. But the vast bulk of the staff will not turn up in London until July, August or September. That will be the critical time, when we start to rehearse and pilot the programme.

Our work on the service is going well at the moment—we are on timetable and budget—but in some ways, we are just starting the process of making sure that it will be a quality service.

**Q172 Mr. Hamilton:** How much will your TV output as the World Service relate to BBC World? In particular, how will you ensure—or will you ensure—that you have consistent editorial lines with BBC World?

**Nigel Chapman:** First, all the services from the BBC—television, radio or any kind of service internationally and nationally—have to subscribe to the BBC editorial guidelines. There is no difference between the guidelines for Farsi and Arabic television and those for BBC World.

Secondly, the content generated by Arabic TV, particularly in terms of news gathering in the Middle East and the wider Islamic world, will be rather more valuable to the BBC. Therefore one of the really critical things is to ensure really good co-ordination between BBC World, the BBC as a whole and the material generated by those television services. We
are putting that into place, physically and editorially, so that we can make sure that we do not let excellent material in one place not be seen in another.

In terms of the strategic balance, I would say that although BBC World’s audience is growing in the Middle East, it is doing so slowly and at a low level, because you need English to be able to watch it. I think that we will get a substantial audience of those who want to consume media in the Arabic language watching Arabic TV, and that will be complementary. BBC World does not have a significant audience in Iran, partly for linguistic reasons, so a whole new audience will come to Farsi television.

It is fair to say that we are careful about the judgments that we will need to make about the complementarity issue. For instance, if you asked whether we should launch a major television service in eastern Europe in the eastern European languages, I would turn around to you now and say no, because of the impact of BBC World in those markets. Its audience is growing at a great galloping rate, and it is doing the job for the BBC and for Britain, so there would be no point.

Seeing this thing in the round is important in getting the balance right on investment and priorities. You have to see the three media from the BBC together, and the role of BBC World and bbcnews.com in English as part of the mix. At the end of the day, what audiences care about is that it is the BBC. They do not differentiate that much between the BBC World Service, BBC World or bbcnews.com. It is the BBC that matters; that is the brand. We have to present to audiences a coherent face—a coherent, joined-up set of opportunities for them to consume our services, which I think are broadly pretty good. We should shout about them loudly, and make sure that people do that.

Q173 Mr. Hamilton: I mentioned earlier your two key areas for investment under the CSR bid for 2008-11. Are they linked to the FCO’s strategies and strategic priorities, or are they entirely independent?

Nigel Chapman: No, they are not independent, nor are they slavishly aligned. There is a balance. I can make out a case for Arabic and Farsi television on a whole host of grounds: on a broadcasting basis, because if you want people in those societies to access your content, you need to be on television; you could definitely argue that access to a free and independent media is a strong case for it, definitely in Iran and large parts of the Arab world; and in terms of Britain, wanting a service—made in Britain, with British values at the heart of it—that can connect with audiences in the Middle East. That is a strategic priority of the Government—to increase dialogue. Those things fit together, so this is an example of when all the criteria of decision making and selectivity drive you in the same direction. It is a happy fit, and you should not apologise for that; it is perfectly sensible.

Q174 Chairman: Mr. Chapman and Ms Woodhams, can I ask you one final question? What impact has the public diplomacy board, which has been established by the FCO, had on the World Service? Do you have any concerns about how it is working, or are you comfortable with the way it is working?

Nigel Chapman: As you know, I am an observer on the public diplomacy board, and I attend its meetings regularly. I have not missed a single meeting. I do not have concerns about the way it is working, because everybody is clear about the ground rules. First, the editorial independence of the BBC must be protected. Let us be clear about this: I am not doing campaigns, and I am not going to do them. Nobody has asked me—to be fair—to do them, so that is fine. Secondly, I am not putting money on the table for campaigns; that is also clear. The countries and topics that we are examining in relation to human rights and democracy, climate change and economic development seem to me to be sensible, and the piloting is starting with various activities. There is quite a good opportunity in some of those societies for the World Service Trust, which has a bit more latitude because of its role in media training and general development work, to play a part in that.

Part of my job is to make sure, when we are talking about Nigeria, Pakistan or wherever, that the World Service Trust is playing a proper part and that we are not trying to reinvent the wheel in some other place where we have expertise at hand to provide that sort of training or programme making with third parties on human rights and governance issues, which the World Service Trust has a long and distinguished history of doing. I am helping to join up the bits, really; that is part of my job.

Q175 Chairman: What about joining up with the British Council? Are you doing any joint work with the council?

Nigel Chapman: We are; indeed, we are doing more work with it than we have in the past. It has a useful presence in many of the societies in which we have a broadcasting strength. It creates content, in effect, and editorial opportunities, which we need to maximise. It has supported us with various launches of transmitters and things of that kind, so it is being supportive. I would like to push it on harder, to be honest, which means that we have to have closer liaison and more conversations about the sort of activities that it is up to and whether they are broadcastable. If they are broadcastable, you reach far more people than you could possibly reach in the flesh, if you like, in a city by doing a play or other activity, such as having a debate or discussion. There is opportunity there, and we need to work harder, but I cannot police it every minute of the day. You have to get the producers to work with the council in a constructive way, and I think it is getting better.

Chairman: Good. On that optimistic note, I thank you both for coming. We look forward to receiving further information from you in the coming months and years. Thank you.
Letter to the Second Clerk from BBC World Service

Please find attached the correspondence requested by Sir John Stanley at the Foreign Affairs Committee hearing with Nigel Chapman and Alison Woodhams on 27 June.

Apologies for the delay in providing this. As discussed, there was some confusion over which letter Sir John Stanley was referring to during the witness session. The letter that Sir John requested was the subject of a BBC complaints investigation being carried out by management as part of the BBC’s complaints handling procedure at the time of the World Service’s oral session with the Committee. The investigation is now complete, and a copy of Nigel Chapman’s reply is attached, together with the earlier correspondence that Nigel was referring to in his answer to Sir John during the oral session.

Please do let me know if you have any further queries.

Letter to the Editorial Complaints Unit of the BBC from Martin Dewhirst, Department of Slavonic Studies, University of Glasgow and Viktor Suvorov

BBC RUSSIAN SERVICE’S LACK OF IMPARTIALITY

We have serious concerns about the BBC Russian Service’s weakening ability to report objectively about Russia, in particular by denying a platform to some of the Kremlin’s critics, as happened around the time of Alexander Litvinenko’s murder.

We thank Nigel Chapman for the very detailed response (attached) to our initial comments earlier this year and should explain our delay in responding to his letter. Our intention was to wait and see how the Crown Prosecution Service’s statement was covered by the BBC Russian Service.

Both Mark Thompson and Nigel Chapman have so far questioned our concerns. However, in attempting to dismiss our examples of the BBC Russian Service’s pro-Kremlin bias, Nigel Chapman’s letter has only confirmed that the Service has systematically dropped or downgraded certain BBC News items about Litvinenko from its own news bulletins. All of these news items contained information embarrassing to the Russian authorities.

We are not disputing that the BBC Russian Service’s news output is generally more unbiased and reliable than what is available locally in Russia. However, too often it is much weaker than the main BBC News in reporting on Russia. Its coverage of the events surrounding the death of Alexander Litvinenko, particularly prior to the recent announcement by the Crown Prosecution Service, has showed that at times of crisis the Service seems ready to compromise its editorial principles and refrain from putting difficult questions to the Russian authorities, presumably in order to help the BBC to avoid potential difficulties in Russia.

We all believe that Britain needs a strong BBC Russian Service. However, unless its broadcasts are as robust in examining the Russian regime as the main BBC News, they should not be funded by the British taxpayer.

In this letter, we shall go through some of the examples of the Russian Service’s unbalanced approach to news reporting and analysis and give our recommendations on how to strengthen the BBC Russian Service so that it maintains its editorial independence at times of crisis, as the British taxpayer would expect. We understand that there are similar concerns about the editorial standards of another important language service, the Arabic Service, and that those have also been dismissed by the World Service’s management in a similar fashion. It is important that the Corporation takes appropriate steps to correct this situation as a matter of urgency before the BBC World Service’s reputation for impartial news in the countries concerned is seriously damaged.

Examples of Pro-Kremlin Bias

Here are some examples of the Russian Service’s pro-Kremlin bias in the coverage of Alexander Litvinenko’s murder.

Our main concern, which we raised with the BBC at the end of December 2006, was that it denied a platform to some of the Kremlin’s critics whilst at the same time featuring lengthy exclusive interviews with Russian government spokesmen and pro-Kremlin commentators. We are lucky to be in the position of knowing about it more than the average listener because we happen to be not only some of the more outspoken critics of the current Russian administration but also because we knew Alexander Litvinenko personally and some of us counted ourselves among his close friends.

1. The Director General responded to us by saying that “the Russian Service always strives to rigorously test the arguments of all sides of a debate and goes to great efforts to ensure that programmes are balanced” We could not find evidence supporting this statement by examining the main section of the “Litvinenko
webpage” on the Russian Service’s website, entitled “Comment & Analysis”. The only video clips contained there for many months following Litvinenko’s death featured the following four personalities (see the enclosure marked “Litvinenko—Comment and Analysis”):¹

Alexander Gusak, a former officer of the Russian Security Service and a former boss of Alexander Litvinenko, saying that Litvinenko was a traitor.

Andrei Lugovoy, one of the main suspects in Litvinenko’s murder, saying that he is being treated by the British investigation as a witness and not as a suspect.

Dmitry Peskov, President Putin’s Press spokesman, saying that the accusations against the Kremlin are “absurd” and that they would like the “truth” to emerge.

Vladimir Pozner, a prominent journalist with strong links to the Kremlin for many decades. His father, also a prominent Soviet journalist, used to lecture at the KGB School on disinformation techniques.

We feel that the above example is symbolic of the BBC Russian Service’s bias in the coverage of Litvinenko’s tragic death. The editors seem to have taken a conscious decision not to include similar clips representing, as the Director General put it, “the other side of a debate” [sic], such as interviews with Litvinenko’s friends Akhmed Zakaev, the Chechen envoy, Alexander Goldfarb, Yuri Feshhtinsky, the co-author of Litvinenko’s books, or even some of the authors of this letter, Vladimir Bukovsky and Oleg Gordievsky, who knew Litvinenko and his work well and also possess some knowledge of the way the Russian government and its intelligence and security agencies operate. All these people were extensively interviewed by the Western media, including the BBC Russian Service’s competitor, Radio Liberty, but the Russian Service had obviously decided to pursue a different line of reporting that has little to do with presenting news in a balanced and unbiased way.

Whilst the quality of the Russian Service’s coverage has improved since the recent announcement by the Crown Prosecution Service, the analysis it offers its listeners is still much weaker compared to the rest of the British media. In its desire not to be seen in Russia as controversial, the Russian Service has failed to address properly a key question in the murder of Litvinenko—whether it was organised by the Russian security services. For example, the editorial in The Times on 23 May 2007 has stated bluntly that “The Litvinenko poisoning was an outrageous attempt by the FSB, the successor to the KGB—to silence the Kremlin’s critics abroad. Whether or not it was directly ordered by President Putin—and the likelihood is that this was more a case of a state body trying to please its master—the Russian State is deeply involved. The murder came only weeks after restrictions had been lifted on FSB assassinations overseas, and was meant to send a message to other anti-Putin activists, including Boris Berezovsky and Akhmed Zakayev, the Chechen actor, who have been given asylum in Britain asylum that Mr Berezovsky has come close to abusing.”

A day later, on 24 May 2007. The Times published an article by Michael Evans, the Defence Editor, which made a number of important points:

“The Government has decided against making an official approach to Moscow about the suspected involvement of the Russian intelligence services in the murder of Alexander Litvinenko, Whitehall sources told The Times yesterday.”

“The view being taken is that this is a criminal matter, not an intelligence issue, and there is no intention on the part of the Government to focus on anything else in dealing with the Russians over this case, a Foreign and Commonwealth Office official said.”

“During the police investigation into the killing, security sources told The Times that the case appeared to have all the hallmarks of a state-sanctioned assassination. But sources acknowledged yesterday that there was a gap between what was suspected and what could be viewed as ‘a provable trail’.”

“Patrick Mercer, the former Tory spokesman on homeland security said that the Government was ignoring ‘the wider implications’. He said: ‘What worries me is that the Government seems to be trying to treat this as an isolated incident of criminal behaviour but steps need to be taken to ensure that this type of action does not happen again.’”

The Russian Service has clearly decided to ignore this important “side of an argument” and focus solely on the main suspect, Lugovoi, without analysing the whole picture.

2. A specific complaint must be made about the reluctance of the Russian Service to interview well-known critics of President Putin. Akhmed Zakaev, the Chechen envoy living in London is one such example.

It is well known that the BBC is trying to keep interviews with him to a minimum. We enclose a copy of a memorandum from Alan Quartly, BBC Moscow Bureau Editor², to all key Russian news editors and correspondents asking, “can we pass onto programmes not to use Akhmed Zakaev (Chechen envoy in London) as a guest. . . The Russians regard him as a terrorist and are seeking his extradition from the UK, where he currently has political asylum. . . The Russian gov’t [sic] keeps an eagle eye on when the BBC talks to him and then tries to use it against us here in Moscow. There is currently a bit of an issue with the foreign

¹ Enclosure not published for reasons of space.
² Memorandum not published for reasons of space.
ministry about a past interview with him on the BBC Russian Service website. It would be good not to aggravate this.” We hear that the BBC management was very annoyed that Mr. Quartly has put his arguments in writing.

Nigel Chapman has admitted on page 4 of his letter (a copy of which is enclosed) that the Russian Service did not run Zakaev’s interview to BBC News on 14th December 2006 “because there was nothing new in it”. That is an absurd suggestion, because in this interview Zakaev has for the first time suggested that by killing Litvinenko the Russian authorities have tried to silence him as well. After all, Zakaev and Litvinenko not only both opposed Putin’s regime but were friends and neighbours in London. The Russian Service was well placed to interview Zakaev in Russian following his comments to BBC News. This was not the case, however.

In addition, Mr. Chapman’s comments give the mistaken impression that Zakaev was interviewed exclusively by the Russian Service. In fact, Zakaev’s comments that were broadcast by the Russian Service’s news were made by him to a pool of journalists. The only time when the Russian Service interviewed Zakaev on an exclusive basis was for a feature programme, “The Life and Death of Alexander Litvinenko”, produced by Ms. Masha Karp.

3. Two of this letter’s signatories, Vladimir Bukovsky and Oleg (Gordievsky), were also interviewed by Ms. Karp for the same feature, which was the only occasion when they were interviewed in Russian by the BBC during the whole of the Litvinenko affair. This was duly noted by Mark Thompson, who wrote that “you will be aware that the wide range of voices heard over the Litvinenko affair has included both your own and that of your co-signatory Oleg Gordievsky—interviews which were transmitted both in Russia and other countries outside the UK”.

Having listened to the feature, we think it was well-balanced, with comments not only by Putin’s spokesmen but also by a few of his critics. This was the first programme on the BBC Russian Service since Litvinenko’s murder that featured exclusive interviews with Zakaev, Bukovsky and Gordievsky. However, shortly after it was first broadcast, its repeats were cancelled and the audio file was quickly removed from the Russian Service’s website. We have recently learnt that the producer, instead of being congratulated an excellent programme, was actually reprimanded for it! (We don’t know the details of her case because she refused to talk about it when contacted by one of us, but we are sure that our information is reliable as it comes from long-standing and sympathetic sources within the World Service.)

We feel that this type of prosecution of journalistic freedom by the BBC is totally unacceptable and therefore we would have to consider publicising any possible future actions by your management against Ms. Karp, who, we understand, is a long-standing and respected editor of the Russian Service. This is a dark page in the Russian Service’s history.

4. Perhaps for similar reasons, the BBC Russian Service has practically ignored a major interview on Litvinenko’s poisoning which Oleg Gordievsky gave to Michael Binyon of The Times and which was published on 20 December 2006. This interview was important because Mr. Gordievsky revealed for the first time that Litvinenko was poisoned not at the sushi bar but at a hotel where he met some Russian visitors.

Despite this being a major story, which not only was carried by international news agencies and quoted by the world’s press, but which was also followed up with a live interview with Mr. Gordievsky on BBC News 24, the BBC Russian Service has not interviewed this particular long-standing critic of the Kremlin. Instead, the article in The Times was briefly mentioned in one sentence, not as part of the news coverage but in a press review programme, as confirmed by Nigel Thompson on page 3 of his letter.

On page 4, the Director states that Mr. Gordievsky’s comments “wouldn’t serve the public and the case”. As far as “the case” goes, surely that is a matter for the Police, the Crown Prosecution Service and the Courts to decide, and not for the BBC Russian Service, but as for “the public”, this is a clear example of the Russian Service’s editors denying their listeners the right to hear all sides of the argument and decide for themselves. We feel this particular example illustrates a serious breach of the BBC’s own editorial guidelines.

5. Another example of the BBC Russian Service’s pro-Kremlin bias was when it ignored an interview on December 2006 by another co-author of this letter, Vladimir Bukovsky, to BBC Radio 4, in which he talked about Russian legislative measures allowing the Kremlin’s critics to be killed outside Russia and about a list of those critics compiled by the authorities in Moscow. BBC News thought the interview newsworthy and featured it as part of the news coverage on that day. The BBC Russian Service, however, did not mention it because, as Mr. Chapman states in his letter, “the issue was covered previously by the Service... the list was mentioned as early as on 24 November [sic].” We find this justification very odd as the Russian Service obviously has no difficulty in repeatedly broadcasting Russian officials’ views about the murder of Litvinenko broadly consisting of the same points and repeating what has already been said. However, when it comes to comments made by a well-known and long-standing critic of the Kremlin, the Russian Service denies them a platform.

6. The BBC Russian Service seemed determined to undermine any news items or programmes produced by the main BBC channels that seemed to its editors to be too critical of the Russian authorities. For example, on the eve of the BBC Panorama programme about Litvinenko’s murder (22 January 2007), the
Russian Service thought it necessary to post an article on its website alleging that British journalists do not understand the case (a copy is enclosed, marked “Litvinenko—Comment & Analysis”). It used an exclusive interview with Andrew Jack of the Financial Times to say that the British media do not understand Russia properly and, therefore, will not get to the truth about Litvinenko’s murder.

It is most interesting to note how the Russian Service’s editors used the captions under the two photographs in this article. Under one, featuring Alexander Goldfarb, Alexander Litvinenko’s friend, it was stated “Alexander Goldfarb was the British media’s main source of information about the Litvinenko’s case”. Under the second, featuring Oleg Gordievsky, it said “Former KGB colonel and defector Oleg Gordievsky is one of a group of ‘Litvinenko’s friends’. It must be categorically stated that none of the two captions (and their sarcasm) represented quotes from Andrew Jack’s interview but that they were clear expressions of the Russian Service’s own biased position and opinion. We see in this another breach of the BBC’s editorial principles.

7. Nigel Thompson has confirmed in his letter that a number of important BBC News items on the Litvinenko case were never included in the Russian Service’s own news bulletins or were downgraded in importance. It looks as though some editors at the Russian Service have attempted to tone down news coverage of the Litvinenko crisis, particularly in its initial stages, which coincidentally tied in very well with the official Kremlin line, which stressed the apparent insignificance of Litvinenko and the irrelevance of his death to Russian- British bilateral relations.

We have undertaken random spot checks of both BBC News and the Russian Service’s news websites, the content of which, we understand, closely reflects the running order of the main news bulletins of both media channels.

We have found that whilst BBC News ran stories related to the murder of Litvinenko as the number one news at 14:00 on 27 November 2006 (“Three to be tested for radiation”) and at 12:00 on 30 November 2006 (“BA planes undergo radiation tests”), the BBC Russian Service did not run any top stories at all on Litvinenko at those times. Mr. Chapman confirmed on pages 7 and 8 of his letter to us that the Russian Service did not run these stories as part of its main news bulletin.

Other inconsistencies found were as follows:

24 Nov 2006, 17.00
BBC News: “Radiation tests after spy dies”
BBC RS: “Litvinenko ‘died of radiation’”

Core differences:
— The BBC RS does not quote from Litvinenko’s statement that accuses Putin of his death.
— Does not mention polonium-210
— Runs extensive quotes of the Russian President denying any claims of his government’s involvement.

26 Nov 2006, 18.00
BBC News: “Advice sought after ex-spy death”
“Hundreds of people have called the NHS Direct hotline following the death of Russian ex-spy Alexander Litvinenko”
BBC RS: “British minister criticises Putin”
“Peter Hain told the BBC that Putin’s successes are threatened by the attempts to limit individual freedoms and democracy.”

Core differences:
— No mention of Mr. Reid’s statements, no mention of the NHS hotline,
BBC News—“Radiation found at 12 locations”
BBC RS—“The case of Litvinenko: investigators’ interest in five planes”

30 Nov 2006/ 18.15
BBC News—“Radiation found in 12 locations”
BBC Russian Service: “The case of Litvinenko: traces of radiation are ‘hardly dangerous’”

1 Dec 2006
BBC News—“Contact in positive polonium test” (about Mario Scaramella)
BBC RS—“The case of Litvinenko—post-mortem is in progress”

Core differences:
RS calls Litvinenko “a vehement critic of the Russian authorities as a whole”—a misleading description that makes him sound unreasonable.
Does not include a very important fact, fully cited by BBC News, that Scaramella is involved in an Italian parliamentary inquiry into KGB activity.
RECOMMENDATIONS

First, we would like to look at the possible reasons for the situation at hand.

One reason for the weakening of the BBC Russian Service we see in the way it allowed itself to be effectively corrupted by broadcasting through state-controlled Russian radio channels. It has just started a joint venture with the Big Radio network together with The Voice of Russia, a propaganda news radio station, both owned by the Russian government. For some years now, the BBC Russian Service had been making friends with the Russian authorities and signing re-broadcasting contracts with numerous Russian radio stations, all under the ultimate control of the Kremlin. It is not surprising that Russian producers have to be much more careful now in what they say in their reports because there is always a chance of the Russian Service being taken off the air by the authorities in Moscow. This is exactly what happened during the Litvinenko’s crisis—the BBC Russian Service was silenced in Moscow and St. Petersburg, despite its weak performance, compared with the main English-language BBC News.

Another possible reason is that the BBC Russian Service is effectively under the management of two former high-profile Soviet journalists: Alexey Sololubenko, Deputy Head of the region (a higher position than that of the Head of the Russian Service) and Andrei Ostalsky, the Editor-in-Chief of the Russian Service.

According to our information, Mr. Sololubenko was a senior officer of the foreign broadcasting services (inoveshchanie) at Radio Kiev, working on state Soviet propaganda broadcasts to foreign countries. It is very likely that someone in his position had to have regular contacts with the KGB.

Mr. Ostalaky was a deputy editor of Izvestia, the second most important newspaper in the Soviet Union after Pravda. He was also a correspondent of TASS (the USSR’s main news agency) in Iraq. In either of these jobs he is likely to have had regular contacts with the KGB. Moreover, in his post at Izvesia, his responsibilities may well have included reporting on his colleagues to the KGB.

8. At a time when former KGB officers are effectively in control of the Kremlin and the Russian media, it is unthinkable that the BBC Russian Service can retain any degree of objectivity when it is led by people with this widely known past and reputation.

Therefore we recommend immediate action enabling the BBC Russian Service to gain more independence from the Russian government. This can be achieved by investing more in their medium wave transmitters and lobbying for its own FM wave in Moscow and St. Petersburg—something that the US-funded Radio Liberty, BBC’s competitor in Russia, already enjoys. This way it will be able to move away from the joint venture with the state broadcasters, such as the Big Radio.

The Russian Service is also in urgent need of experienced journalists from the areas of the BBC who can exercise better editorial control in order to ensure that news coverage is better balanced than in the aftermath of Litvinenko’s murder. It may not be practical to reintroduce pre-employment screening, as was the case during the Cold War, but the Russian Service’s independence and objective news reporting should not be undermined by journalists with a questionable past. Such journalists should not occupy key positions.

We have written this letter in the belief that a more robust BBC Russian Service would play a very important and helpful role in the coming decades.

Letter to Vladimir Bukovsky, Martin Dewhirst, Oleg Gordievsky and Viktor Suvorov from Nigel Chapman
Director, World Service

I am in receipt of your letter dated 1 June 2007 that you copied to me whilst sending to the BBC’s Editorial Complaints Unit.

As I believe they informed you, the BBC’s World Service was asked to oversee an investigation into the complaints that you raise regarding the BBC Russian Service. We have done this and the findings are indicated below.

It is worth pointing out at this stage that your letter follows a previous complaint sent to the BBC on 4 January 2007 by Mr Oleg Gordievsky (one of the co-signatories to the current letter). Several of the points raised in this current letter were covered in my response to Mr Gordievsky on 25 January 2007. Therefore, where such points are raised again, I will be making this clear in my current response. Where fresh points are raised, these have been addressed in the investigation and are included below.

As I have previously stated, we take adherence to the BBC’s Editorial Principals and Guidelines very seriously, regardless of the language service for which the content is produced.

We also take seriously the complaints procedures we have in place, and the current investigation—as well as the previous one—were conducted against this backdrop.

The investigation was led by our senior team and overseen by Nikki Clarke, Head of the Americas and Europe department in World Service and, therefore, the overall editorial leader for language services such as the Russian Service.

I am pleased to say again that, during our investigations, we could not find any evidence which substantiated your argument that “the BBC Russian Service (has a) weakening ability to report objectively about Russia".
The investigation also did not find any evidence that the Russian Service is “too often much weaker than the main BBC News in reporting on Russia”. The important point to note in this regard is that the BBC Russian Service and the main domestic BBC News outlets have quite different audiences. The BBC Russian Service would not be doing its job if it did not at all times put its audience at the heart of what it does. Its audience has a much better understanding of Russian stories than a British domestic audience would generally have, and therefore it is to be expected that the way in which the Russian Service team covers the stories would have different levels of context and detail to that of domestic news outlets.

However, I stress that this does not mean a dilution of BBC editorial principals. These are the guiding light by which all BBC journalists work.

In this context, I would like to address some of the issues you raise in the opening preamble to your letter. You state that “Nigel Chapman’s letter (of 25 January 2007) has only confirmed that the Service has systematically dropped or downgraded certain BBC news items about Litvinenko from its own news bulletins”. I would like to categorically state that I made no such statement in my previous letter, and find your interpretation of the answers I gave misleading.

Also, you state that “at times of crisis, the Service seems ready to compromise its editorial principals and refrain from putting difficult questions to the Russian authorities, presumably I order to help the BBC to avoid potential difficulties in Russia”. This again is not a view I share, based on the outcome of the current and previous investigation into the complaints you raise, of which more below. However, I think one very compelling argument against this interpretation of the situation is that, as you know, the BBC lost two of its FM broadcasting partners in Russia last year. Radio Leningrad stopped broadcasting for a period on 13 November it resumed transmission again on December 1st and then stopped permanently on 18 January 2007. Radio Arsenal in Moscow took the Russian Service output off the air permanently on 24 November. Its reporting of the Litvinenko affair, as I have previously stated, was robust. It is hard to see how we would have lost the FM broadcast partners had our reporting been as “partial” and “unbalanced” as you suggest.

As you state towards the end of your letter, we have since entered into another FM arrangement in Moscow with Bolshoye Radio and in partnership with Voice of Russia. FM distribution, together with our MW broadcasts and audio stream, are a very important way for us to reach our audience. The Russian Service team continues to report Russian and other stories in the same robust manner. The Russian Service’s output is regularly reviewed as part of the BBC’s editorial processes and, while there are always learning points that these reviews identify, there has been no point at which the service has been criticised for its lack of impartiality.

Before I address the specifics points you raise as examples to illustrate your concern, I would just like to respond to the final point in your opening preamble, which concerns the BBC Arabic Service and “concerns about the editorial standards”. I would like to be quite clear that no such concerns have been communicated to me. If you have specific issues to raise in this regard, I would be pleased to respond to them.

Investigation

I will respond below to the specific points you raise.

Examples of pro-Kremlin bias

1. I have responded previously to the allegation that the BBC Russian Service denied a platform to some of the Kremlin’s critics. This is addressed in point 3 of my letter of 25 January.

However, we have looked again at the video section of the aggregated web page of “Litvenenko—Comment and Analysis”, a copy of which you have enclosed with your letter. This section of the website is an aggregation of all the material that bbcrussian.com has produced on the Litvinenko story. It includes a lot of text, and a comparatively small number of video pieces.

There is a wide range of stories on this page, and therefore it is hard to conclude that the Service has not reflected a balance on the Litvinenko story, and that the service editors “seem to have taken a conscious decision not to include similar clips representing the other side of the debate.”

Stories on the analysis section include:

Russia-West spy games continue- by our analyst Steven Eke. He talks about the increasing numbers of Russian agents in the West, as well as the increase in investments by the Russian state into all sorts of secret and intelligence services. http://news.bbc.co.uk/hi/russian/russia/newsid 6212000/62_12622.stm

“Polonium 210 is hard to get. Easy to use” by BBC correspondent Paul Rincon. This article suggests that it’s quite possible the polonium used to poison Litvinenko was produced in Russia.


Return of the license to kill—by our staff writer Artem Krechetnikov, who writes about past cases when Soviet and then Russian intelligence was “eliminating” its enemies abroad including the killing of Yandarbiev in Quatar. It also reminds readers about recent decree of President Putin giving card-blanche to similar operations abroad.
http://news.bbc.co.uk/hi/russian/russia/newsid 6180000/61_80704.stm

Finally, there is a big article which is a collection of quotes from different people about Litvinenko’s murder. Among those quoted are Walter Livinenko (father); Andrey Nekrasov (friend); Akram Murtazaev (editor of the book “FSB is blowing up Russia”)

http://news.bbc.co.uk/hi/russian/russia/newsid 6179000/6179856.stm

However, while it is clear that the video subjects do reflect not one approach but several aspects of the story, I take your point that the choice of video pieces does not include someone close to Litvinenko’s circle of family and friends. This would have been a useful addition to the video coverage.

You write: “In its desire not to be seen in Russia as controversial, the Russian Service has failed to address properly a key question in the murder of Litvinenko—whether it was organised by the Russian Security Services”.

I have responded to the first part of this sentence in my comments above. However, on the second point, I would like to address your examples of The Times editorial on 23 May, and a subsequent article on 24 May in The Times by Michael Binyon.

The 23 May editorial was quoted extensively in the press review on that day (including the quote the killing of Litvinenko was a disgraceful attempt on the part of the FSB to silence the critics of the Kremlin, the paper says), aired in our morning programme Utro na BBC, and published on the website.

http://news.bbc.co.uk/hi/russian/uk/newsid 6682000/6682613.stm

The 24 May article was also quoted in that day’s press review, much along the lines that you quote in your article. I would like to point out that the press review from that day features a prominent photograph and quote from Mr Gordievsky.

http://news.bbc.co.uk/hi/russian/uk/newsid 6686000/6686369.stm

2. You write that the BBC Russian Service is reluctant “to interview well known critics of President Putin. Akhmed Zakayev, the Chechen envoy living in London, is one such example”.

There is no such reluctance to interview Mr Zakayev. Indeed our British affairs reporter interviewed him directly after the death of Mr Litvinenko, along with Alexander Goldfarb and others. This was addressed in my earlier letter to Mr Gordievsky (point 4). That letter also addressed the point regarding the 14 December interview with Mr Zakayev by another BBC outlet.

You also refer to an email from the Moscow bureau chief, dated 24 November 2005. This email formed part of internal editorial discussions, and has been taken out of context. It does not represent BBC policy, and since that time Mr Zakayev has been interviewed by several BBC outlets including the BBC Russian Service.

3. You refer to a feature produced for the Russian Service which is currently the subject of internal review.

As this is the case, it would be inappropriate for me to comment further.

4. You state that “the BBC Russian Service has practically ignored a major interview on Litvinenko’s poisoning which Oleg Gordievsky gave to Michael Binyon of The Times and which was published on 20 December 2006”.

This was dealt with in my letter to Mr Gordievsky of 25 January (point 3). The one additional point I would make is that, for the reporting of substantial and complex developments relating to an investigation by police or security forces, the BBC would tend to rely on its own correspondents for authoritative insights into the progress of the case. It is the job of such correspondents to be in constant contact with the police and investigating bodies, and to explain developments to the audience. It’s unlikely that we would want to broadcast claims on a substantial development in the investigation from a source unconnected to the investigation itself.

5. You state that the BBC Russian Service “ignored an interview on 10 December 2006 by another co-author of this letter, Vladimir Bukovsky, to Radio 4, in which he talked about Russian legislative measures allowing the Kremlin’s critics to be killed outside Russia and about a list of those critics compiled by authorities in Russia”.

This was addressed in my letter to Mr Gordievsky of 25 January (point 6).

6. You state: “The BBC Russian Service seemed determined to undermine any news items or programmes produced by the main BBC channels that seemed to its editors to be too critical of the Russian authorities”.

You refer to an interview conducted by the Russian Service with the former Financial Times bureau chief in Moscow, and respected author on Russia, Andrew Jack. This interview was broadcast and appeared on the website on 22 January 2007, as a complementary piece to the report on the Panorama programme on Litvinenko’s murder. Having read a re-translation of the interview in English, I do not find that this piece in any way undermines the Panorama programme as you state. Rather I find it a useful addition, bearing in mind the Russian Service audience which we must do at all times, to explain the British media interest in the story, how it has been covered in the UK press, and what insights, if any, the Panorama programme
revealed. Given on that day, there was no particular “news peg” for the Litvinenko story apart from the Panorama programme, the decision was taken to cover this as a media story, rather than a significant development in the Litvinenko case per se.

Article on Panorama programme
http://news.bbc.co.uk/hi/russian/uk/newsid_6286000/6286061.stm
Andrew Jack article
http://news.bbc.co.uk/hi/russian/russia/newsid_6288000/6288955.stm

You refer to two captions—one accompanying a photograph of Alexander Goldfarb and another accompanying a photograph of Oleg Gordievsky.

Для британскик СМИ основным источник o деле Литвиненко был Александр Гольдфарб
For the British media, Alexander Goldfarb was the main source of information about the Litvinenko case.

В группу "друзей Литвиненко" входит бывший половник КГБ, иеребежчик Олег Гордиевский
Former KGB colonel and defector Oleg Gordievsky belongs to a group of “Litvinenko friends”.

Captions, by their nature, are short and therefore unlikely to encompass all nuances of a particular story. However, I tend to agree in this case that they could have been improved.

I think a more accurate reflection for the first one, given that the British police and security sources would have been the main source of information for the British media on this case, would have preferred been: “For the British media, Alexander Goldfarb was one of the main sources of information about the Litvinenko case”.

And for the second one, we agree that inverted commas were unnecessary.

I think in this case that inverted commas were unnecessary.

However, I do not find grounds to assert, as you do, that “they were clear expressions of the Russian Service’s own biased position and opinion”, or that they breached BBC’s editorial guidelines.

You state that “Nigel Thompson (sic) has confirmed in his letter that a number of important BBC News items on the Litvinenko case were never included in the Russian Service’s own news bulletins or were downgraded in importance.

I have addressed this point at the beginning of this letter.

Additionally, it is hard to see that the BBC Russian Service tried to “tone down news coverage of the Litvinenko crisis”. The service covered the story comprehensively from day one, as I made clear throughout in my previous letter to Mr Gordievsky (see point 7 in particular, and continuing). The story continues to be a very important one for the service and the audience, and we report on it as and when developments occur.

The various other specific examples that you raise were all addressed in my letter to Mr Gordievsky of 25 January 2007.

I hope you will agree.

8. You suggest various recommendations towards the end of your letter.

I have referred to the one FM partnership we have in Moscow at the beginning of this letter. We have no other FM partnership arrangements in Russia.

I am happy to hear your suggestions for the other avenues we could pursue in Russia. However, as I’m sure you’re aware, although we are constantly looking for ways to bring our content to our audience in high quality, finding these possibilities in Russia is not straightforward. You’ll be pleased to hear that we are investing in our MW transmitters already as you suggest, and currently have a project underway to improve the quality of the Moscow MW signal. However, the likelihood of the BBC’s own FM frequency in Moscow is not very high. Frequencies are awarded through competitive tender, and the spectrum is already very full.

Finally, I would like to address your points about two senior editorial figures in the BBC World Service—Andrei Ostalsky and Olexiy Solohubenko. Both of these men are highly respected journalistic leaders and operate to the highest standards of BBC editorial policy.

As I made clear in my last letter to Mr Gordievsky, the BBC is only too happy to engage with members of the public on editorial matters, and to answer questions about our output. However, it is not appropriate for it to receive libellous and hurtful comments about its members of staff. In that letter, I expressed concern about some of the personal remarks made by Mr Gordievsky about staff members, and particularly the tone in which they were made. I’m sorry to see that similar remarks and allegations have been made again. I strongly suggest that in the future, you refrain from making personal attacks on members of BBC staff.

In summary, I should say that I found no basis on which to uphold your complaint of a systematic lack of balance within the BBC Russian Service. This investigation has highlighted two specific issues that I will be taking up with the team; one around the video coverage of the Litvinenko story; and one about being more careful with captions. I thank you for drawing these to my attention, and I take this opportunity to thank you for your interest in the BBC Russian Service.

26 July 2007
Tuesday 17 July 2007

Members present:

Mike Gapes (Chairman)  
Mr Fabian Hamilton  
Mr John Horam  
Mr Eric Illsley  
Andrew Mackinlay  
Sandra Osborne  
Mr Ken Purchase

Witness: Lord Ashdown of Norton-sub-Hamdon GCMG KBE, High Representative for and EU Representative in Bosnia and Herzegovina (2002-06), gave evidence.

Q176 Chairman: Lord Ashdown, welcome. May we first thank you for coming along this afternoon to talk to us about our inquiry into the Foreign and Commonwealth Office annual report? We decided that it would be useful to have non-diplomatic commentary on the annual report, as well as commentary from current members of the FCO staff, so we are grateful that you found time to come along. Perhaps I could begin by asking you some questions relating to your experience in the Balkans.

Lord Ashdown: I should like to differentiate between the assessment of the Foreign Office’s work in the Western Balkans and the assessment of the Western Balkans. I have a high regard for the work that the Foreign Office has done in the Western Balkans and particularly in Bosnia and Herzegovina. It was a tremendous assistance to me. In so far as I was able to achieve some things in Bosnia—I made some mistakes too—it was in large measure because of the huge support provided by Her Majesty’s Government through the Foreign Office. It was also because of Washington’s support. But the Foreign Office staff were unstinting, generous and they did that most remarkable thing: they even backed me when they thought that I was wrong, which is a very good thing to do. I am very grateful to them.

I think that the ambassador in Sarajevo, Matthew Rycroft, is an exceptional ambassador. He gained, even in my time there when he was relatively newly arrived, a huge and very widespread respect. I do not think that it is an exaggeration to say that he is probably, among all sides, one of the most respected, if not the most respected, ambassador in Bosnia. He carries a huge amount of weight there.

I think that the Foreign Office’s policy, by and large, in the Western Balkans has been effectively carried out. So, yes, I think that amber is a good judgment. Perhaps I might even be a bit more optimistic than that in terms of what I have seen. If there is a flaw and fault in the Western Balkans in international foreign policy, it lies in Brussels, not in London. The lack of co-ordination and sufficient muscularity for conditionality, putting the wrong people in the wrong jobs, the lack of an overall regional policy towards the Western Balkans and its penny-packet policies that apply to each country have left a situation where I fear the Western Balkans has gone backwards in the past 18 months. I am gloomy about that.

I always used to say that Bosnia and Herzegovina was held in place by two electromagnetic forces: one was the push of the Bonn powers, which did diminish, had to diminish and should have continued to be diminished and the other was the magnetic pull of the Brussels institutions. The one thing that everyone is agreed on is that they want to get to the Brussels institutions, to NATO and the European Union. We have turned off the use of the Bonn powers under my successor completely. I do not say that that was necessarily a wrong judgment, but at the same time there has been a visible weakening of the magnetic pull of the European institutions. Above all, in the chancelleries of Europe there is, and this is well recognised in the Balkans, a lack of enthusiasm and perhaps even a growing feeling that we do not want the Western Balkans in. That has had a disastrous effect.

I think that Bosnia has gone backwards, not because I have left. They may be coincidental events, but I do not think that they are more connected than that. If the Committee has not read the latest International Crisis Group report on Serbia, I commend it to you. It says that Serbia is moving increasingly to a position that is anti-European and pro-Moscow. Our policy of trying to appease some of the forces in Serbia has weakened our friends, like Boris Tadic, and strengthened our enemies, like Vojislav Seselj. Our failure to take a clear and distinctive position on Kosovo has left open territory for the radicals in Serbia to play upon, and, indeed, for Moscow to use. Moscow’s position is more understandable. I realise that you are coming on to that, Chairman.

The Foreign Office has done well in the Western Balkans; Brussels has done badly in the Western Balkans, and I fear that the Western Balkans is going backwards. One final word, I do not say that the danger is that Western Balkans will return to conflict. That is not even likely or possible. The danger is that the Western Balkans will become an ungovernable black hole in the middle of Europe—let us recognise that it is now inside Europe, not beyond it—through which criminality and instability will be imported into the European Union. I am very pessimistic about the outcome of that.

Q177 Chairman: We will get some questions on Bosnia and Herzegovina specifically in a minute, but two of us were in Kosovo last week with the Committee. I should be interested in your...
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assessment of what is likely to happen on Kosovo. Do you expect a Security Council resolution, and if not, what do you think is the likely scenario if there is no Security Council resolution?

Lord Ashdown: I cannot tell you whether I expect a Security Council resolution or not. I can tell you that we should have grasped this nettle long ago. In foreign policy, as in politics, if there is only one solution, we need to adopt that sooner rather than later. The truth is that Kosovo could never again be governed by Belgrade. That should have been evident to us in 1999; it is the one thing that cannot happen. By leaving that gap—that vacuum—which was the only place that people wanted an answer on, we have allowed the forces of destruction or destructiveness in Kosovo, rather than the forces of constructiveness, to have a gathering point.

I understand that you will speak to Ivor Roberts in a minute. He will have a different view on this if you ask him about it, and he is extremely knowledgeable on these issues, but my view is the Ahtisaari plan is the best plan—the only plan that is likely to have effect. My view is that it has something in it for all sides. My view is that, inevitably in the end, we have to come to this and the sooner we do it, the better. How that happens is a difficult issue. My own judgment is that Belgrade no longer views Kosovo as part of its homeland; it regards it as an important monument, but not as part of its homeland. I think in the end Belgrade will accept that Kosovo will move towards some kind of independent status through whatever mechanism is possible.

The unanswered question, of course, is: what will the reaction of Moscow be? I suppose that calculations about a UN Security Council resolution turn on that question. My judgment has always been that Moscow, with proper and legitimate concerns about the precedents that this may establish for Transnistria, for Abkhazia and so on—we should not be deflected by those concerns, but we should certainly understand them—is more likely to veto than to oppose, but I cannot be certain of that.

The other thing I cannot be certain of is to what extent there are European nations—that is, nations within the EU—that would take a different view on this. Are we going to have European solidarity on this issue, never mind Security Council or P5 solidarity? I am not sure about that answer.

Q178 Andrew Mackinlay: Looking again last week at the map, I realised how close or coterminous the Republika Srpska is with Serbia. It struck me that it would be very difficult to grant or tolerate independence, either granted, managed independence for Kosovo, or a UDI Kosovo. That would put enormous strains on the work you have done in Bosnia and Herzegovina as regards the Republika Srpska: people would want independence or to join Serbia, surely.

Lord Ashdown: Mr. Mackinlay, I absolutely reject that. I have to say I completely and wholly reject it. These are two completely different cases. Bosnia is a country that goes back to the middle ages. It sent knights to the crusades. It is a country that has existed and is recognised by the United Nations today. Is it, then, the case that we should reward the Serbs for their murder and atrocities in governing Kosovo, where they lost both the moral and the practical right to govern their country, by giving them a piece of an established country? Absolutely not. I do not doubt that there are some people in the wildest fastnesses of eastern Republika Srpska, and perhaps some in the back offices of President Kostunica, who warm themselves on chilly nights by pretending that that is a possibility, but it is not a possibility. These two are completely unconnected.

The fact of life is that, in so far as a precedent will be established by the independence of Kosovo, that precedent is already established. There are many cases in history in which a country, by its behaviour to some people under its government, loses the moral and practical right to govern that piece of its territory. We know of one—Ireland. Because of the way we governed Ireland for four centuries, we lost the moral and practical right to continue to govern Ireland. That did not mean to say that other pieces of other countries should be handed over as well. Here is the fundamental fact. The fact is that the Serbs lost the moral right to govern Kosovo, where they are probably 5% or perhaps at the most 10% of the population, and then soaked it in blood. Should they be rewarded for that by giving them a piece of another country? That is the moral position.

There is one thing that will return the Balkans to war, which is if you try to hand Republika Srpska back to Serbia. Then you will find the Muslims, and others probably too, in Bosnia. What will you do with Brcko, which sits in-between? What will you do with the Muslims who have returned to Srebrenica and those who are now a majority in Kozarac, where all the death camps were? Are you going to hand those people over too? It is simply not to be accepted. One of the faults of the international community is its failure to make that absolutely crystal clear. I do not seriously believe that there are people today in Serbia who believe that they are about to be able to be handed Republika Srpska as some kind of compensation for their monstrous crimes in Kosovo, let alone their monstrous crimes in Bosnia. I reject that completely, and the sooner the international community makes it clear the better.

By the way, if you do that, where are you going to stop? Are you going to say that the Muslim majorities in the Sandzak part of Serbia, and in the north of Montenegro, should become—

Q179 Andrew Mackinlay: With respect, I think that you have slightly misunderstood my question. I understand the moral case and, indeed, have some sympathy for it. The question was a genuine one: would there be a demand not from Serbia seeking it back but from people in Srpska itself, seeking—

Lord Ashdown: There would be a demand, and of course there was a demand for it when I was there, but it is a demand that we should reject. I always said that it would be easier for me if the matter were made crystal clear by the international community. That
demand will not melt away, and I do not say that there are not some people who are making it, but we should not give it house room.

**Q180 Andrew Mackinlay:** That is noted, and I think that it is a good point. You also said in your introduction—I am paraphrasing—that you have some sympathy for the Russian position that, if you grant independence to Kosovo, what about the Russian minorities in Transnistria and other places? They say that they were part of the Helsinki final act. I understand the British Government saying, “Kosovo is an exception”, but we surely cannot ignore Russia’s legitimate case.

**Lord Ashdown:** I do not think that we can ignore the fact that the Russians’ concerns are legitimate, although I do not think they are on anything like the same parallel. On the idea that you cannot establish a precedent and redraw a border, what about Macedonia? We established a new country in Macedonia. The Greeks did not like it very much, but we drew some new borders in Macedonia. The truth is that history imposes certain imperatives. If the one thing that we know cannot happen is Kosovo being governed again by Belgrade, we have to face that reality. No one, except some in Belgrade, proposes that somehow or another Kosovo should be governed by Belgrade again. I have never heard anybody propose that seriously. The one thing that can never happen is Kosovo being ruled by Belgrade, which is what Belgrade desires. We need to accept that and move on from there to consider what other solution there is. There is only one solution: moving towards an independent position under a managed democracy under the international community. That is why the Ahtisaari report represents something relatively close to common sense.

**Q181 Andrew Mackinlay:** If we cannot get a Security Council resolution, what happens then?

**Lord Ashdown:** Then you are in a very difficult situation. I guess that the United States independently recognises the independence of Kosovo. I guess that other countries follow suit and that most of the major countries of the European Union do so, but I guess that some do not. Then there is a division in the EU. We need to recognise that, but it does not alter the fundamental fact that Kosovo cannot again be governed by Belgrade. Whatever policy you draw up, it has to take that into account, not pretend that it is somehow possible to reverse history.

**Q182 Sandra Osborne:** Can I ask you a question as a previous incumbent of the Office of the High Representative? You referred to the Bonn powers, but you have also previously said that there should be a gradual passing over of the tasks of the Office of the High Representative to the Bosnian authorities. In that regard, do you think that the UK was right to support the extension of the office and powers of the High Representative beyond 2007, and do you think that it will be possible to close the office by June 2008?

**Lord Ashdown:** No, I do not think that they were right, actually, and I said so to the British Government at the time, but I accept that that is the way that the international consensus was going. I suspect that the UK Government did not think that it was the best policy, either. The truth is that if you have these powers and do not use them, which was the position that I got myself into at the end, when I used them only once or twice, they become less and less possible to use. It is far more dangerous if one possesses them in theory but not in practice.

My successor, Mr. Lajčák, who is now in the Office of the High Representative, has used them. Maybe we can resuscitate some utility from them, but I shall not hide from the Committee that my view was rather similar to the view of the ICC at the time—that the best thing to do was to dispense with the Bonn powers completely and rely on the magnetic pull of the EU, as the driver for reforming change in Bosnia.

What I was not to know was that that magnetic pull itself would diminish. That was the great mistake. I was opposed—privately, of course—to the maintenance of the Bonn powers. I would have preferred to see it go to a European special representative, but that depended on whether Brussels was prepared to exercise the conditionality leverage available to it through the Stability and Association Agreement process, and Brussels has not seemed prepared to do that. With the benefit of hindsight, maintaining the Bonn powers might have been the right decision. Is it possible to close the OHR? Yes, and it is probably necessary.

**Q183 Mr. Hamilton:** May I move on to constitutional reforms? During our inquiry into the Western Balkans, when you last gave evidence to the Committee, you told us that the constitution had to be reformed: “You have a state in which there are far too many layers of government.” In our report, we agreed that the international community should not impose a new constitutional structure from outside but should nurture state structures that would make reform easier.

As you know, new talks on constitutional reform were held in Washington in November 2005, the 10th anniversary of the Dayton agreement. It was agreed to increase the powers of the Prime Minister and add two ministries to central Government, but the talks came unstuck on the issue of creating a unified presidency. How optimistic are you that Bosnia and Herzegovina will be able to reach an agreement on constitutional reform and is the UK doing enough to support such reform?

**Lord Ashdown:** I think that, in the end, it has to happen. Leaving aside the question of corruption, the failure of functionality in Bosnia is now the biggest threat to the state, bluntly. The state spends about 70% of its very poor citizens’ taxes, in some cases, just on governance rather than on citizen services. One cannot build up loyalty to the state under those circumstances, so in the end it has to
happen. I am pretty depressed about the fact that it has not even begun. The steps that you described—strengthening the Prime Minister and so on—were minimal first steps that all of us saw as part of a process that would enlarge. But even they have proved unachievable.

I seem to have it in for Brussels today. I hate to add to that, but the fundamental mistake—we tried to point it out to Brussels—was that Brussels, for reasons that I do not understand but that I think were largely bureaucratic, decided not to make constitutional change a condition of the SAA. In so doing, it completely lost its leverage to drive forward the process. It was left to the United States' powers of persuasion—I remember being in Washington and hearing the distant but unmistakable sound of bones cracking when it was being negotiated. Brussels decided, for some reason that I honestly do not understand, that it was not prepared to say that, in order to join the European Union and be part of the SAA process, the state had to have a certain minimal level of functionality, meaning that constitutional change was part of the SAA.

I have always regarded Europe as a union of values, but also as a union of systems. I do not understand why our one greatest leverage to drive forward the process of constitutional change that Bosnia needed so badly was abandoned by Brussels. If Brussels is prepared to make constitutional change a key requirement of the SAA and is prepared to be serious about it, we will give ourselves back the leverage to drive the process forward. I understand that Mr. Lajčák—in my view, absolutely correctly—has decided to put priority on police reform because it opens up routes to the SAA, but his next priority should be, and probably will be, constitutional reform. If Brussels throws its weight behind it, it can still be done.

Q184 Mr. Hamilton: Are we in the UK doing enough?

Lord Ashdown: I think that, unless the European Union is prepared to exercise that leverage, the British Government cannot. But I suspect we are doing as much as we can within less than optimal circumstances.

Q185 Mr. Hamilton: May I move on, Lord Ashdown, to nationalism, which is involved here? The Foreign and Commonwealth Office’s annual report notes, “In Bosnia, the elections in October 2006 saw an increase in national political rhetoric and less progress in key reforms than previously.” The Government and their EU partners should foster civil society and increase the stake of the Bosnian people in the political process by encouraging the integration of Bosnian politicians into the European mainstream, but can the United Kingdom Government have any impact on the levels of nationalist rhetoric in Bosnian politics, and do we actually have any place in trying to do so?

Lord Ashdown: Nationalistic rhetoric always rises during election periods. You do not have to go to Bosnia to find that; you will find it in lots of other places too. But I think it is true to say that in the person of Milorad Dodik and his mirror image on the Bosnian side, Haris Silajdžić, you have two people who have raised the nationalist rhetoric in Bosnia. There is a sort of Newtonian law in the Balkans that action and reaction are equal and opposite. It is a bit like the Protestants and the Catholics in Belfast: if one does something and can get away with it, the other does it too. I think it was a mistake to allow Milorad Dodik to call for referendums that were clearly against the Dayton agreement. That would have fractured Bosnia and was extremely dangerous, but he was not suppressed and told that this was unacceptable in sufficiently powerful terms by the international community and—to and behold—the Muslim community on the other side responded to that. So, you had this equal and opposite reaction in terms of the heating up of nationalist rhetoric.

Is there much the British Government can do? I think we are doing quite a lot—Westminster Foundation for Democracy work, etc.—to build the civil society. I think we are doing quite a lot through our ambassador and through the British Council to try to encourage the process of reconciliation. But that can only take place within a structure and functionality of the state within which people can work. In the absence of that, these will be rather small weights on the other side of the balance, in comparison with the sense of dysfunctional and maybe even dissolution that has occurred as a result of the rise of nationalist rhetoric in Bosnia.

Q186 Mr. Purchase: May I explore a little further the question of nationalism within Bosnia? It is always difficult to see real democratic processes when nationalism is involved. But is that wholly nationalist, or is it underpinned by an ethnic dimension and perhaps even religious intolerance?

Lord Ashdown: The truth is that I do not know which of these two forces is the more powerful, Mr. Purchase. My own view is that religion has always been a vehicle for nationalism. If you look at religion in Northern Ireland, you find very strongly that that is the position. So I think what marches hand in hand with nationalism is religious intolerance and ethnic intolerance, and those are the by-products of it. So yes, they are very much connected.

Q187 Mr. Purchase: Are we right to characterise it as nationalism, then?

Lord Ashdown: Yes, I think you probably are right to characterise it in that way.

Q188 Mr. Purchase: Are we in denial about something here—about a really nasty side of what went on?

Lord Ashdown: There is a nasty side, but it is going to take time to get over that. The truth is that the nature of nationalist parties changes. If you look at the Hrvatska Demokratska Zajednica in Croatia, it started off as a nationalist party, but became a European party. I think the process of politics alters. What starts off, straight after a liberation struggle or a nationalist war, is that people gather together in political parties that call themselves nationalist, but...
they are actually broad coalitions of people who are pursuing a certain aim. Then, after a while, they tend to disaggregate into their basic political structures of left, right and centre—or call it what you will. That process was happening.

The HDZ—the Croatian nationalist party in Bosnia—is more fractured internally between the nationalists and the reformers. The same is true of the Stranka Demokratske Akcije—the Bosnian national party. The same was true of the Serbs. The truth is that Milorad Dodik, who defeated the SDA—the Serb nationalist party of Karadzic—was nominally a non-nationalist, but he won. You would therefore assume that the Serbs were less nationalist under Milorad Dodik than under the SDA, but that is not true. Seeing things through the prism of nationalism does not always give an accurate picture; other forces are at work as well, such as pro-Europeanism and the natural processes of politics.

Q189 Chairman: Can I ask you about the criminal justice system and, as a related matter, The Hague tribunal and the International Criminal Tribunal for the Former Yugoslavia? When we were in Belgrade last week, my general impression was that many people there would very much like the four outstanding indictees to get to The Hague as soon as possible, and that that clearly included Karadzic and Mladic. Based on your knowledge of the region, do you think that that is likely?

Lord Ashdown: One of those four is probably dead. No, I regret to say that I think Karadzic and Mladic are further away from The Hague than they have probably been in the past 10 years. I think that it was extremely unwise of NATO to relax its conditions on their arraignment. My view is that Mladic is perfectly deliverable by the Serb authorities; he is being protected by renegade elements of the Serb security forces. Karadzic, I guess, is probably being protected by the Serb Orthodox Church. We held the line on General Gotovina in Croatia. We said, “Until you deliver Gotovina, you cannot join the European process.”

The change by NATO was, to my mind, a very wrong move indeed. I cannot understand why, but bizarrely it was the Americans who changed position. They were my strongest supporters and they were holding a tough line, so I do not know what went on behind the scenes. Suddenly, NATO said, “It is not necessary to join partnership for peace, that you first deliver these two.” The European Union seems to have said broadly the same on the SAA. My judgment is that, absent some remarkable event, Karadzic and Mladic are now probably further away from going to The Hague than they have been for some time.

Q190 Andrew Mackinlay: Carla del Ponte says that the court dealing with the former Yugoslavia is time-limited. Do you see a way in which the British Government could encourage others at least to have a system whereby that does not come to an end, but is put into hibernation, to address the situation that would arise if the people to whom we have been referring fall into custody?

Lord Ashdown: You are rather supporting the view that I would take: if they are going to be arrested, it is a question of luck, or bad luck for them.

Q191 Andrew Mackinlay: At present, there is a green light for everyone who might be harbouring them to snug in there.

Lord Ashdown: That is my view. I cannot answer your question on whether the court at The Hague could be put in mothballs to wait for Mladic and Karadzic to arrive; my guess is that probably it could not. The process of stabilisation in the Balkans will not be finished until the two primary architects of that slaughter are brought to justice. They cannot any longer prevent progress, but for as long as they are not brought to justice they can impede it. It would be a moral and practical tragedy, therefore, if we gave up on those two, but I fear that that is the mood at the moment. That is a tough thing to say, but I fear that it is so. I think that we are getting tired of it, and that is very wrong. It is wrong in practical terms too.

Q192 Chairman: The lower-level criminals have been tried in national courts. As I understand it, there were 50 prosecutions in the Bosnian Federation, but only two in 10 years in Republika Srpska. Do you think that there is anything more that the British Government and the international community could do to give more support for capacity building in Republika Srpska?

Lord Ashdown: It is sometimes overlooked, but what has happened in Bosnia is something that I think is quite remarkable. It is something for which Bosnia is unique in the Balkans. They have created for themselves the capacity to try their own war criminals, in their own courts, on their own territory. That is a remarkable thing, and they have done it effectively. At a level below the state, however, there is a disparity in the approach on the Republika Srpska side and on the federation side. I think that that is a very regrettable disparity.

You asked me what could be done. Hold firm to the principles of police reform. The fact is that until you have a decent, state-run police force, which operates equally across the whole territory and is outside political control, you will probably not be able to deliver those people to justice. Here, again, I regret that there is some weakening in the firmness and determination to carry the thing through.

Q193 Chairman: Is police reform the big remaining issue?

Lord Ashdown: Beyond constitutional reform, it is. What we did when I was there was to put in place all the necessary structures for a light-level state governing a strongly federal structure in Bosnia and Herzegovina. We put together a taxation system, a customs system and an intelligence system, and we put the army under state control. There is one piece of unfinished business, which I thought that we had nailed down before I left: the creation of a single police force, governed and controlled at state level. Obviously it would not be a
state police force; it would be decentralised, but controlled at state level from the Home Office, as it was, and budgeted from the state. That is the last block that has to be put in place to create the beginnings of a light-level functional state institution in Bosnia. That is the big piece of unfinished business, beyond constitutional change.

Q194 Mr. Purchase: What assessment do you make of the stability and association process, which promotes stable democracies and open economies with a view eventually to opening up the way to accession? Is it proceeding in the right direction and at the right pace?

Lord Ashdown: It is the absolutely crucial process. Imagine Bosnia as a badly bombed building when we arrived there. We had to reconstruct that building: the Bosnian state. The first thing that we did was surround it with the scaffolding of the Dayton peace agreement, which was—I hope that I am not mixing my metaphors—the process of getting the building into a habitable state. The next job is to make it a proper building that you and I would recognise—to create a functional state. The Dayton scaffolding was necessary to carry Bosnia through the first process: stabilisation.

The second process is the construction of a functional, European-style state. The essential scaffolding for that is the SAA process. That process is right; it is arguably the world’s most successful post-reconstruction mechanism. The European Union, using that mechanism, has been far more successful than the Americans have been, for instance, in constructing peace after conflict and reconstructing states from communism. The difficulty is not with the institution or the framework, but with the political will behind it. We are not prepared to use to best effect the conditionality that we have.

I have no complaint about the structure, but I have a large complaint about the political will of member states. Let me except from that the extremely gifted, able and effective European Commissioner, Olli Rehn. Chris Patten is a pretty gifted, able and effective European politician, who was more resistant to the process. The Americans, incidentally, played a tremendous part in that; it would not have happened without them. So, I was rather optimistic when I left Bosnia. Maybe things have happened in the last year that I do not know about, but I was then, and even if it is in ignorance, I remain so now.

Q198 Mr. Purchase: Could it be that the politicians had a slightly different feel?

Lord Ashdown: Politicians nearly always do.

Q199 Mr. Hamilton: Lord Ashdown, our Committee’s report on the Western Balkans expressed concern, following your last evidence session, about the effective rule of law in Bosnia and Herzegovina. It recommended that the Government—our Government—should stress to their EU partners the importance of establishing effective rule of law throughout Bosnia and Herzegovina, and that they should take a lead with them in strengthening the physical infrastructure and personnel to this end, including the training of judges and legal employees. What progress do you think has been made, since you last gave evidence to us, on the strengthening of the rule of law in Bosnia and Herzegovina?

Lord Ashdown: Mr. Hamilton, I wish I could answer your question in the way that I know you want me to, but I have to say that having been away more than a year now, I am a little out of touch with what is happening in detail on the ground. I was a little depressed by some of the decisions taken by the state court and how it was done. When I spoke to military officers, their commitment to increasing professionalism as a state army was very clear and far more encouraging than the views of their politicians, who were more resistant to the process. The Americans, incidentally, played a tremendous part in that; it would not have happened without them. So, I was rather optimistic when I left Bosnia. Maybe things have happened in the last year that I do not know about, but I was then, and even if it is in ignorance, I remain so now.

Q196 Chairman: Absorption capacity?

Lord Ashdown: Yes, absorption capacity. Those are weasel words that are translated very simply in the Balkans as, “They don’t want us in.” That is a devastating thing.

Q197 Mr. Purchase: Thank you for that. I wonder whether, in a similar vein, I can ask you about the process of forming a single military force in Bosnia and Herzegovina.

Lord Ashdown: I think the great thing is that the country will not be going back to war. By and large it has been very good. I have lost touch over the past year, so I do not know how it has been progressing, but I was very pleased about the fact that it was done and how it was done. When I spoke to military officers, their commitment to increasing professionalism as a state army was very clear and far more encouraging than the views of their politicians, who were more resistant to the process. The Americans, incidentally, played a tremendous part in that; it would not have happened without them. So, I was rather optimistic when I left Bosnia. Maybe things have happened in the last year that I do not know about, but I was then, and even if it is in ignorance, I remain so now.
ethnically controlled. It is fractured, it cannot pursue criminals effectively, it is not properly resourced because it wastes so much money, and, above all, it is under the control of its political masters. This is the big gap in the justice system in Bosnia, and it must be reformed.

Q200 Mr. Hamilton: Has the UK invested sufficiently in Bosnia?

Lord Ashdown: Again—

Q201 Mr. Hamilton: I do not mean invested in trade, but invested money to ensure that the reforms that you state are essential are actually happening.

Lord Ashdown: I was always after more money, and I suspect that any High Representative would be, but I have no complaints about the British Government on that score. They understood the importance of this, and they have supported the process very effectively.

Chairman: Can we now move on to another wider area? John Horam.

Q202 Mr. Horam: Can I ask you a couple of questions, which you may or may not feel able to answer, about the way that foreign policy is handled by the UK Government? As you may know, the Foreign Office, like any other Department, is subject to public service agreements. Sir Ivor Roberts, who we are seeing next, said in his valedictory statement that the outcomes of foreign policy are not like hospital waiting lists; you cannot measure the outcomes in quite the same way. Is that something that you agree with—in your experience?

Lord Ashdown: I have not had a look at Sir Ivor’s valedictory report recently, so I am not sure that I can comment very much on it. However, let me say this in relation to the question: our Foreign and Commonwealth Office was created at a time when we were living in an information-poor structure. We did not know what was going on elsewhere in the world, we did not have detailed knowledge, we needed ambassadors and embassies, and we needed to know what was happening. Ministries of Foreign Affairs now live in an information-rich world and, frankly, I think this has discombobulated them. They are not quite sure what their job is because, by and large, an ambassador—Sir Ivor Roberts is sitting behind me, so I had better be careful—can rather rarely provide you with an insight that is not available from other means, perhaps from the Head of State picking up the phone or sending an e-mail. I think that all Ministries of Foreign Affairs have found themselves rather confused as to what role they should be playing in the modern world, and that is true of the Foreign and Commonwealth Office.

Mr. Chairman, forgive me if I go into just a little detail. If this sounds like a diversion, it will come back to the question. I have a view that economic structures shape political ones, not that political structures shape economic ones. We in politics imitate the structures of business and commerce. If you look at the Haldane committee structures in the industrial revolution, they replicated the structures that existed in the industrial revolution: vertical hierarchies, specialisation of tasks and stove-piped institutions. Those structures were about carrying out specific tasks in specific boxes and specific manners.

Q203 Mr. Horam: So do you think that it is inevitable that the Foreign and Commonwealth Office will get overwhelmed by modern management-speak?

Lord Ashdown: No, absolutely not.

Look and see what business has done today. Modern commerce has stripped down the vertical hierarchies, has networked organisations and restructured them to serve their customer. That is what modern organisations have done and if you have not done that, you are not going to succeed. Meanwhile, all the British Departments of State remain in vertical stovepipes, replicating the systems of yesterday. So, what do we have to do? Are we going to reconstruct the whole of our politics and the whole of our state structures to mimic industry? I doubt it. But what we do have to do is to work cross-departmentally.

In the business of foreign affairs and the area of post-conflict reconstruction, which I have been involved in and is becoming a very large part of foreign affairs, it is not what Foreign Offices do that matters, but what they do together with other Departments, for example, with the Ministry of Defence and the Home Office on police reform. What you do with other countries matters as well; this is essentially a multilateral organisation. And it is what you do with the multilateral organisations, the UN organisations, that matters.

This is about joined-up government. How do we apply that? The Foreign and Commonwealth Office needs to become good at—and what it is very bad at, by the way—is project management. It is very good at reporting and sitting dizzily above the scene and providing elegant telegrams for home, but what it should be saying is, “Here are the improvements that are needed to resolve this problem: here is the Ministry of Defence contribution, here is the Treasury contribution and here is the Department for International Development’s contribution of aid; here is what we can do by bringing some police reforms in.” Then we can change the nature of a failing state. Our job in this process is not to pretend that we can do it all, but to project manage it. If someone asked me what the Foreign and Commonwealth Office has to do now, it would be to learn the art of project management. The Department for International Development, by the way, is rather a good project manager, but the Foreign and Commonwealth Office is extremely bad.

If we are serious about joined-up government in international affairs—and we ought to be because it is the only way to get things done—we have to start thinking about growing new skills and a new psychology in what is the golden Department, equipped with more intellectual horsepower than any other and made up of extremely gifted people.
Q204 Mr. Horam: The Treasury may disagree with that.

Lord Ashdown: Well, it may or may not, but in my view the Foreign and Commonwealth Office is not doing the job it ought to be doing in the modern age. I do not apply that to our own Foreign Office only, but think it is true of all MFAs, which are equally somewhat puzzled by the world in which they suddenly, blinkingly find themselves.

Q205 Mr. Horam: It is interesting what you say because the Foreign and Commonwealth Office has been given such a project. Its main public service agreement under the new arrangements will be run jointly with the Ministry of Defence and the Department for International Development and is called “conflict prevention worldwide”. If that is a project that it is having to look to manage, what, in your view, should be the objectives of such a conflict-prevention public service agreement?

Lord Ashdown: International co-ordination. That brings me to an issue that I am getting very worried about, which is Afghanistan. I think that we are losing in Afghanistan and I do not think that any of us have yet calculated the cost of a failure there. We are losing public support, which is the crucial thing we must have to win.

Whitehall redounds today with the phrase “the comprehensive approach”. Everybody in Whitehall is talking about the comprehensive approach, which is what you just talked about with the PSA. There is no point in having a comprehensive approach in Whitehall if there is not one in Kabul, and there is not. This thing is fractured and unco-ordinated. The cardinal principle for successful post-conflict reconstruction is to have the international community working to a unified strategy in a co-ordinated way and speaking with a united voice. That is more honoured in the breach than the observance in Afghanistan today.

There are 50 international and national organisations involved in the eradication of the poppy. We have spent $400 million on that and the last two poppy harvests have been the record poppy harvests in Afghanistan. Karzai’s people will tell you that he is fed up to the back teeth with bilateral advisers coming in with their bilateral enthusiasms. Sometimes they make offers and sometimes they give instructions, many of which are contradictory. There is a complete failure to take a comprehensive approach in Kabul. You can do anything that you like in Whitehall—in my view, the Foreign Office is going in the right direction here—but it does not matter, because what matters is what happens on the ground.

Q206 Mr. Horam: But how do we achieve things on the ground?

Lord Ashdown: Tom Koenigs is the UN’s special representative in Kabul. He is without the international will to pull the institutions together to create a co-ordinated structure, which is what we did in Bosnia. The Foreign Office helped me to get the international community to follow a co-ordinated plan and to speak with a single voice. The US should be saying to its allies that they are going to lose unless they get their act together. It should then drive the process of providing a co-ordinated plan and bang some heads together to ensure that the duplication of effort that is happening at present ceases.

In Afghanistan today, we are putting one twenty-fifth the amount of troops and one fiftieth the amount of aid per head of population that we put into Bosnia and Kosovo—fewer resources than we have ever put into a successful peace and stabilisation mission. Does that mean that we will fail? Maybe not. But “maybe not” becomes a definite “yes” if on top of a complete poverty of resources you have a complete lack of co-ordination, which is where we are now. I think that we are now looking at the prospect of failure in Afghanistan, with all that that will mean for NATO, the security of this country and Pakistan, which could fall into a new, wide, regional war. At the heart of the problem lies a single fault: our failure to act in a unified way. The Foreign Office must bear the implications of that.

Q207 Mr. Horam: Would you say that the new arrangements proposed under the new European treaty, which would involve joint foreign policy working and so forth, would help with the problems that you described?

Lord Ashdown: It would undoubtedly help, because some of the issues ought to be dealt with on the European basis. That would enable co-ordination, but it would not be enough because we would also need proper co-ordination with the United States and with the multilateral institutions of the UN.

Normally, you could rely on the military to understand the importance of unitary command, but not even that exists in Afghanistan. The United States’ operation—Operation Enduring Freedom—is not under the exclusive control of the international security assistance force. In terms of civilian casualties, the US is acting in ways absolutely contrary to ISAF policy. By the way, its special forces are not even controlled from within the theatre—they are controlled from Washington. Those who have studied such things will recognise that it is an exact loving replica of what happened in Somalia, which ended up in “Black Hawk Down”. I cannot believe that we are deliberately making those mistakes again. It is a serious situation, and we ought to start taking it seriously about it.

Chairman: This is your last question, I am afraid, Mr. Purchase.

Q208 Mr. Purchase: I just want to take you back a little on the question of project management. Often, in a business or engineering project, which is to say when we are dealing with inanimate things, we can plot a time line, plan a critical path, and match resources to time to do whatever is required. The difference in international affairs is that the project that one wants to manage does not want to be managed—it has a different understanding, a different culture, and different requirements. I have
been to Afghanistan. Like you, I often think to myself that there are parts of Afghan society that totally reject everything that is done by the west, and which fight against it. Those circumstances are not dissimilar to those in Northern Ireland, where I often got the feeling that people did not want to be managed, thank you. People had a different agenda.

I have some sympathy with the idea of project management. I put it to you that we are not dealing with straightforward business planning, but with circumstances such that it may be beyond you—although you are very good—to put together managers who would bring about a result that you and I would want.

Lord Ashdown: You may be right. You might therefore fail, having done everything right. What is certain is that you will fail more quickly, and sooner, if you do everything wrong. That is what we are doing at present. Maybe Iraq was undoable, who knows, even if we had done everything right, but we made that a certainty by doing it wrong.

My second point is that if you go and speak to Karzai and his people, they will say, “For God’s sake, give us an international partner we can speak instead of this collection of bilateralts”. Our chances of changing their view of what can and should be done are much greater if we can have a decent, partnership-based relationship with them.

My third point to you, Mr. Purchase—you make a powerful point, and I am glad that you mentioned Northern Ireland, because it is relevant—is that there are some places in the world, I suspect, where we cannot reconstruct peace and where we actually might have to take the decision not to try. But there are some places in the world where you cannot afford to leave it to conflict. Northern Ireland was one. I was among the soldiers who marched into Belfast, my own home city, in 1960. If somebody had said to me there, “It is going to take 38 years,” I would have baulked at that and so would most of the British public, but it did.

I suspect, looking back on Northern Ireland, that even though we did not think that we were doing it at the time we were doing no more than containing the situation for 25 years until the ingredients for peace emerged. We could not afford to do anything other than that because the chaos in Northern Ireland was too dangerous to us in the British state. We spent whatever time, gold and blood was necessary simply to contain the situation. Maybe Afghanistan is so dangerous that we have to do that. Maybe what we have to do is simply to sit there and contain the situation until the ingredients for peace emerge. That is a pretty pessimistic outcome. I do not believe that is the present situation. But there are times in the world when you take one of three decisions. One is to say, “Sorry, it can’t be done, and we ain’t going to do it because we’ll make things worse.” That is a tough decision, but we have to be prepared to do it. Sometimes we can say, “We can do this, and we can win, and therefore we should.” There are also times where we say—and they are rare—“We can’t do this, but we can’t afford to let it go bad either, and therefore we will contain it.” I do not happen to think that Afghanistan is in that category, but some countries may be some day.

Q209 Mr. Purchase: I tell you this: there is just as much opium on the streets of Birmingham as there would be if we were not there.

Lord Ashdown: I guess there is more, because they have just had two record harvests. However, that is much more to do with the fact that we have done this so badly than that it was undoable.

Chairman: Paddy, I am sure that we could be here for another hour or two. You have touched on Iraq, and we have not got time. I think that everybody should read the Iraq Commission’s report, without going into it now. Thank you for your answers, your depth of knowledge and your commitment. We wish you all the best in the future, whatever you are doing, and I am sure that we will see you again at some point.

Lord Ashdown: Thanks very much indeed.

Witness: Sir Ivor Roberts KCMG, Diplomatic Service (1968-2006), former Ambassador in Belgrade, the Republic of Ireland, and Italy and San Marino, gave evidence.

Q210 Chairman: Sir Ivor, thank you for coming this afternoon. As you are aware, we are conducting an inquiry into the annual report of the Foreign and Commonwealth Office, and we thought that it would be useful to have a word from people not currently in the FCO system, as well as from those within it—both Ministers and officials.

I shall begin with something quite important. You produced a valedictory telegram in which you were rather critical of FCO management, and we now understand that there are no more valedictory telegrams—my colleagues may wish to intervene at this point. In your valedictory telegram, you particularly criticised management-speak and how the FCO tried to use the language of the private sector. We put your comments to Sir Peter Ricketts when he came before this Committee, and he basically suggested that you were out of touch with the modern public service. What is your reaction?

Sir Ivor Roberts: Well, he would say that, wouldn’t he? I read Peter’s comments. The only thing that I can say is that of course I am 60 and not 20, but I was struck by the fact that I had well over 100 comments by e-mail and in other forms to my valedictory dispatch, and the vast majority of them came from junior members of the Foreign Office who endorsed my comments without exception.

Q211 Chairman: So you think that there is widespread support within the service for your criticisms?

Sir Ivor Roberts: It is hard for me to judge. I say immediately that I am not the most representative person, because I have spent so much of the past 20 years abroad. I can operate and comment only from
my perspective as an ambassador in three posts and a minister in another in the past 20 years. It is a peculiar position, but it allows me to engage closely with a wide range of people in the service.

Q212 Mr. Purchase: Politicians have been obsessed for some time with the idea of management in the private sector being transferred almost wholly into the public sector. There is no question but that good management, of whatever level, is of considerable assistance to the effective and efficient operation of any project, but are you concerned that much of that management-speak, when translated into action, is inappropriate for public service, or do you think that much should be imported from business practice into diplomatic practice?

Sir Ivor Roberts: You have put your finger on a crucial area. My view is that in some areas we undoubtedly need outside experience and business practice. Information technology is a clear example of where diplomats, however experienced and well versed, are simply not up to dealing with the problems, so I would welcome bringing in outside experience.

When dealing with conflict prevention, I do not see the great value of management-speak and management practice. I have a slightly pessimistic view of diplomacy, which I mentioned en passant in my valedictory dispatch, as a slightly Sisyphean task. You constantly push your boulder up hill and most of the time watch a series of boulders going down in the other direction. I do not believe that Wall Street language will help anyone to deal with the problem. That is why I am basically opposed to rigid, strategic priorities, objective setting and so on.

That is not the way in which to deal with the problems that emerge from day to day. Today's events in Russia did not exactly come out of the clear blue sky, but they would certainly not have been a top priority three months ago. We need infinite flexibility and intellectual agility to deal with such problems.

Q213 Mr. Purchase: I do think that your words, “flexibility and intellectual agility”, are probably the key to good diplomatic practice. I have always thought of power as the ability to persuade someone to do something against their will, or to create a situation in which something happens contrary to nature. What other form of power is there? It is essentially an art, not a science.

Sir Ivor Roberts: And it is mainly a failure, or at least it requires iteration. I dealt with Milosevic for four years, and spent most of the time trying to persuade him to do things he did not want to do, and he usually declined, but occasionally he did. The process is attrition, persuasion, persistence and patience.

Q214 Mr. Purchase: Patience does not lend itself to targets.

Sir Ivor Roberts: It does not lend itself well to targets at all.

Andrew Mackinlay: Chairman, Sir Ivor was ambassador in Belgrade, so could we spend a couple of minutes at the end?

Chairman: You could ask him now.

Q215 Andrew Mackinlay: I am too excited about the valedictory telegram. I was able to obtain, for accuracy, one of the many copies that presumably exist. In it, Sir Ivor, you refer to Prism as the Via Dolorosa, and to the selling off of the family silver by some of the estates. You specifically criticise Collinson Grant reversing the Coopers and Lybrand report, and there is the wonderful quote given to Sir Peter Ricketts. You also referred to Rodric Braithwaite referring to the Foreign Office as a demoralised cipher. Would you touch on those comments and elaborate on them?

Sir Ivor Roberts: Prism is one of those areas that are difficult for non-specialists like me to grapple with. What was so depressing was the hype when Prism was introduced that it would solve all our problems at the press of a button and that all management would be reduced to infinitely simpler forms. In fact, it involved recruiting more people to deal with it, and the whole process seemed to be entirely counter-intuitive. I cannot claim to be a great expert on Prism, but all I am saying is that it was a major disappointment in terms of what we expected from it, and what it brought to us in return.

Q216 Andrew Mackinlay: They say that it now works, but the impression I got was that it was a case of “Thank God it’s working, we can tell the Committee that its working,” when it has required a disproportionate effort to get it into that category. Is that a fair assessment?

Sir Ivor Roberts: Like many things, if you knew how difficult and awful it was going to be, would you have started down that path? I believe that the answer is certainly no, both in terms of cost and attrition.

Q217 Andrew Mackinlay: Collinson Grant—

Sir Ivor Roberts: Collinson Grant was a bad joke. I do not know who dreamt up that scheme, but in management terms Collinson Grant seemed to reverse most of the proposals for the organisation of the Foreign Office that had been introduced 15 years ago. I said it only jokingly, but someone might actually believe it: I said that you would think that these sets of management consultants were in collusion, and that one would say, “I’ll tell you what. One year you propose that we double the number of human resources people, and then we’ll come along five years later and say that they should halve the number. We’ll each get a handsome fee for it, and the Foreign Office will be left in the same position as it was at the start.” It seemed like that, it was so absurd.

Q218 Andrew Mackinlay: In your paragraph 13, you refer to the Foreign Office not fighting for its budgets but say that other Departments—for instance, you mention DFID—threw high resources at the problem, with consultants and so on, and that
the Foreign Office had failed to argue its corner for adequate resources. The Committee is mindful of the fact that in some parts of the globe there is no United Kingdom mission—one that I bore hon. Members stuff about is Kyrgyzstan, a not insignificant country—and I rather felt that you were saying that the Government were not alive to the investment and that they would save money if they invested more in the Foreign Office.

Sir Ivor Roberts: You have three big budgets—the Ministry of Defence, DFID and the Foreign Office. The Foreign Office is about conflict prevention; DFID is largely about reconstruction; and the Ministry of Defence is about armed peacekeeping, intervention or whatever else it is called. The cheapest of those by far is conflict prevention, yet the Department of State that has the fewest resources of those three over the last seven or 10 years, or however long it is, is the Foreign Office, as far as I can tell from the perspective that I have occupied.

That seems to me to be a governmental failure. It is not a failure of senior people in the Foreign Office; it is a failure, if you like, of Ministers in the Foreign Office and it is a collective failure of Government to say, “Hang on, what is it that we really want? Do we really want a war in Iraq, or do we want to solve this diplomatically? Do we want to get involved in Sierra Leone, the Congo or wherever; or, if we can get a diplomatic solution, it is worth investing extra resources to get there?”

As it is, we often find, to our absolute horror, that we share a capital with DFID, and that DFID, because its budgets seem to be so much larger than ours, is able to outbid us in recruiting local staff. You may need a driver to help service the mission, but the running cost of such a driver is now 20% higher than you are prepared to pay because that is what DFID is paying. That seems to me a complete absurdity—a failure of what, in a particularly odious management phrase, is called joined-up government.

Q219 Andrew Mackinlay: I have two more questions. The first is brief. You were ambassador to the Italian Republic, and to save money the Foreign Office decided effectively to abandon the United Kingdom mission to the Holy See. There was panic about that, a reverse, and then it was decided to locate that mission in the same campus as our embassy to the Italian Republic. I understand that your counsel that this was most inappropriate for a whole variety of constitutional reasons was ignored. Is that correct?

Sir Ivor Roberts: Yes.

Q220 Andrew Mackinlay: Will you elaborate?

Sir Ivor Roberts: Sure. First, may I slightly correct you? No decision was taken to abolish the mission to the Holy See. The decision was taken to downgrade it and to lower its cost as much as possible. As you rightly said, part of the exercise involved co-location of the Holy See mission inside the residence of my mission to the Italian Republic. I wrote to the then head of the Foreign Office and I said, “This is your baby not mine, but let me say from the perspective of someone who knows Italy well, and is a Catholic and therefore understands the Catholic Church very well, that this is not going to wash. They are not going to put up with co-location of the embassy to the Holy See with the embassy to the Italian Republic because it crosses their fundamental red line—see the Lateran Treaty 1929.”

Above all, I said, “Do not give up the lease on the residence to the embassy to the Holy See, because you are getting it at less than half the commercial rent.” I had no reply for five weeks and when I did get one it effectively said, “Don’t you worry your little head about these things, we have it all under control. The Vatican is super cool about this and, by the way, we have given up the lease on the embassy to the Holy See.” Okay—not my baby.

About a month later a new ambassador to the Holy See arrived. On day one he was hauled in by the Vatican, figuratively cuffed around the head and asked, “What is all this nonsense about co-location? You know that that is not acceptable to us, go away and think again.” We then had to go back to the landlord and say, “Oh dear, we have made a terrible mistake can we have our lease back?” He said, “Of course you can have your lease back, but instead of costing €9000 a month, it will now cost you €25,000 a month.”

Q221 Andrew Mackinlay: Thank you for that. It was very interesting. I shall now turn to Belgrade. The Chairman and I were in Serbia and Kosovo last week. What is your assessment of the fragility of the Serbian Government and democracy? If there was either “managed independence”—I think that that is the phrase of Ahtisaari—of Kosovo, or a UDI by Kosovo, which had subsequent recognition from the USA, what would the political collateral damage be in Belgrade, a place where I assume all of us would like to see the fragile democracy built up?

Sir Ivor Roberts: I am very out of date now. I left Belgrade nine years ago. I left as ambassador at the end of 1997 and Robin Cook sent me back twice to see Milosevic as a personal envoy in 1998. That was the last time I was in Serbia, so I am very out of touch and it is one area where I fully accept that I am out of touch. However, I am concerned about Kosovo. When I left Serbia, I wrote another valedictory dispatch, which was not banned.

Q222 Andrew Mackinlay: It is one I haven’t seen.

Sir Ivor Roberts: It is 10 years old now. One of its recommendations—not recommendations, but I said that I saw the only way forward over Kosovo was a partition. Now we are talking about a different form of partition in the Ahtisaari plan, which of course wishes to partition Kosovo out of Serbia. I think that that would be hugely destabilising to Serbia and the region. However, I have long taken the view that the borders drawn up in the Titoist period were administrative borders and should be treated as such, not as sacrosanct national borders.

I spoke to a great man called Milovan Dijas, one of the architects of the borders of Yugoslavia, shortly before he died. I asked him what they were all about and he replied, “Look, this was going to be
a communist state and the borders were of no importance to us whatsoever. We drew them up from an administrative point of view.” The real fault with regard to the borders goes back much further to the British Government who chaired the London conference in 1912-13, when it set the borders of a new state called Albania after the Balkan wars. The idiocy at the time was to create a state of Albania which had more Albanians living immediately outside it than inside it. A more certain recipe for instability, confusion and chaos for the future could hardly be imagined.

Chairman: We need to get back to the Foreign and Commonwealth Office annual report. Mr. Mackinlay has had his few moments of diversion. We will return to John Horam, please.

Q223 Mr. Horam: I think that Britain is usually at the bottom of these things in the Middle East as well, drawing up the wrong boundaries and so forth. Sorry to go on to a slightly less interesting subject, but it is important in terms of what we are trying to do in the Foreign Office. I heard what was said about resources for conflict prevention as opposed to the activities of the MOD and DFID. Sir Peter Ricketts presented us with a practical problem when he came before the Committee. He said that he was in disagreement with the Treasury in three main areas: first, the Treasury was asking him to find efficiencies of 5% of administrative costs in the next round. We do not quite know what administration means in that context, because most people in the Foreign Office are doing administration. Secondly, it wants a 3% overall efficiency target achieved, and thirdly there are real problems with the security of embassies abroad. Given those problems, if you were Sir Peter Ricketts, what attitude would you take to those continual demands for more efficiency?

Sir Ivor Roberts: One of the answers I gave in my valedictory statement was to quote Comrade Maxim Litvinov back to the Treasury. I do not know whether you have seen my quote—

Q224 Mr. Horam: About the five-year plan?

Sir Ivor Roberts: Yes. Litvinov was asked by Stalin to produce a five-year plan and said, “It isn’t going to happen, Comrade. We can’t predict what we’re going to be doing in five years’ time. Others dictate the agenda, not us.” I think that Peter Ricketts is faced with an intolerable problem. Why on earth should the Foreign Office be penalised for the fact that, because of the success of the British economy, we end up paying a higher percentage of international subscriptions, over which it has no control at all, are going up, partly reflecting the success of the British economy.

Q226 Mr. Horam: None the less, the fact is that every Department must be subject to some sort of Treasury control, must it not?

Sir Ivor Roberts: Of course, and I would not suggest that the Foreign Office could simply spend. The point that I am trying to suggest, and made initially, is that I think investing in the Foreign Office is a way of reducing the cost of overseas activities. If you look at them in a holistic way—the Foreign Office, the Ministry of Defence and the Department for International Development—to cut back on the Foreign Office is a way of spending more money rather than less. I think that is the way the Treasury needs to be approached: it needs to be told that that is how it is. Let us suppose that Peter Ricketts said, “Actually, we are not going to make any attempt to improve the security of British embassies around the world, because we have not got the money to do it.” What happens when a British ambassador or consul in the Middle East is blown up? Is that Peter Ricketts’s fault? If there is not the money, there is not the money. The Americans would never have that problem.

Q227 Mr. Horam: Do you think that DFID should still be part of the Foreign Office?

Sir Ivor Roberts: I think that we need to have a clear understanding of who runs foreign policy, and at the moment the lines are so blurred that it is very difficult to know. There can only be one British Government foreign policy, and whether it is run by a Department called DFID or a Department called the Foreign and Commonwealth Office is not the point. The point is that there can only be one British Government foreign policy, and in every capital there can only be one voice that holds sway. It can be the ambassador or someone else, but there can ultimately be only one person who is responsible. We cannot have—and this happens too often—two voices in the same capital.

Q228 Mr. Purchase: It is very interesting to hear you say is it DFID, is it the MOD, or is it the Foreign Office? What about the role of No. 10? Does that not complicate matters somewhat in regard to what our foreign policy is? A secondee goes from the Foreign Office into No.10 and suddenly we have a different take on these things.

Sir Ivor Roberts: Yes, it is a failure to use the system of Cabinet Government effectively. Of course, it is right that the Prime Minister should have an adviser on foreign affairs, but the Executive arm is the Foreign Office; not Mr. X or Sir Y.

Q229 Mr. Purchase: But why should the Prime Minister have an adviser on foreign affairs when there is a Department called the Foreign Office?

Sir Ivor Roberts: He needs someone to interpret the Foreign Office to him. It does not have to be a very senior person, but it needs to be someone who can explain what is going on and can put it into
context. When I first joined the Foreign Office, the person in No.10 who dealt with foreign affairs was essentially a private secretary. His job was to arrange meetings for the Prime Minister with international visitors, to arrange the Prime Minister’s international calls and to minute every meeting on international affairs. And that was roughly it. His job was not to be a policy voice; it was more to act as an Executive branch of the Foreign Office.

**Q230 Mr. Purchase:** Sorry to pursue this, but the Foreign Secretary is also briefed by the Foreign Office; he does not have someone to interpret the brief for him or her. If the brief is available to the Foreign Secretary and to No.10, why is that not sufficient?

**Sir Ivor Roberts:** It depends what the Prime Minister wants, ultimately. In other days, it was very much the case that the briefing and the advice that the Prime Minister got would have been directly from the Foreign Secretary who would say, “Prime Minister, you should know that this is what I am planning to do and so on.” That is much more satisfactory, but it is not something that has evolved over the last five years; it is more like it has evolved over the last 20 years.

**Mr. Purchase:** I understand and agree with that.

**Q231 Mr. Hamilton:** Let me follow on from what Ken Purchase has said. Sir Ivor, you were very critical of the former Prime Minister, Tony Blair. In fact, I believe, that you are reported as saying that his foreign policy was based on self-righteous soundbites and expensive foreign travel, and that he refused to listen to expert advice. Is that what you said?

**Sir Ivor Roberts:** No, I do not recognise those words at all.

**Q232 Mr. Hamilton:** I apologise if I have misinterpreted you and I withdraw that.

Leaving that aside, there has been a lot of criticism of Tony Blair’s foreign policy. As Ken Purchase has said, foreign policy has effectively been run from No.10, which is contrary to what you have just said about foreign policy having only one base from the United Kingdom and that there should not be different foreign policy bases pushing out different foreign policies in the capitals throughout the world. You gave some good examples in relation to that.

Since Gordon Brown became Prime Minister, he has changed direction a little bit and we have seen a few different interpretations and policy statements. He has also appointed Mark Malloch Brown, the former Deputy Secretary-General of the United Nations, as a Minister in the House of Lords. From what you have read and seen on television so far, do you think that we will see huge changes with Gordon Brown?

**Q233 Mr. Hamilton:** Can I put you on the spot a little? You do not have to answer this question, but what do you think of the appointment of Mark Malloch Brown? You said that you do not know him very well, but he is somebody who—if I remember rightly—was once in the Foreign Office; he went to the United Nations, worked there for many years and is close to Kofi Annan. He is a complete outsider, if you like, but obviously he is British and understands the UN very well. What is your view of Gordon Brown’s appointment of somebody like that to a ministerial position at the FCO?

**Sir Ivor Roberts:** I personally welcome it. I want to see the United Nations much more central in British foreign policy making. If I were being critical—I did not recognise any of the language that you used at the beginning of your questioning, as I have certainly never used it—I would say that I have been very unhappy about aspects of British foreign policy where there has been a clear distance between our policy and what I regard as correct United Nations practice. The appointment of someone like Mark Malloch Brown seems to be a signal that the United Nations is going to matter more to Britain, and I welcome that. It might upset some people in Washington, to which I say, “Too bad.” The United Nations is the centre of international legitimacy, and we must never forget that.

**Q234 Mr. Hamilton:** Would you imagine that his appointment has upset anybody in the Foreign Office?

**Sir Ivor Roberts:** No. When I joined the Foreign Office—it was a long time ago now, 39 years—we had four or five ambassadors from outside the diplomatic service. I have never had a problem with appointments of outstanding figures from outside the Foreign Office who bring a particular expertise.
The American system, where appointment is based entirely on the quantity of money that one has brought to the election or re-election campaign, is absurd. That is the way that they do things.

Q235 Mr. Hamilton: Thank you, Sir Ivor. To take up your remark about treading water, do you agree that foreign policy content will not change much but that how it is presented will, and that public and international perception will therefore be of more significant change than has occurred? Tony Blair’s hug-them-close approach will no longer apply to how British policy is perceived—any differences will be expressed. In a way, that will be uncomfortable for the Bush Administration, but British policy is nevertheless likely, during the next 18 months at least, to be continuous in content, although expressed differently.

Sir Ivor Roberts: I think that you are right. I think that there will be an element of that, but the real test comes when major events intervene—the famous “Events, dear boy, events”—that can destabilise or throw off course all sorts of carefully laid plans. Obviously, something that any Prime Minister has to cope with are the problems that are thrown at him unexpectedly.

Iraq was one of the problems that we could see coming for months, or even years. However, there are other events—for instance, I remember in my earlier days in the Foreign Office a major crisis between Britain and America over the American invasion of Grenada. Nobody would have seen that one coming at all. When it did come, it led to tremendous tension and disagreement between Margaret Thatcher and Ronald Reagan, two people who could hardly be separated at one stage. That was wholly unexpected. Given that 18 months is quite a long time, things will emerge that could well change the course of British foreign policy.

Q236 Mr. Horam: Coming in on the point about “Events, dear boy, events” and so forth, in the light of what you have just said, what is the utility of the sort of strategy document that the Foreign Office has lately gone in for producing? For example, in March 2006 it produced a document listing 10 strategy objectives. Is that useful or not?

Sir Ivor Roberts: Do you want an honest answer?

Mr. Horam: Yes.

Sir Ivor Roberts: Well, I’m afraid that I have never really believed in that exercise. If you look at the departmental report, as I have been doing, you find that strategic priority 3 is “Preventing and resolving conflict through a strong international neighbourhood,” and that “Performance on this SP is assessed by PSA 3 (Conflict prevention) and PSA 5 (European security (performance indicators A & B))”—please refer to pages 153 and 159.” That sort of thing drives me absolutely mad. Then you look at the progress towards PSA targets, and everything is on course. All nine of them are on course, so nothing could be going better.

Q237 Mr. Horam: Is that not true of all Departments?

Sir Ivor Roberts: “PSA 2—to reduce the risk from international terrorism so that UK citizens can go about their business freely and with confidence.” We are on course. Well, that is great, but I do not perceive as I go from airport to airport that we are in that situation. This is an exercise in pandering to the Treasury and the Cabinet Office in a way that—

Q238 Mr. Purchase: You mentioned “bullshit” earlier.

Sir Ivor Roberts: Those are words that I do recognise.

Chairman: Those are unparliamentary expressions, but I am not Mr. Speaker, so I did not hear them.

Q239 Mr. Horam: Nevertheless, playing devil’s advocate, is there not a role for a clear statement of the UK Government’s overall strategy on their outlook on the world?

Sir Ivor Roberts: Yes. I certainly do not believe that you should reduce it simply to the level of a sort of Lord Salisbury floating lazily down the stream, putting out the occasional boat hook. However, the present obsession is with objectives and the measurement of objectives, and some things cannot be measured—diplomacy is not that sort of thing. As somebody said earlier, it is an art, not a science and cannot be measured in those ways. There is a famous Spanish proverb: “Traveller, roads are made by walking.” There are no roads until they are made by walking, and that is how you have to approach diplomacy. You have to walk that path yourself, and put down markers as you go. There are no guidelines. Simply to see it all in terms of PSAs and SP2s and all the rest of it is to reduce diplomacy to a mathematical science, which it does not begin to approximate to.

Q240 Mr. Horam: None the less, even when you are walking, you usually have an objective. You want to get to a certain town or something like that. Surely you should have some sort of idea.

Sir Ivor Roberts: You need some general anchors, but they should be in very broad terms.

Q241 Mr. Horam: Can you give an example?

Sir Ivor Roberts: One of my objections to these strategic priorities—I think that it is strategic priority 9—is something about consular services. That does not seem to me to be a strategic priority. It is just a job description—it is what a consul does. That is what he is there for. He is to provide—I cannot remember the language—

Chairman: “To provide high quality support to British nationals abroad, such assistance and protection as may be necessary in normal times and in crises.”

Sir Ivor Roberts: Exactly. That is a job description, not a priority or anything to do with strategy.
Q242 Mr. Horam: Take another example: “Strategic priority for building an effective and globally competitive European Union in a secure neighbourhood.” That sounds more strategic.

Sir Ivor Roberts: It is. It is apple pie and motherhood stuff. It is so vague and bromide-like that I cannot believe that it is worth putting down on paper and developing measurements towards.

Q243 Mr. Horam: So your strategy would only really evolve when you had clear choices to make, for example, where you support the American invasion of Iraq.

Sir Ivor Roberts: I think you can lay down clear strategies that you want to protect British interests and respect for international law. It can obviously be done in very broad terms. What we did in Iraq did not respect international law; certainly that is the view of the former Secretary-General of the United Nations. It is a fundamental problem, something that I found quite shocking when the Foreign Office assembled all ambassadors throughout the world a month before the Iraq war. The Iraq war was not on the agenda; it was not there to be discussed at all. That is extraordinary. There were about 180 ambassadors and no opportunity to sit around discussing how we squared what was going to happen in Iraq with our commitment to international law.

Q244 Mr. Purchase: Sir Peter Ricketts said that during his time in the job he would like to see defensive intelligence experts and defence attaches’ in the posts where I was. I can talk only about the language centre, because the last time I served in London was so long ago that there was no such thing as FCO Services. I have known the language centre, whom I worked closely were outstandingly able, particularly is that, going to outside consultants, we are trying to do but in my experience of the process we have not gained experience to handle it ourselves successfully.

Sir Ivor Roberts: I do not think we have learnt. I would guess that the FOLIOS experiment is about 20 years old. I cannot remember exactly. I do not think we have learnt. Prism is a classic example of how we have not learnt. We now spend, I think the figure is something like £34 million on consultants in the Foreign Office, of which the largest percentage is on IT. Obviously, we need outside help to do what we are trying to do but in my experience of the process we have not gained experience to handle it ourselves successfully.

Q246 Chairman: One consequence of the budgetary crisis in the FCO is that it has decided no longer to make a financial contribution to the cost of defence attaches. We raised this with Sir Peter Ricketts, who was adamant that it was not a priority for FCO funds, and as a result the MOD is reviewing where it has defence attaches. I understand that it will be reducing them in a number of areas where they perform a useful function, not least in gathering information that is of use in the wider Government sense. What is your view on that decision?

Sir Ivor Roberts: I regret it. My experience of defence attaches in the posts where I was ambassador was very favourable. I found them very useful, and in the Balkans invaluable. They could pick up intelligence information in areas where I, as a layman in military terms, would never have been able to, and they could go into areas where I, as an identified ambassador, could not go. They could dress down, disappear into the night and pick up information that it was not possible for me to pick up, so I found their role very important in several posts where I went.

Again, it seems a pity that all this happens in the context of one Department trying to save money, as opposed to a holistic approach, asking, “Do we need military intelligence from our attaches?” We do, and the money should be found from somebody’s budget. It does not matter whose: if one Department is under-funded, it should be compensated.

Q247 Chairman: Another change that the FCO is introducing is to FCO Services, which has become an executive agency. Subsequently, there are likely to be some redundancies. Also, there has been a decision to get rid of the FCO’s language centre. What do you think the impact of those changes will be on the service and on the morale of people working for the FCO?

Sir Ivor Roberts: I can talk only about the language centre, because the last time I served in London was so long ago that there was no such thing as FCO Services. I have known the language centre all my career, and it has been a wonderful institution. I, again, regret its abolition, if that is what is happening to it. What concerns me particularly is that, going to outside consultants, they will not understand what the Foreign Office is all about, and what sort of specialised knowledge it needs. Some of the language centre people with whom I worked closely were outstandingly able, including those involved in the production of
manuals on diplomatic language and the intricacies of diplomatic negotiation, which you would never find in a commercial company.

We look to be losing that skill, particularly in areas where we need to make up ground such as in European languages. Traditionally, we have always been good at teaching hard languages such as Arabic, Russian, Mandarin, but our knowledge of European languages is woeful compared with any other European diplomats of whom I am aware, and I have served in a series of European posts over the past few years. Most European diplomats do not even get into their diplomatic services unless they speak two European languages fluently.

Q248 Mr. Horam: Sir Ivor, you talked a few moments ago about the question of leadership, and about bringing together the 180 ambassadors throughout the world. Was that at a leadership conference?

Sir Ivor Roberts: Yes, I referred to the first of them.

Q249 Mr. Horam: Right, and you said that in fact, those leadership conferences did not discuss foreign policy. Is that not amazing?

Sir Ivor Roberts: There is a kind of sub-branch of the leadership conference. Instead of having the 180 ambassadors, there are now twice-yearly gatherings of the senior leadership forum, which is sort of the top 20 ambassadors by seniority. At the last one I attended there was a series of events at which we were going to be talked at on various corporate governance issues. I feebly protested, saying, “Shouldn’t we have something on the agenda covering Iraq, the middle east peace process, Iran and so on?” I was told, “Oh, well, I expect we’ll find some time over lunch to have a chat about that.”

Q250 Mr. Horam: That was simply not allowed?

Sir Ivor Roberts: That was not the purpose of the meeting, apparently. It seems to me that if you are bringing back the senior ambassadors in the world, at some expense, instead of you lecturing them about the latest wheeze that the management team have dreamed up, you should be saying, “These are experienced guys who know a lot about what is happening in the world. Why aren’t we listening to them and getting their advice on the mess we are in in Iraq or the Middle East?”

Q251 Mr. Horam: Listening to former ambassadors such as yourself, do you think that Sir Peter Ricketts has done the right thing in banning valedictory statements?

Sir Ivor Roberts: No. I think it is depressing to think that people’s advice will not be given a full airing so that people can reflect on what has been said by those who have lived a full and varied life and want to impart something to a wider audience as they leave.

Q252 Mr. Horam: What do you think the consequences of the decision will be? Will more people publish their autobiographies, like Sir Christopher Meyer, and reflect more publicly than they have hitherto, when they have perhaps been satisfied with a private notice to their former employers about what they really thought?

Sir Ivor Roberts: I do not know. Christopher Meyer’s book is not full of wise stories about the Foreign Office. It seems to be more colour and fizz than—

Q253 Mr. Horam: There are nevertheless some quite interesting thoughts in it in the midst of all the rest.

Sir Ivor Roberts: Yes. I am all for having a much wider debate about foreign policy, and ambassadors’ valedictories form part of that process.

Chairman: The final question, Mr. Mackinlay. We have two minutes.

Q254 Andrew Mackinlay: I asked what the distribution of your valedictory was—just the numerical distribution, not the list—and they said they could not possibly tell me as it would cost too much. Could they have told me the number of people who were on the receiving end of your valedictory?

Sir Ivor Roberts: Not unreasonably, you referred to some of the Governments with whom you have had dealings. One was the Italian Government. Could it not have been embarrassing if that had got out? I am putting Ricketts’ case, if you like. It was a pretty wide distribution, from what you indicated earlier. Unusually, you have a valedictory interview with the Foreign Affairs Committee. It was distributed pretty widely and you were very candid in it. Was there not the potential for embarrassment diplomatically if it came out? In any event, could they have answered my question about how many people received your valedictory?

Chairman: Sir Ivor Roberts: I have seen the figure—I do not know whether it is correct—of 4,000.

Q255 Andrew Mackinlay: Is that right?

Sir Ivor Roberts: My valedictory dispatch was in two parts. The first was a valedictory to Italy and the second was a valedictory to the diplomatic service. It is right to ensure that comments made about a Government to whom you are accredited should be protected, but comments that are meant to give food for thought to Parliament, serving diplomats and the rest on a long career in foreign affairs might usefully be shared and discussed in forums such as this. I can see no technical reason why the two things cannot be divided.

Andrew Mackinlay: Final question.
Chairman: I am sorry, we have to conclude. We are about to lose our quorum, and we did say 6 o'clock. I am conscious, Sir Ivor, that you have covered a great quantity and quality of areas. We have got a lot of interesting information out of these two sessions this afternoon, and we are grateful to you. Thank you very much.

Sir Ivor Roberts: It was a pleasure. Thank you.
Written evidence

Email to the Second Clerk of the Committee from Mr Gary Evans

I am a British citizen currently working in the United States. My passport is due to expire so I looked at the British embassy website for Washington. If one needs to call the embassy you have to go through an Irish company called ABTRAN and pay premium charges of $2.10 per minute, mostly to listen to pre-recorded messages and instructions. When you do get through you are then dealing with people that are not employees of the FCO and I am not prepared to give an “outsider” personal details on my passport. Talk about potential security flaws in this arrangement!

However the telephone charges are excessive and in my view completely unjustified. It appears ABTRAN has metastasized its service like a cancer into all British embassy operations. So I wonder just how much money this foreign company is making on the backs of British citizens. What about security implications? How can these phone charges be justified in the name of public service?

I wish to make a formal complaint about this to your committee and ask that you investigate the value for money that is provided by this company on behalf of the FCO.

Gary Evans
Cocoa Beach
FL

8 March 2007