



House of Commons  
Foreign Affairs Committee

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# Foreign and Commonwealth Office Annual Report 2008–09

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**Fifth Report of Session 2009–10**

*Report, together with formal minutes, oral and  
written evidence*

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## The Foreign Affairs Committee

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

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# Conclusions and recommendations

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## Introduction

1. We conclude that the inclusion of the FCO's Resource Accounts with its Annual Report represents an improvement on previous practice, by placing all relevant information in a single publication and allowing the inclusion of actual rather than forecast spending figures, and that this benefit outweighs the disadvantage of having a slightly later publication timetable. We commend the FCO for publishing the new combined document in 2009 in good time for the Treasury deadline. (Paragraph 7)
2. We welcome the FCO's recognition of the importance of improving its engagement with Parliament, and the steps that it is taking in this respect. In the past we have been aware of how little contact with Parliament even relatively long-serving FCO staff may have, and the lack of understanding of Parliament within the FCO's corporate culture. We continue to appreciate the generally co-operative spirit in which the Department works with us. We recommend that, in the growing number of areas where the FCO works with other government departments, it should regard it as part of its enhanced parliamentary work to ensure that they too engage appropriately with Parliament and with us and our successor Committee following the 2010 General Election. (Paragraph 16)

## Overseas visits

3. We conclude that it is highly regrettable that we were unable to visit Gaza in February 2010. We further conclude that it is wholly unacceptable that the Israeli Government denies foreign Parliamentarians and political leaders access to Gaza via the Erez crossing. We call on the FCO to make strong representations to the Government of Israel about its policy of refusing access to Gaza to foreign parliamentary delegations. (Paragraph 19)
4. We have given serious consideration to the implications of the rule currently imposed by the Liaison Committee, that funding for overseas travel by select committees is contingent upon FCO security advice being followed. Although we note the assurances by Ministers that, in the case of our proposed Gaza visit, the FCO's advice was not influenced by political considerations, we conclude that there can be no guarantee that this will always be the case. We further conclude that the House authorities should not hand to the Government what could be an effective veto over select committee visits to sensitive parts of the world. It is not difficult to envisage circumstances in which the rigid application of this rule could significantly impede the parliamentary scrutiny of British foreign policy. We therefore recommend that our successor Committee in the next Parliament should raise this matter afresh with the Speaker and the Liaison Committee, with a view to seeking a modification of this rule, which could inhibit the effective scrutiny work of select committees. (Paragraph 20)

## Finance-related issues

### Impact of the fall of Sterling

#### *Sterling's decline and the FCO budget, 2008–10*

5. We conclude that the withdrawal of the Overseas Price Mechanism (OPM) made the 2007 Comprehensive Spending Review (CSR 07) settlement a uniquely risky one for the FCO, compared to other departments. We take no pleasure in pointing out that we warned of the possible effects of the OPM's withdrawal a year ago. Especially in the light of exchange-rate developments since the CSR 07, we cannot see that it remains credible to regard the costs of currency fluctuations as predictable ones which the FCO might reasonably be expected to absorb. Apart from the substantive spending effects involved, requiring the FCO to absorb such serious exchange-rate risk undermines accountability and strong budgetary planning. We further conclude that any suggestion that the FCO should allocate its resources partly on the basis of exchange-rate considerations is ludicrous. We agree with the FCO's Permanent Under-Secretary Sir Peter Ricketts, that exchange rates should not drive UK foreign policy. (Paragraph 29)
6. We conclude that, on the basis of the figures given by Baroness Kinnock in January 2010, the FCO has lost around 13% of the purchasing power of its core 2009–10 budget as a consequence of the fall of Sterling. We concur with the National Audit Office, that the withdrawal of the Overseas Price Mechanism and the subsequent fall of Sterling have had “a major impact on the FCO's business worldwide”. We note that the budgetary transfers which the FCO has made to try to help cope with the hit have absorbed all of the Department's contingency reserve at the Treasury in both 2008–09 and 2009–10, and we conclude that this represents an unacceptable risk to the FCO's ability to perform its functions. (Paragraph 35)

#### *Dues to international organisations*

7. We conclude that the rising Sterling costs of the UK's subscriptions and other obligatory contributions to international organisations are placing very severe strains on the FCO's budget and materially affecting its ability to continue with other spending. The FCO expects to spend around 6.1% of its total budget on international subscriptions in 2009–10. We further conclude that the strain on the FCO's budget is arising despite the fact that the increase in costs is to a significant extent beyond the Department's control, as it arises partly from Sterling's fall and partly from complex multilateral factors at the organisations concerned. (Paragraph 43)
8. We conclude that the UK's membership of international organisations such as the United Nations benefits many government departments. We therefore reiterate our previous recommendation that the costs of the UK's international subscriptions should be shared more equitably across Government, rather than falling almost entirely on the budget of the FCO. We recommend that the Government should agree a stable long-term mechanism to distribute more widely the costs of the UK's membership of international organisations as part of the Comprehensive Spending Review which is expected after the 2010 General Election. We further recommend

that consideration should be given to involving relevant home departments in supporting international missions in the police and judicial sectors. (Paragraph 48)

9. Inasmuch as the FCO can influence the size of the international budgets to which it must contribute, we conclude that its current policy and budgetary framework provides it with contradictory incentives—both to promote reform and an expansion in activities at international organisations, which might help the FCO to achieve its policy objectives; and to favour the *status quo* in order to keep its own budget down. We recommend that, while maintaining its strong commitment to international organisations, the FCO should continue to bear down on their costs—where this is compatible with the achievement of UK policy objectives—and pursue the more equitable sharing of costs among Member States as part of its agenda for international institutional reform. (Paragraph 50)

### Spending cuts

#### Overseas Posts

10. We conclude that the FCO's overseas Posts are facing very severe financial pressures as a result of the fall of Sterling that in some cases are a significant strain on their work and in others are unacceptably disrupting and curtailing it. We further conclude that the cuts that the FCO is making at its overseas Posts represent a serious reputational risk to the Department and the UK, and thus a threat to the FCO's effectiveness. (Paragraph 67)
11. Given the dispersal around the world of potential threats and areas of concern to the UK, and the large numbers of British citizens who travel widely overseas, closures of FCO overseas Posts risk leaving potentially damaging gaps in UK information-gathering, provision of assistance and exercise of influence. Post closures are also costly to reverse if judged subsequently to have been mistaken. We therefore conclude that the FCO is correct to identify as its top priority the maintenance of global UK representation through a network of overseas Posts. However, we further conclude that, without a marked easing in the financial pressures which they are facing, the FCO risks maintaining some Posts which are insufficiently resourced to carry out much effective work. We recommend that funding for the FCO should be increased to redress this. (Paragraph 76)
12. We concur with the FCO that as a general rule all British government departments and agencies should base their operations in any given overseas city in a single location. While we appreciate that other departments' use of FCO buildings may carry unavoidable extra security costs for them, we conclude that co-location in FCO premises is likely to enhance cross-departmental co-ordination and the projection of the UK presence. (Paragraph 83)
13. Where other departments make use of the FCO's overseas Posts, we conclude that the current department-by-department system by which the FCO recovers the associated costs is cumbersome and inefficient. We note that the numbers of personnel and departments using FCO overseas Posts may rise, and we therefore welcome indications that the system may be re-examined as part of the next

Comprehensive Spending Review (CSR) which is expected after the 2010 General Election. We recommend that the CSR should review the costs of the overseas network across relevant parts of Government and consider sharing costs on a more regularised, equitable and ongoing basis. (Paragraph 84)

14. We recommend that in its response to this Report the FCO should list the number of locations where there is currently co-location with DFID and set out the number of co-locations with DFID which it expects will be completed in the CSR 07 period, confirming whether the number will be lower than originally planned. (Paragraph 87)
15. Given the severe budgetary constraints facing the FCO, we conclude that the development of regional networks of Posts such as the Nordic-Baltic network, sharing work and resources while retaining representation in each country, represents a sensible—and potentially beneficial—way of maintaining the global network while reducing costs, as long as it does not come to act as “cover” for the downgrading or closure of British Embassies. We recommend that our successor Committee should keep this issue under review, and that the FCO should provide updated information on the development of regional networks of Posts in its response to this Report. (Paragraph 90)
16. We recommend that in its response to this Report the FCO should provide updated information on the number, size and development of the network of EU Delegations in third countries and at international organisations and on their relationship with UK overseas Posts, with particular respect to the future arrangement of the FCO global network, given current UK budgetary pressures. We also recommend that in its response to this Report the FCO states whether it is examining the closure of its Embassy or High Commission in certain countries in the knowledge of the likely presence there of an EU Delegation and, if so, in which countries. We further recommend that the FCO should set out the steps that it is taking to ensure that the High Representative for Foreign Affairs and Security Policy and the European External Action Service function within the parameters of the Lisbon Treaty and do not take over the decision-making and other functions of national foreign ministries, including with respect to consular tasks. We further recommend that the FCO should confirm whether it has ceased collecting data on the numbers of non-UK nationals being assisted by its overseas Posts, and if so, explain the reasons for this change of practice, and that it should recommence the collection of this important data. (Paragraph 96)
17. We recommend that, if it has not already done so by the time this Report is published, the FCO should copy to us at the earliest opportunity the High Representative’s proposed Council Decision on the European External Action Service, since we would wish to consider it and to have the option of commenting on it prior to the dissolution of this Parliament. We recommend that our successor Committee in the next Parliament should continue to take a close interest in the operation of the External Action Service, through its scrutiny of the FCO and its Ministers at the national level, and through mechanisms for the involvement of national Parliaments at the EU level. (Paragraph 97)

**Civilian conflict-related work: secondments to international missions**

18. We conclude that, as a result of the need for spending cuts, the FCO has made reductions to the numbers of UK secondees to international civilian missions in the Western Balkans which are deeply regrettable. As regards support for secondees, we recognise that the UK must prioritise among a large number of international civilian missions, and that the UK continues to have a large presence in some cases. However, the UK has a significant interest in the success of the international post-conflict effort in the Western Balkans. We conclude that the message sent by the reduction in UK participation in these high-profile missions sits uncomfortably with the Government's stated commitment to the region and to the development of effective international civilian post-conflict capabilities. (Paragraph 108)
19. We conclude that the creation of the Civilian Stabilisation Group under the joint FCO-DFID-MOD Stabilisation Unit is to be welcomed, as potentially increasing the UK's ability quickly to deploy a wide range of civilian experts to post-conflict missions overseas. However, we further conclude that a major constraint on UK civilian deployments has been funding, and that the creation of the Civilian Stabilisation Group does not in itself address this. We recommend that the FCO should inform us, in its response to this Report or earlier if the information is available, of the funding that will be available for peacekeeping and other post-conflict and conflict prevention activities in 2010–11, and of the numbers of UK secondees to international civilian missions that it expects to be able to support in that year. We further recommend that our successor Committee may wish to consider inquiring into the UK's capacity to deploy civilians to post-conflict missions overseas. (Paragraph 109)

**Management of exchange-rate risk**

20. We conclude that, because Sterling weakened between the conclusion of the 2007 Comprehensive Spending Review (CSR 07) in October 2007 and the time at which the FCO placed its first forward contracts for foreign currency purchases in May 2008, the FCO incurred direct extra costs as an immediate consequence of the withdrawal of the Overseas Price Mechanism (OPM) under the CSR 07, and as a result of the timing of the decision. We further conclude that the failure to put mitigating arrangements in place by the time the withdrawal of the OPM was put into effect, at the start of the 2008-09 financial year, suggests a lack of effective joint working between the FCO and the Treasury, and that this amounts to poor management of the withdrawal. (Paragraph 116)
21. We conclude that as a result of the OPM's withdrawal, managers throughout the FCO network, including those at the most senior level, have spent considerable amounts of time since late 2007 seeking to manage and mitigate the effects of currency fluctuations. We do not consider that senior FCO staff are the most appropriate personnel to be carrying out this work, nor that this is the best use of their time and skills. (Paragraph 117)
22. We commend the FCO for developing, after an uncertain start, a forward-purchasing operation which reduced the scale of the losses that would otherwise

have arisen from Sterling's fall and helped the Department to remain within budget in 2008–09. However, we conclude that forward-purchasing in a limited number of foreign currencies, as the FCO has done, whilst providing greater foreign exchange certainty, cannot protect the Department's non-Sterling purchasing power from the basic fact of Sterling depreciation. We deplore the fact that the policy of the Treasury and the ending of the Overseas Price Mechanism in 2007 have made forward-purchasing by the FCO necessary. (Paragraph 121)

23. We recommend that in its response to this Report the FCO should set out how it is weighing the increased certainty which is achieved through forward-purchasing, on the one hand, against the risk, on the other, that forward contracts could be less favourable than spot purchases if Sterling strengthens. We further recommend that in its response to this Report, or earlier if possible, the Department should provide an update on its foreign currency management plans for the 2010–11 financial year. (Paragraph 123)
24. We recommend that in its response to this Report the FCO should update us on any discussions which it is having with other government departments about the possible joint management of exchange-rate risk, and on the development by the Treasury of cross-government guidance on foreign currency management. (Paragraph 125)

#### *Prospects for 2010–11 and beyond*

25. Given the way in which the FCO has recently improved the timeliness of its budgetary processes, and especially if it seeks to allocate Posts' budgets in local currencies rather than Sterling for the first time, we recommend that the Department should do all it can to ensure that it reaches a 2010–11 budgetary settlement with the Treasury in good time to allow it to allocate internal budgets before the start of the 2010–11 financial year. (Paragraph 129)
26. We conclude that recent public statements by the Foreign Secretary and Baroness Kinnock are evidence that the FCO is "going public" about the scale of its financial difficulties. We welcome the agreement with the Treasury for additional financial resources for 2010–11 which appears to have resulted. We welcome in particular the Treasury's implicit acknowledgement that the management of the exchange-rate pressures which face the FCO requires support from the Treasury Reserve. We conclude that the measures announced in February 2010 should substantially reduce the pressures on the FCO budget in 2010–11 arising from the withdrawal of the Overseas Price Mechanism and the fall of Sterling, although we note that the currently costed plans do not make up all the expected shortfall. We regard it as unacceptable that as a result of Treasury policy the FCO's operations came to be under such strain before agreement on some financial relief was reached. We recommend that in its response to this Report the FCO should provide further details of the expected operation of the measures announced in February 2010, as well as its estimate of the cash increase to the FCO's 2010–11 budgeted income which is likely to be realised as a result. (Paragraph 135)
27. We are concerned that the agreement announced in February 2010 between the FCO and the Treasury on the FCO's finances for 2010–11 breaches the ring-fencing of

funding for the British Council and BBC World Service. We recommend that in its response to this Report the FCO should provide an assurance that this will not be repeated. (Paragraph 136)

28. We note that the agreement with the Treasury which was announced by the FCO in February 2010 comprises a set of one-off measures which apply only to the 2010–11 financial year and which do not address the impact of the withdrawal of the Overseas Price Mechanism (OPM) on a longer-term basis. We recommend that the OPM should be re-established, or an alternative mechanism put in place to protect the FCO, with its unique degree of exposure to currency fluctuations, from suffering severe financial consequences as a result of such fluctuations. (Paragraph 138)
29. We conclude that the FCO has been losing out relative to other departments and agencies in the allocation of government spending, in a consistent trend over the last two spending rounds. In real terms, the FCO's Total Departmental Spending excluding conflict prevention (in Sterling terms) is expected to be around 3% above the 2004–05 baseline in 2009–10 and 0% above the same baseline in 2010–11, whereas the figures for DFID, for example, are around 50% and 70% higher, respectively. We agree with the Foreign Secretary that there is no absolute correlation between budgets and influence. Nevertheless, we recommend that the trend whereby the FCO has been losing out relative to other departments in the allocation of government spending should be reversed. (Paragraph 142)
30. We appreciate that all government departments face a major squeeze on public spending, and that protecting the work done by the FCO may not be at the top of the British public's list of priorities. Nevertheless, we conclude that the FCO has a strong case to make about the value of its work in the national interest, about the extent to which it has already made cuts, and about the severity of the budgetary situation in which it finds itself, largely for reasons beyond its control. (Paragraph 143)

### Efficiency savings

31. We conclude that in the last two spending round periods the FCO has consistently taken seriously the Government's efficiency savings requirements, and has met or exceeded savings targets. We recommend that the FCO should continue to make a sustained effort to reduce costs where it reasonably can, in line with the requirements of the Comprehensive Spending Review 2007—but that it should resist the temptation to seek savings over-aggressively in order to make up the Department's budgetary shortfall, at the risk of cutting into its substantive operations and capabilities. (Paragraph 151)
32. We recommend that in its response to this Report the FCO should set out the basis for its claims regarding the amount of management time being saved by the “10,000 days” project, with examples of the kinds of bureaucracy that have been eliminated. We further recommend that the FCO should provide details of the work which is planned under the Corporate Services Programme for 2010–11, including information on the savings which the programme is expected to generate over the year. We further recommend that the FCO should provide us with an assessment of

the initial operation of the new Corporate Services Centre in Milton Keynes. (Paragraph 153)

### Financial management

33. We recommend that in its response to this Report the FCO should state whether it achieved its forecast of having 17% of its financial staff with professional qualifications by the end of the 2009–10 financial year. (Paragraph 156)
34. We recommend that the FCO should continue to bear down heavily on its consultancy costs. We further recommend that the FCO should provide an estimate of its spending on consultancy in 2009–10 in its response to this Report. (Paragraph 158)
35. We recommend that in its response to this Report the FCO should update us on the implementation of its action plan for improving programme and project management capability, including information on its plans for assessing the impact of the project. (Paragraph 160)
36. We conclude that there appears to be significant scope for the FCO to improve its procurement practices. We recommend that in its response to this Report the FCO should update us on its progress in implementing its procurement improvement plan, and in particular set out whether all elements are now back on track for completion on time by February 2011. We further recommend that the FCO should provide its estimates for the savings achieved so far and likely to be achieved by the end of the project. (Paragraph 162)
37. We conclude that the way in which the FCO picked up on its likely overspend early in the 2009–10 financial year reflects the effectiveness of its efforts to improve its in-year budgetary monitoring. (Paragraph 165)
38. We conclude that the FCO's failure to complete its "5 Star Finance" programme during the 2009–10 financial year is disappointing. However, we further conclude that there is no evidence that the delay reflects any deterioration in FCO financial management. Rather, we concur with the National Audit Office and the Public Accounts Committee that the FCO's financial management has improved significantly in recent years. We conclude that the FCO's elimination of its underspending habit in 2008–09 is especially to be welcomed. We further conclude that the delay in achieving "5 Star" status largely reflects the high standards which the FCO is setting for itself; and that the fact that the Department too recognises that there remains scope for important improvement is to be welcomed. We recommend that in its response to this Report the FCO should provide its current estimated completion date for the "5 Star Finance" programme. (Paragraph 170)

### Estate management

39. Despite the FCO's need to plug its budget shortfall, we reiterate our previous conclusion that sales of FCO properties should take place on their merits, rather than purely to raise revenue. We continue to recommend that the FCO should keep us

and our successor Committee closely informed about the FCO's plans for asset sales. (Paragraph 177)

40. We conclude that the FCO's new strategy of seeking to exploit its estate for greater financial return is to be welcomed, but subject to the proviso that such efforts do not generate conflicts of interest or compromise the Department's reputation or policies. We recommend that in its response to this Report the FCO should list a sample of non-FCO events for which the Department hired out its premises in 2009–10 and provide an estimate of the income generated from such activities. (Paragraph 179)
41. We recommend that the FCO should give us sight of its review of the Harare Embassy project, or otherwise report to us in its response to this Report on the findings of the review. (Paragraph 182)
42. With regard to the Moscow Residence renovation project, we conclude that the Russian authorities may well have made unexpected demands, but that it appears that elements of the project may also have suffered from poor planning and management on the FCO side. We recommend that in its response to this Report, the FCO should state whether the new estate project management procedures which were introduced as a result of the recent troubled residential project in Pakistan would have prevented at least some of the difficulties which have been encountered with the Moscow Residence project; and if not, whether the Moscow experience will lead to any further strengthening of FCO practices. (Paragraph 185)
43. We recommend that the FCO should send us or our successor Committee, as well as the Public Accounts Committee, a copy of its new estates strategy as soon as it is finalised. (Paragraph 190)
44. We conclude that the Department's new drive to strengthen its estates management is to be welcomed. This is especially the case given our previous criticisms of some FCO estate projects and the shortcomings identified by the National Audit Office in its recent Report on the FCO's management of its estate. We recommend that the FCO's new estates management strategy should give due weight to the non-financial, 'prestige' value of some FCO properties, which we conclude can bring material benefits in terms of projecting the UK presence. (Paragraph 193)

## Staffing issues

### Localisation of staff

45. We conclude that locally-engaged (LE) staff make an important contribution to the work of the FCO, and bring considerable value to the organisation. However, we also conclude that their use in a growing range of jobs, some at increasingly senior level, carries some risks for the Department. We would be concerned if the localisation of FCO jobs were being driven purely by cost considerations. Difficulties might arise if the use of LE staff reached a level which would restrict the opportunities of UK-based staff to serve in overseas Posts, including in Management Officer positions, because such service is a crucial element in building the FCO's policy knowledge and management capabilities. We would also be concerned if the increasing use of LE staff were to be associated with any further reduction in the number of UK-based

staff acquiring language skills, since we have consistently taken the view that their language skills have been one of the major assets of British diplomats abroad. We further conclude that the localisation process requires careful management in terms of its impact on UK-based staff. We recommend that in its response to this Report, the FCO should provide further details on the process by which it is localising Management Officer positions in many overseas Posts. (Paragraph 203)

46. We recommend that in its response to this Report the FCO should provide a breakdown of its 2009 Staff Survey results between UK-based and locally-engaged staff, as it did for its 2008 Survey; or explain why this data was not produced, at a time when local staff morale is of particular importance. (Paragraph 206)
47. We conclude that the steps which the FCO is taking better to integrate its locally-engaged (LE) and UK-based staff are to be welcomed. We further conclude, however, that the way in which LE staff are taking the brunt of the cuts necessitated by the FCO's current financial situation risks seriously undermining this effort and potentially weakening the FCO's ability to recruit good local staff in future. (Paragraph 208)

#### *Locally-engaged staff and diplomatic immunity*

48. We conclude that the actions taken by the Iranian authorities against the British Embassy's Iranian staff are deplorable. We further conclude that the limitations that exist on the diplomatic protection that may be available to locally-engaged staff, especially in the case of nationals of the receiving state, represent a constraint on the FCO's ability to make greater use of such personnel. We recommend that the FCO should consider requesting the conferral of diplomatic status on locally-engaged staff, as it is entitled to do under the Vienna Convention, on a case-by-case basis if the relevant Head of Mission judges that this would facilitate the work of the relevant Post, and that this possibility should be made clear in the FCO's Diplomatic Service Regulations. (Paragraph 214)

#### **Staff morale issues**

49. We conclude that FCO staff morale has strong roots and the Department's management and staff are showing considerable resilience in difficult circumstances. However, we further conclude that cutbacks and a large degree of change at the FCO pose considerable challenges to maintaining staff morale in future years. Given the weaknesses which we have identified previously in the FCO's human resources function, we are less than fully confident that the Department will provide the necessary support. We recommend that in its response to this Report, the FCO should provide information on the impact on staff morale of already-implemented and planned cuts, including those to travel and other allowances. We further recommend that the FCO should outline its plans for supporting staff through the current period of change and uncertainty, giving details of the support that will be provided to the categories of staff likely to be hardest hit, such as UK-based Management Officers whose postings will be ended early. (Paragraph 220)

50. We conclude that the FCO's "pool" system, for staff who have not yet found a new position in internal competitions, may waste resources and have a demoralising effect. We recommend that in its response to this Report, the FCO should provide its view of the "pool" system and information on any plans it may have to change it, particularly by reducing the potential for damaging consequences for staff who spend a period of time between long-term positions. (Paragraph 222)
51. We share the concern of the FCO's management about the relatively high levels of discrimination, harassment and bullying being reported by FCO staff. We recommend that in its response to this Report, the FCO should provide any conclusions it has reached as to why its attempts so far to reduce discrimination, harassment and bullying appear to have had little impact, and outline any changes it plans to make to its efforts in this regard. We recommend that our successor Committee in the next Parliament should continue to scrutinise this issue. (Paragraph 226)
52. We note the fact that ethnic minority staff in the FCO are disproportionately reporting discrimination, harassment and bullying. We recommend that the FCO should pay particular attention to addressing this. We welcome the steps that the FCO has taken so far to try to increase the diversity of its workforce, and we look forward to the results of these efforts becoming increasingly evident at senior management levels. (Paragraph 230)

### Secondments to the European External Action Service (EEAS)

53. We reiterate our conclusion from 2008, that "it would be beneficial to the UK for national secondees to be well represented among the new [European External Action] Service's staff". We welcome the support which the FCO has expressed for UK secondments into the Service, and we conclude that British officials may be in a strong position to take important External Action Service positions, although significant UK representation in the Service may require relations to be carefully managed with Member States who may feel that they are under-represented. (Paragraph 239)
54. We conclude that some aspects of the participation of national secondees in the European External Action Service are becoming clearer than they were at the time of our Report in January 2008. Nevertheless, many further important details of the recruitment process into the Service remain to be clarified, at both the national and EU levels. While we recognise that only a small number of FCO staff are likely to be seconded into the Service, we recommend that the FCO should continue to keep us and our successor Committee closely informed, including by forwarding at the earliest opportunity Baroness Ashton's proposed Council Decision on the External Action Service, if it has not already done so by the time this Report is published. (Paragraph 240)
55. We recommend that our successor Committee in the next Parliament should continue to take a close interest in the operation of the External Action Service and the work of the High Representative for Foreign Affairs and Security Policy, through its scrutiny of the FCO and its Ministers at the national level. (Paragraph 241)

## Senior personnel issues

### Ministerial line-up

56. We conclude that the frequency of changes in the FCO Ministerial line-up in recent years has not been conducive to good government. We further conclude that this problem has been compounded by the reduction in the number of FCO Ministers, and the consequent increase in the breadth of Ministerial portfolios. We note that the FCO currently has a Ministerial team of only three in addition to the Secretary of State, which is significantly smaller than during most of the period since 1979. We conclude that requiring a small number of Ministers to cover increasingly large portfolios may carry risks, in terms of both the management of policy and the messages sent to partners in Government and other countries about the weight given to particular issues and relationships. The current over-loading of portfolios makes it difficult for individual Ministers, however talented and hard-working, to carry out their full range of duties effectively. We recommend that following the General Election the new Government, of whatever party, should increase the size of the FCO Ministerial team in the House of Commons, preferably by restoring at least one of the two Minister of State posts which the FCO has lost since 1997. (Paragraph 249)

### Special representatives, envoys and advisers

57. We conclude that special representatives and envoys on international issues can make a useful contribution to achieving the objectives of the FCO and the Government, especially in new areas of work where mechanisms of co-operation across Whitehall or with foreign partners may not be well established. Suitably qualified individuals can be appointed to such roles without the need for major organisational change. However, we note with concern that the increasing use of individuals in these roles may be being driven partly by constraints on funding and Ministerial time. With respect to parliamentary scrutiny and accountability, we conclude that the appointment as special representatives and envoys of career officials for whom the Foreign Secretary is clearly responsible is largely unproblematic. However, the Prime Minister's appointment to such posts of serving politicians, answering to him rather than to the FCO, raises significant issues regarding their accountability to, and scrutiny by, this Committee and Parliament generally. (Paragraph 255)

### Chief Scientific Adviser

58. We conclude that it is important that the FCO should have access to wide-ranging, high-quality independent scientific advice, but that it is not self-evident that the appointment of a Chief Scientific Adviser for the Department is the best way of achieving this. We recommend that the FCO should provide in its response to this Report more detailed information about the Chief Scientific Adviser's work, including his salary; the Department's evaluation of the contribution which he is making; and plans for his role and its assessment during the remainder of his contract. In particular, we recommend that the FCO should set out in detail the Chief Scientific Adviser's role in relation to the management and use of the Science and Innovation Network in FCO Posts overseas. We further recommend that

Professor Clary should be invited to submit to our successor Committee his personal views on the usefulness of his role, in particular regarding the appropriateness of the resources available to him and to science-related work in the FCO, and the value to his work of the Science and Innovation Network. We also recommend that the FCO should state in its response to this Report whether it will be subject to one of the Science and Engineering Assurance reviews which the Government Office for Science conducts of government departments. (Paragraph 260)

### **Appointment of non-diplomats to senior diplomatic posts**

59. We conclude that Baroness Amos has had a distinguished career in politics, and we have no objection to her appointment as High Commissioner to Australia arising from her character or abilities, although we note that she has had very limited previous acquaintance with that country. We wish her well in her new post. However, we further conclude that the limited duration of her initial appointment, and the suggestion that this is in order to leave open the possibility of her recall if there were to be a change of Government, illustrate why the appointment of politicians to diplomatic postings can be problematic. (Paragraph 268)
60. As in previous years, we reassert our right to carry out on behalf of Parliament advance scrutiny of the appointment of figures from outside the diplomatic service to senior diplomatic or consular posts. We support the principle of the amendment recently tabled to the Constitutional Reform and Governance Bill, which would have had the effect of limiting to three the number of personnel appointed to such posts at any one time. (Paragraph 271)

## **Communications and public diplomacy**

### **Communications**

#### ***Departmental Annual Report***

61. We conclude that the Annual Report is unsuitable as a potential promotional publication, given the level of detail which it must also contain. We recommend that in future Annual Reports the emphasis should be placed on enhanced factual information (with restoration of the useful index) and sober assessment of the FCO's work in achieving British foreign policy interests, rather than promotional photography. (Paragraph 274)

#### ***New media***

62. We commend the FCO's enhanced efforts to use new media to provide information to, and engage with, the public and to drive public diplomacy campaigns designed to complement its diplomatic efforts. We recommend that in its response to this Report, the FCO should provide such information as it has available so far regarding the ongoing impact of its communications and public engagement activities on the levels of public understanding of, and support for, the Department which were reported in the 2008 "Stakeholder Survey". (Paragraph 280)

63. We conclude that the FCO website continues to prioritise news and specially-created content designed to promote the Department and/or UK policy over the systematic provision of hard information and access to original texts and documents, especially those more than a few months old. Alongside its efforts with respect to travellers and those following the news, we recommend that the FCO should continue to work to enhance the usefulness of its website to researchers and policy professionals, who may primarily seek speedy access to factual background information and specific original texts relevant to UK foreign policy. (Paragraph 283)

### Public diplomacy

64. We conclude that the new arrangements for the governance of the FCO's public diplomacy work, with the relevant highest-level body now chaired by the Foreign Secretary rather than a more junior Minister, appear to be in accord with the more central place that public diplomacy is taking in the FCO's work. We recommend that the FCO should provide updated information on the operation of the new structures in its response to this Report, and to our successor Committee following the planned second meeting of the new Strategic Communications and Public Diplomacy Forum in July 2010. (Paragraph 287)

## Objectives, performance and role

### Post-2007 framework and performance

65. We conclude that, two years after it came into operation, the FCO's new Strategic Framework appears to have become well established internally and across Whitehall as a means of giving greater focus and clarity to the Department's activities. (Paragraph 290)
66. We note that, contrary to what would have been warranted by the Treasury guidance on the use of performance indicators, the FCO felt unable to give itself a "strong" performance rating on several key policy objectives in 2009, including weapons proliferation, conflict prevention and the promotion of a low-carbon, high-growth global economy. We reiterate our conclusion that the Government's current system for performance measurement is inappropriate for the FCO. We further conclude that, at least as regards policy objectives, the current elaborate performance reporting system absorbs large amounts of FCO staff time that might be better spent on other matters, without necessarily generating significant new information. (Paragraph 298)

### UK Trade and Investment (UKTI)

67. We recommend that in its response to this Report the FCO should provide updated information on UKTI's responses to the global recession and the April 2009 National Audit Office report on the organisation, including information on the results which UKTI is achieving for UK businesses. We further recommend that the FCO should provide information on any plans to improve the measurement of UKTI's impact. (Paragraph 303)

- 68.** We recommend that in its response to this Report, the FCO should provide the initial information available from UKTI's Performance Impact and Monitoring Survey (PIMS) as to the effectiveness of the Defence and Security Organisation in assisting UK defence exports, compared to that of its predecessor, the Defence Export Services Organisation; and should assess the strength of the data which is provided through PIMS. We further recommend that the FCO should assess whether the handover of responsibility for UK defence exports promotion to UKTI, a body for which the FCO has joint responsibility, has given rise to any potential conflicts of interest or negative consequences for the Department's policy work. (Paragraph 305)

### Consular services

- 69.** We recognise the importance of the FCO's consular work to the Department's public profile and the challenges that are arising from changing patterns of British travel and residence abroad. We therefore commend the improvements that the FCO is making to its consular services. We conclude that the FCO is handing responsibility for overseas passport issuance to the Home Office's Identity and Passport Service at a time when it may become slower and more difficult to receive a British passport—owing to the introduction of stricter requirements for first applicants and the rationalisation of passport processing in fewer centres—and that the process therefore raises some reputational risks for the Department which will require careful management with the Home Office and the provision of clear explanation to the public. We urge our successor Committee in the new Parliament to maintain a close interest in the FCO's consular work. We further recommend that, as it develops its new consular strategy for 2010–13, the FCO should provide updated information in its response to this Report and subsequently to our successor Committee. (Paragraph 313)

### Migration services and UK Border Agency (UKBA)

- 70.** We conclude that the FCO should convey a clear message to the Home Office and the UK Border Agency that immigration policies and practices have significant implications for the UK's foreign relations, as well as for domestic security, economic and community policies. (Paragraph 318)
- 71.** We recommend that our successor Committee in the next Parliament should pay particular attention to the growing importance of the FCO's relationship with the Home Office, in areas of key importance to the UK public and the FCO's reputation and policy objectives. (Paragraph 321)

### Overseas Territories

- 72.** We conclude that, although the Overseas Territories do not have large populations or take up a large proportion of the FCO budget, they present particular challenges and responsibilities to the FCO concerning their governance. Notwithstanding the Overseas Territories' inclusion on the FCO's Top Risks Register in 2009, we remain unconvinced that the Department is exercising its responsibilities for them with

sufficient diligence. We recommend that, in light of the problems which have arisen in connection with a number of the Territories, in its response to this Report the FCO should set out any plans it has to review or strengthen its handling of Overseas Territories matters. (Paragraph 326)

73. We recommend that our successor Committee in the next Parliament should consider making the close scrutiny of the FCO's handling of its responsibilities for the Overseas Territories an ongoing part of its work. (Paragraph 327)

#### **The FCO's policy role**

74. We conclude that, with regard to funding arrangements and performance management, the Treasury has too often treated the FCO as "just another Department", when it is clear from international experience that foreign ministries are not like other departments. We further conclude that it is incongruous that the position of the only government department with a global reach is threatened with erosion at a time when globalisation is acknowledged as the key phenomenon of our times. We conclude that there continues to be a vital need for the FCO to have sufficient resources to enable it to carry out its traditional functions, of the interpretation of developments overseas and the formulation of policy. (Paragraph 337)
75. We recommend that the new Government should carry out a comprehensive foreign policy-led review of the structures, functions and priorities of the FCO, MOD and DFID. (Paragraph 338)

# 1 Introduction

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1. The Foreign Affairs Committee has a remit from the House of Commons to examine the “expenditure, administration and policy” of the Foreign and Commonwealth Office (FCO) and associated public bodies.<sup>1</sup> Like most other departmental select committees, the Foreign Affairs Committee uses the Department’s Annual Report as the basis for an annual inquiry into the expenditure and administration elements of this remit, and into other overarching matters pertaining to the Department’s work. We and our predecessors have been conducting such inquiries each year since departments began publishing Annual Reports in 1991. The current inquiry and Report continue this series.

2. The financial year which we examine in the current Report, April 2008–March 2009, was the first in which the FCO was operating under the terms of the 2007 Comprehensive Spending Review (CSR 07)—which covers the three years 2008–11—and of the Department’s new Strategic Framework, which the present Foreign Secretary, Rt Hon David Miliband MP, initiated after taking office in June 2007.<sup>2</sup> Both of these were intended to shape the Department’s work for some time. The present Report will be our last on an FCO Annual Report in the 2005–10 Parliament. On some issues, we have therefore taken the opportunity to adopt a longer-term perspective and offer the FCO and our successor Committee some comment accordingly.

## Structure of the Report

3. The FCO’s two main associated public bodies are the British Council and the BBC World Service. In previous years, we have examined both bodies’ Annual Reports as part of our inquiry into the FCO’s Annual Report, and made a single Report on all three.<sup>3</sup> This year, we have produced separate Reports on the 2008–09 Annual Reports of the British Council and World Service.<sup>4</sup> The current Report therefore concerns the FCO only, although at paragraphs 133–136, as part of our discussion of financial matters, we note with concern the most recent implications of the FCO’s financial difficulties for the British Council and BBC World Service.

4. Our decision to report separately on the British Council and BBC World Service was a consequence of the FCO’s decision to delay publication of its Annual Report from its normal late-spring timing to 30 June 2009 (for which, see next paragraph). This meant that we were unable to take oral evidence from FCO Permanent Under-Secretary Sir Peter Ricketts before the summer recess. Other commitments on both sides then meant that this session was not held until December 2009. Meanwhile, our work on the 2008–09 British Council and World Service Annual Reports proceeded in accordance with our

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1 Standing Orders of the House of Commons: Public Business 2010, SO 152

2 See HC Deb, 23 January 2008, col 52–3WS; FCO, *Departmental Report 1 April 2007–31 March 2008*, Cm 7398, pp 15–16, 84–85.

3 For example, Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195

4 Foreign Affairs Committee, Second Report of Session 2009–10, *The Work of the British Council 2008–09*, HC 333, and Third Report of Session 2009–10, *The Work of the BBC World Service 2008–09*, HC 334

customary—earlier—timetable, enabling publication of our Reports on those bodies in February 2010.<sup>5</sup>

5. The FCO delayed publication of its 2008–09 Annual Report in order to comply with Treasury guidance that departments should henceforward publish their Annual Reports in conjunction with their Resource Accounts for the year in question. The latter can only be compiled and cleared following the end of the financial year. HM Treasury proposed the new system as part of the “Clear Line of Sight” Alignment Project, which is intended to improve Parliament’s ability to scrutinise government spending, and the reform was approved by the House.<sup>6</sup> During discussion of the new system, it was raised as a possible disadvantage that committees might be unable to take evidence on the new-style Reports before the summer recess, given the new documents’ later publication schedules. In our case, the FCO gave us a full explanation of the revised timetable in good time, and we did not find the later schedule too problematic.<sup>7</sup> The Treasury deadline for publication of the new combined documents for 2008–09 was 21 July 2009, the last day before Parliament’s summer recess. By publishing on 30 June, the FCO not only met the Treasury deadline, but also became the first major government Department to publish the new-style combined document.<sup>8</sup>

6. Sir Peter Ricketts told us that “including the Resource Accounts [with the Annual Report] means that readers have a complete picture of what a Department has done in the previous financial year”, and that figures for actual—rather than forecast—spending can be included.<sup>9</sup> The FCO added that combined publication aided consistency and reduced duplication.<sup>10</sup> Sir Peter felt that it was a “sensible reform”.<sup>11</sup> We agree. In line with the Treasury guidance, the FCO intends to continue to produce a combined Departmental Annual Report and Resource Accounts in future years.<sup>12</sup> While we welcome the combined publication of the Annual Report and Resource Accounts, we have other concerns about the nature of the Annual Report which we raise at paragraphs 272–274 in Chapter 5, where we consider the FCO’s communications work.

**7. We conclude that the inclusion of the FCO’s Resource Accounts with its Annual Report represents an improvement on previous practice, by placing all relevant information in a single publication and allowing the inclusion of actual rather than forecast spending figures, and that this benefit outweighs the disadvantage of having a slightly later publication timetable. We commend the FCO for publishing the new combined document in 2009 in good time for the Treasury deadline.**

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5 Foreign Affairs Committee, Second Report of Session 2009–10, *The Work of the British Council 2008–09*, HC 333, and Third Report of Session 2009–10, *The Work of the BBC World Service 2008–09*, HC 334

6 HM Treasury, Alignment (Clear Line of Sight) Project, Memorandum to the Public Accounts Committee, Treasury Committee, Liaison Committee, Procedure Committee and Modernisation Committee, November 2008, at [http://www.hm-treasury.gov.uk/d/clear\\_line\\_of\\_sight\\_memorandum.pdf](http://www.hm-treasury.gov.uk/d/clear_line_of_sight_memorandum.pdf), and *Alignment (Clear Line of Sight) Project*, Cm 7567, March 2009; Liaison Committee, Second Report of Session 2008–09, *Financial Scrutiny: Parliamentary Control over Government Budgets*, HC 804, paras 71–75

7 Ev 28

8 Ev 60

9 Ev 28

10 Ev 69

11 Ev 28

12 Ev 69

8. Our inquiry into the FCO's Annual Report raises a large number of issues each year. Given constraints of time and space, especially in the run-up to a general election, we make no attempt to discuss all these issues in detail in this Report. We print all relevant evidence, and where appropriate we supply references to our previous Reports where specific issues have been discussed in greater depth. Chief among the matters to which we have given particular attention in this year's Report is the FCO's financial situation. Severe difficulties have arisen for the Department as a result of the fall of Sterling. We discuss this issue in Chapter 2, along with the FCO's management of its finances and estate, and its efficiency savings programme. In Chapter 3, we consider selected staffing issues, namely the localisation of FCO jobs, matters relating to staff morale, and the new European External Action Service (EEAS), to which UK national civil servants may be seconded. In Chapter 4, we consider some issues relating to the FCO's senior personnel, namely Ministers, special representatives, envoys and advisers, and senior diplomatic appointments. In Chapter 5, we comment on the FCO's communications and public diplomacy work. Finally, in Chapter 6 we consider the FCO's framework of objectives and its performance against them, concluding with an assessment of the FCO's longer-term policy role.

## Our inquiry

9. We announced our inquiry into the FCO's 2008–09 Annual Report on 14 July 2009.<sup>13</sup> We held a single evidence session, on 9 December, with Sir Peter Ricketts KCMG, Permanent Under-Secretary, and two other FCO officials: James Bevan, Director General Change and Delivery, and Keith Luck, Director General Finance. In addition, in a separate session, also on 9 December, we took oral evidence from the Foreign Secretary in connection with our ongoing inquiry into "Developments in the EU". In this Report we draw on some of Mr Miliband's replies, particularly those relating to the European External Action Service and to FCO financial matters.<sup>14</sup> We would like to thank all of our witnesses, and all those who submitted written evidence.

10. In addition to formal evidence, we gather much information which is useful for this inquiry during the overseas visits which we undertake in connection with other inquiries. These entail extensive contact with FCO Posts. We would like to thank all those involved.

11. We received assistance in this year's inquiry from the National Audit Office (NAO), the House of Commons Library and the Scrutiny Unit of the House of Commons Department of Chamber and Committee Services. We are grateful to all these bodies for their contributions, and to the NAO in particular for supplying, in response to a request from us, a valuable paper on the impact and management of the fall of Sterling as regards the FCO's finances.<sup>15</sup>

12. Our inquiry into each year's FCO Annual Report is, in practice, a rolling one, which considers matters arising well into the year following that covered in the Report in question. This has been especially the case in relation to the present Report, owing to our

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13 Foreign Affairs Committee, press notice 28 (Session 2008–09), 14 July 2009

14 Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 9 December 2009, HC (2009–10) 144

15 NAO, *Management of Exchange Rate Risk by the Foreign and Commonwealth Office*, Ev 129; also published by the NAO at [http://www.nao.org.uk/publications/0910/exchange\\_rate\\_risk.aspx](http://www.nao.org.uk/publications/0910/exchange_rate_risk.aspx)

concern about the FCO's developing financial situation. The bulk of this Report was prepared in January and early February 2010, with the beginning of March the final cut-off point for matters to be included.

## Co-operation with the FCO

13. Our annual inquiry generates a large volume of correspondence with the FCO, which is channelled through its Parliamentary Relations Team (PRT). We would like to thank the members of PRT for their efforts to ensure that we receive the information we need in good time, as well as all the other members of FCO staff involved in responding to our requests.

14. In addition to information requested by us, the FCO has continued to volunteer a range of other documents and information. During our current inquiry, the FCO sent us the 2008 and 2009 FCO Staff Surveys;<sup>16</sup> a “Stakeholder Survey” among the public which the Department commissioned from an independent polling company in summer 2008;<sup>17</sup> the FCO's 2009 Survey of Whitehall Partners;<sup>18</sup> the “People Strategy” which the Department launched in July 2009;<sup>19</sup> and a leaflet for staff entitled “The FCO Way”, concerning the organisation's culture.<sup>20</sup> The Department also ensured that we received a timely copy of the March 2009 report of the Cabinet Office's latest Capability Review of the FCO.<sup>21</sup> We are pleased that Sir Peter Ricketts has continued to send us quarterly management letters, which keep us updated on a range of FCO management issues, including ones where there may be problems with the Department's performance.<sup>22</sup> We continue to believe that the FCO should give us sight of its Top Risks Register, in confidence, notwithstanding the fact that Sir Peter provides a list of the items on the Register in his regular letters.<sup>23</sup>

15. In summer 2009, the FCO developed a new parliamentary engagement strategy. The Department told us that it had done so “in order to help FCO staff deliver a better service to Ministers and Parliament”, and that the strategy involved “staff knowing better how Parliament works and how best to work with it; improving understanding of our policy in Parliament; and delivering our parliamentary business on time and to the highest standard”.<sup>24</sup> The FCO said that it would review the effectiveness of the strategy for the new

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16 Not printed; the 2008 Survey is available on the FCO website, at <http://www.fco.gov.uk/resources/en/pdf/feedback-survey-fco-2008.pdf>; the 2009 Survey was expected to be published shortly as we completed this Report in early March 2010; for correspondence in connection with the Staff Surveys, see Ev 37, 51, 91, 104.

17 Not printed; see Ev 63.

18 Not printed; see Ev 63.

19 Not printed; see Ev 67.

20 Not printed; see Ev 52.

21 Cabinet Office, *Foreign and Commonwealth Office: Progress and next steps*, Civil Service Capability Review, March 2009; see Ev 43.

22 Ev 24, 51, 60, 104; for the background, see Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, paras 195–198.

23 Ev 25, 53, 60, 105; for the background, see Ev 68; Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, paras 197–198; Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 193–195; FCO, *Second Report from the Foreign Affairs Committee Session 2008–09: Foreign and Commonwealth Office Annual Report 2007–08: Response of the Secretary of State for Foreign and Commonwealth Affairs*, Cm 7585, April 2009, para 39.

24 Ev 99

Parliament, but it noted that there had already been a significant improvement in its record in answering parliamentary questions on time, which had previously been poor.<sup>25</sup> We have noted recently, and possibly as a consequence of the new parliamentary strategy, a more proactive approach from the Department as regards offers to supply us with oral or written briefing on topical subjects. However, in some areas the FCO's level of engagement with us could be improved. We discuss in paragraphs 323–324 our continuing concerns about the inadequacy of consultation over developments in the Overseas Territories. Given our close scrutiny recently of the FCO's work on non-proliferation, especially in advance of the 2010 Nuclear Non-Proliferation Treaty Review Conference,<sup>26</sup> we were also disappointed by the Department's failure to notify us about the publication in July 2009 of the Government's document *The Road to 2010*, which was handled by the Cabinet Office.<sup>27</sup> We continue to appreciate the FCO's willingness to share material with us on an in-confidence or embargoed basis, but we have occasionally experienced problems where the status of material was not made clear.

**16. We welcome the FCO's recognition of the importance of improving its engagement with Parliament, and the steps that it is taking in this respect. In the past we have been aware of how little contact with Parliament even relatively long-serving FCO staff may have, and the lack of understanding of Parliament within the FCO's corporate culture. We continue to appreciate the generally co-operative spirit in which the Department works with us. We recommend that, in the growing number of areas where the FCO works with other government departments, it should regard it as part of its enhanced parliamentary work to ensure that they too engage appropriately with Parliament and with us and our successor Committee following the 2010 General Election.**

## Overseas visits

17. The FCO's Parliamentary Relations Team and its network of Posts around the world are of great assistance to us in facilitating the overseas visits that we pursue in connection with our inquiries. We are grateful to all those involved for their expertise and helpfulness. However, an issue arose in relation to our February 2010 visit to Israel and the Israeli-Occupied Territories which raises some matters of concern.

18. On our previous visit to the Middle East, in March 2009, we had visited not only Israel but also the Occupied Territories of the West Bank, Gaza and the Golan Heights. We experienced no difficulty in gaining access to Gaza, through the Israeli-controlled crossing at Erez, and the visit was very valuable in giving us insight into conditions in that territory in the immediate aftermath of the conflict of December 2008-January 2009.<sup>28</sup> When, in November 2009, we decided to pay a return visit to Israel and the Occupied Territories, we accordingly notified the FCO of our wish to revisit Gaza. In January 2010, the FCO told us

25 Ev 99; HC Deb, 7 January 2010, col 566–7W

26 Foreign Affairs Committee, Fourth Report of Session 2008–09, *Global Security: Non-Proliferation*, HC 222

27 Cabinet Office, *The Road to 2010: Addressing the nuclear question in the twenty-first century*, Cm 7675, July 2009; see the exchange of letters between the Chairman of the Committee and the Foreign Secretary (GS(NP) 89, 28 July and 8 August 2009) and between the Chairman of the Committee and Rt Hon Tessa Jowell MP, Minister for the Cabinet Office (GS(NP) 91, 1 and 16 September 2009), published by the Committee at <http://www.publications.parliament.uk/pa/cm200910/cmselect/cmfaff/memo/nonprolif/ucnp9102.htm>.

28 Foreign Affairs Committee, Fifth Report of Session 2008–09, *Global Security: Israel and the Occupied Palestinian Territories*, HC 261

that the Israeli Government now had a “blanket policy” against permitting visits to Gaza by any foreign official delegations, on the grounds that such visits would “upgrad[e] and legitimis[e] the status of Hamas”. We were aware that some British Parliamentarians were able to visit Gaza in January 2010 via the Rafah crossing from Egypt, as part of a European group, with the assistance of the Egyptian Government and the Hamas authorities in Gaza. We therefore explored the possibility of entering Gaza through Egypt, via the Rafah crossing. However, the FCO advised us not to pursue this option, on the grounds that our personal security could not be guaranteed. We queried this advice with the FCO, being aware that officials of the Department regularly visit Gaza. (On 10 February 2010, the FCO stated that “our officials based in Jerusalem and, to a lesser extent, Tel Aviv, have visited Gaza on more than 20 occasions since January 2009. Our Consulate General in Jerusalem also has two members of local staff permanently based in Gaza”.<sup>29</sup> We also became aware that staff of the British Council and the Department for International Development have been visiting Gaza regularly and are continuing to do so.) In response, we received assurances from FCO Ministers that their advice to us was given purely on security grounds, and was not swayed by any wish on the part of the Government to avoid giving offence to Israel. We were also informed by the House of Commons authorities that funding for any overseas visit by a select committee is contingent upon security advice from the FCO being followed. As a result, it would be impossible for Members or staff of our Committee to take part in an official visit to Gaza. Accordingly, with considerable regret, we concluded that a visit to Gaza in these circumstances was not possible. During our February 2010 visit we travelled to the West Bank and the Golan Heights but not to Gaza. Our Chairman raised this matter at the meeting of the Liaison Committee on 4 March.

**19. We conclude that it is highly regrettable that we were unable to visit Gaza in February 2010. We further conclude that it is wholly unacceptable that the Israeli Government denies foreign Parliamentarians and political leaders access to Gaza via the Erez crossing. We call on the FCO to make strong representations to the Government of Israel about its policy of refusing access to Gaza to foreign parliamentary delegations.**

**20. We have given serious consideration to the implications of the rule currently imposed by the Liaison Committee, that funding for overseas travel by select committees is contingent upon FCO security advice being followed. Although we note the assurances by Ministers that, in the case of our proposed Gaza visit, the FCO’s advice was not influenced by political considerations, we conclude that there can be no guarantee that this will always be the case. We further conclude that the House authorities should not hand to the Government what could be an effective veto over select committee visits to sensitive parts of the world. It is not difficult to envisage circumstances in which the rigid application of this rule could significantly impede the parliamentary scrutiny of British foreign policy. We therefore recommend that our successor Committee in the next Parliament should raise this matter afresh with the Speaker and the Liaison Committee, with a view to seeking a modification of this rule, which could inhibit the effective scrutiny work of select committees.**

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<sup>29</sup> HC Deb, 10 February 2010, col 986W

## 2 Finance-related issues

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### Impact of the fall of Sterling

#### *Sterling's decline and the FCO budget, 2008–10*

21. The finances available to the FCO in 2008–09, like those of other departments, were determined in the 2007 Comprehensive Spending Review (CSR 07), which set broad departmental spending limits for the three years 2008–11. On the basis of a budget of £1.58 billion in 2007–08, the FCO's settlement was for additions to this baseline of £99 million in 2008–09, £125 million in 2009–10 and £123 million in 2010–11.<sup>30</sup> We considered the FCO's CSR 07 settlement in detail in our Report on the Department's 2006–07 Annual Report, which we published in November 2007 shortly after the settlement had been reached. We calculated then that the CSR settlement represented budget growth in real terms of 3.4%, -1.2% and -2.8% in each of the three years concerned, which averaged at an annual real reduction of 0.2% over the three-year period. We concluded that the FCO's CSR 07 settlement, "one of the tightest in Whitehall, risks jeopardising the FCO's important work".<sup>31</sup>

22. There have been minor changes to the FCO's budget since the outlines set out in the CSR 07. The Department's outturn was for spending of £2.03 billion in 2007–08, followed by £2.26 billion in 2008–09. The plan for 2009–10 is £2.12 billion.<sup>32</sup>

23. Compared to those of other departments, the FCO's budget is distinctive in three respects:

- i. It is small: £2.3 billion represented 0.6% of government departments' combined spending in 2008–09. By comparison, the Department for International Development (DFID) took £5.7 billion (1.6% of the total) and the Ministry of Defence (MOD) £45.4 billion (12.7%).<sup>33</sup>
- ii. A large proportion of the FCO's spending is relatively inflexible, because it goes on staff salaries and buildings, rather than programmes. The FCO considers around 80% of overseas Posts' costs to be inflexible in the short term.<sup>34</sup> The FCO is also primarily responsible for paying the UK's subscriptions and other dues to international organisations such as the United Nations (UN), which are typically determined according to a set formula which the UK is unlikely to be able to alter in the short term (see paragraph 36). Out of its total budget, the FCO considers its

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30 Departmental Expenditure Limit (DEL) budget i.e. Resource plus Capital DEL, net of depreciation; Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, para 20

31 Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, para 21

32 DEL budget; calculated from FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, pp 14–15, Table 4. The DEL figures are lower than those for Total Departmental Spending (also known as Total Public Spending), which also include Annually Managed Expenditure (AME).

33 Calculated from HM Treasury, *Pre-Budget Report*, Cm 7747, December 2009, p 194, Table B17. These DEL figures understate total MOD spending, in particular, of which an especially large share is AME.

34 Ev 134 [NAO]

available “discretionary” spending—excluding international subscriptions, peacekeeping and conflict-related spending, and the ring-fenced funding for the British Council and BBC World Service—to be only around £830 million, which represents 39% of its total 2009–10 budget.<sup>35</sup>

- iii. Over half the FCO’s budget is spent in currencies other than Sterling.<sup>36</sup> This is the highest proportion in Whitehall.<sup>37</sup> DFID makes its overseas aid disbursements largely in Sterling;<sup>38</sup> that Department’s Permanent Secretary told the International Development Committee in November 2009 that its Euro-denominated contribution to the European Development Fund was its only major spending commitment to have been hit by Sterling’s recent fall.<sup>39</sup> The FCO’s foreign currency spend includes many of the costs which are also relatively inflexible, such as subscriptions and other assessed contributions to international organisations (which are typically paid in US Dollars or Euros), and the local costs of maintaining the FCO’s overseas estate and paying locally-engaged staff.<sup>40</sup> By contrast, the foreign currency spend of the MOD, for example, is accounted for to a much greater extent by major capital projects. The MOD’s foreign currency spending is also largely in US Dollars,<sup>41</sup> whereas it has proved a particular constraint on the FCO that it spends in 120 different foreign currencies (see paragraph 119).<sup>42</sup>

Given the small size of the FCO’s overall budget, the impact of exchange-rate losses and/or rises in inflexible costs is larger, proportionately, than for departments with larger overall spends.

24. The Treasury determines departmental budgets in Sterling terms. Until the CSR 07, the Treasury and the FCO operated the Overseas Price Mechanism (OPM), in order to even out the effects of exchange-rate fluctuations, and thus maintain the purchasing power of the FCO’s budget in local currencies when Sterling weakened compared to the exchange rate assumed by the Treasury when setting the budget. The two Departments had been operating the arrangement at least since the 1980s.<sup>43</sup> Reflecting the uniqueness of its budget in terms of exposure to currency risk, the FCO was the only Department with which the Treasury operated such a mechanism.<sup>44</sup> Under the OPM, every six months the FCO calculated the net effect of exchange-rate fluctuations and differential inflation rates on its

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35 Q 9; Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 9 December 2009, HC (2009–10) 144, Q 4 [David Miliband]; HL Deb, 20 January 2010, col 993; HC Deb, 21 January 2010, col 439; the budget referred to is the DEL budget.

36 Q 9; HC Deb, 8 December 2009, col 240–1W; HC Deb, 21 January 2010, col 439

37 Q 45

38 Q 45

39 International Development Committee, Fourth Report of Session 2009–10, *DFID’s Performance in 2008–09 and the 2009 White Paper*, HC 48-II, Q 51

40 Ev 134 [NAO]

41 Q 45

42 Ev 131 [NAO]; Public Accounts Committee, Third Report of Session 2009–10, *Financial Management in the FCO*, HC 164, Q 7 [Sir Peter Ricketts]

43 Ev 130 [NAO]

44 Ev 130 [NAO]

overall purchasing power overseas. When the FCO's purchasing power was greater than intended, because Sterling had strengthened, it returned money to the Treasury. When the FCO lost out because Sterling had weakened, the Treasury made up the shortfall (from the Treasury Reserve). According to the National Audit Office (NAO), in the three years before 2007–08, the operation of the OPM meant that the FCO transferred funds to the Treasury, to the tune of £5–14 million each year. In 2007–08, the year in which the CSR 07 took place, the weakening of Sterling obliged the Treasury to transfer £1.4 million to the FCO.<sup>45</sup>

25. As part of the CSR 07, the Treasury withdrew its support from the OPM, and left the FCO largely exposed to the effects of exchange-rate fluctuations. According to the NAO:

[The] Treasury's purpose in withdrawing [the] OPM was to introduce what it saw as more modern methods of risk management. It has long been the Government's policy to ask departments to bear the risk of predictable variations in expenditure in their Departmental Expenditure Limits (DEL). At the time of the CSR 07 settlement, the Treasury considered it appropriate to extend this to include currency movements, particularly as there were risk management instruments commonly available in the financial markets.<sup>46</sup>

The NAO told us that, by contrast, the FCO considers that its foreign currency spending should be counted outside its DEL, and instead as Annually Managed Expenditure (AME), which is expenditure which is "subject to variation that is unpredictable and results in cost variations of a scale that cannot be managed within Departments' DELs".<sup>47</sup> The NAO added that, at the time of the CSR 07, "what neither the FCO nor the Treasury foresaw was the extreme volatility in foreign currency markets in the early part of the CSR period following the global financial crisis".<sup>48</sup>

26. The NAO also told us that "the Treasury looks to [the] FCO to factor in exchange-rate changes as a part of resource allocation decisions".<sup>49</sup> The then Chief Secretary to the Treasury, Yvette Cooper MP, told the House in March 2009 that the OPM "did not provide the [FCO] with the incentive to factor in medium-term changes in currency costs when it allocated its resources".<sup>50</sup> The NAO noted that the FCO:

contends that in several areas of foreign policy priorities, such as the need to negotiate a climate change agreement or to respond to the terrorism threat, the risks and opportunities to the United Kingdom of doing business abroad, or choosing not to, do not change alongside rises or falls in foreign exchange rates.<sup>51</sup>

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45 Ev 130 [NAO]; HC Deb, 8 December 2009, col 240–1W

46 Ev 130

47 Ev 130–31

48 Ev 131

49 Ev 131

50 HC Deb, 11 March 2009, col 421W

51 Ev 131

Sir Peter Ricketts confirmed that he did “not think you can allow foreign exchange to drive foreign policy”.<sup>52</sup> To make the point, if since November 2007 the FCO had sought to favour spending in the major currencies against which Sterling had weakened least, it would have prioritised spending in Indian Rupees, Russian Roubles, Turkish Liras and South Korean Won.<sup>53</sup> If the Department had sought to favour spending in the major currencies against which Sterling had been most stable, it would have allocated extra resources to spending in Turkish Liras and Swedish Kronor.<sup>54</sup> Sir Peter Ricketts told us that, if the Treasury wished the FCO to allocate resources partly on the basis of reducing exchange-rate risk, he would “find that quite hard to turn into operational effect”.<sup>55</sup>

27. In our Report on the FCO’s 2007–08 Annual Report, published in February 2009, we warned that “given its spending commitments in foreign currencies, the FCO is likely to be more adversely affected than most other government departments by a depreciation of Sterling”. We expressed concern in case the FCO’s performance against its targets was affected by Sterling weakness.<sup>56</sup> In its response, in April 2009, the FCO said that it was “too early to say” what effect Sterling’s fall might have on its performance.<sup>57</sup>

28. As financial years 2008–09 and especially 2009–10 have unfolded, the impact of the OPM’s withdrawal on the FCO’s finances, under current economic circumstances, has become ever-clearer and more serious. The CSR 07 took place when Sterling was at historic highs against the US Dollar and Euro. In the CSR, the Treasury assumed exchange rates of £1=\$2.0143 and £1=€1.4578.<sup>58</sup> Since then, Sterling has been below these levels—permanently against the Euro, and for all except the very beginning of the period against the Dollar. Sterling fell especially sharply below the CSR rates after the full onset of the global financial crisis in autumn 2008 and the subsequent drastic deterioration in the UK’s public finances.<sup>59</sup> As we prepared this part of our Report in late January 2010, Sterling was down by nearly 22% against the Euro and nearly 20% against the Dollar compared to the rates assumed in the CSR. Sir Peter Ricketts told us that Sterling was down by 25% against “many of the major currencies”.<sup>60</sup>

**29. We conclude that the withdrawal of the Overseas Price Mechanism (OPM) made the 2007 Comprehensive Spending Review (CSR 07) settlement a uniquely risky one for the FCO, compared to other departments. We take no pleasure in pointing out that we warned of the possible effects of the OPM’s withdrawal a year ago. Especially in the light of exchange-rate developments since the CSR 07, we cannot see that it remains**

52 Q 44

53 Comparison of spot rates, 1 November 2007 *versus* 22 January 2010; information provided by the House of Commons Library.

54 The same applies whether volatility is measured as the ratio of the highest to lowest spot rate during the period, or as the coefficient of variation; information provided by the House of Commons Library.

55 Q 43

56 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 57

57 FCO, *Second Report from the Foreign Affairs Committee Session 2008–09: Foreign and Commonwealth Office Annual Report 2007–08: Response of the Secretary of State for Foreign and Commonwealth Affairs*, Cm 7585, April 2009, para 10

58 Ev 29–30 [FCO]

59 Ev 134 [NAO]

60 Q 9

credible to regard the costs of currency fluctuations as predictable ones which the FCO might reasonably be expected to absorb. Apart from the substantive spending effects involved, requiring the FCO to absorb such serious exchange-rate risk undermines accountability and strong budgetary planning. We further conclude that any suggestion that the FCO should allocate its resources partly on the basis of exchange-rate considerations is ludicrous. We agree with the FCO's Permanent Under-Secretary Sir Peter Ricketts, that exchange rates should not drive UK foreign policy.

30. To compensate for the impact of the fall of Sterling on its purchasing power since autumn 2008, the FCO:

- in its 2008–09 Winter Supplementary Estimate drew down all the funds remaining in its 2008–09 contingency reserve (the Departmental Unallocated Provision [DUP]), totalling £17 million, leaving the Department with no contingency for the rest of the financial year;<sup>61</sup>
- in its 2008–09 Spring Supplementary Estimate used £6.5 million in End-Year Flexibility,<sup>62</sup> as well as claiming £24 million for international subscriptions and £27.6 million for conflict prevention from its Treasury reserve (see paragraphs 42 and 99);
- in its 2009–10 Winter Supplementary Estimate again drew down all of its DUP, totalling £17 million;<sup>63</sup> and
- in its 2009–10 Spring Supplementary Estimate transferred £16 million from capital to administration spending, including £3 million transferred from capital End-Year Flexibility, and increased current non-cash Annually Managed Expenditure (AME) by £30 million.<sup>64</sup> On 9 March 2010, the FCO announced that it required £90 million of the total £134.6 million in additional funds it was seeking in the 2009–10 Spring Supplementary Estimate as a repayable cash advance from the Contingencies Fund, in order to cover ongoing operational costs such as the payment of suppliers until Parliament approved the Spring Supplementary Estimate towards the end of March 2010.<sup>65</sup>

31. In March 2009, the Foreign Secretary estimated the potential budgetary pressure on the FCO in 2008–09 arising from Sterling's fall at £90 million (including around £60 million affecting the spending of overseas Posts).<sup>66</sup> By November 2009, the NAO put the figure for 2008–09 at around £100 million, or around 5% of the Department's total budget.<sup>67</sup> Despite this, in 2008–09 the FCO remained within its budget.<sup>68</sup>

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61 Ev 20

62 Ev 29, 32

63 Ev 88

64 Ev 109–110

65 HC Deb, 9 March 2010, col 10WS

66 HC Deb, 2 March 2009, col 1237–8W; HC Deb, 8 December 2009, col 240–1W

67 Ev 133

68 Summary minutes of FCO Board meeting, 23 July 2009, via [www.fco.gov.uk](http://www.fco.gov.uk); FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, p 86

32. As regards 2009–10, we noted in our previous Report that the FCO anticipated a “tougher challenge” and a “very tight” budgetary position, and that it had raised the likelihood that it would have to “curtail activities”.<sup>69</sup> In correspondence in January 2009, the FCO told us that “if Sterling continues to fall, it may not be possible to continue the FCO’s operationally essential work in a global network of Posts, without additional funding”. The FCO estimated that “unless Sterling strengthens from its present low levels, the FCO will need to find significant amounts of additional savings, possibly up to £95 million, in each of 2009–10 and 2010–11 to meet [its] projected commitments”.<sup>70</sup> In its 2009 Autumn Performance Report, the FCO stated that “continuing pressure on international and UK resources could affect delivery” of the Government’s “Global Conflict” Public Service Agreement (PSA 30), which the Treasury had agreed for the CSR 2007 period with the FCO as the lead Department (see paragraph 288).<sup>71</sup>

33. In a letter to us of October 2009, the FCO summarised the situation as it saw it:

from within one of the smallest Departmental Expenditure Limits in Government, we have to manage a risk that is neither foreseeable nor regular in its impact across the network. Over half the Department’s budget is spent in foreign currencies. Exchange-rate movements can consequently impact on our ability to deliver in our priority foreign policy areas. [...] [The] fall in the purchasing power of Sterling—by a third against the Dollar and a quarter against the Euro—has had a major impact on our resources which will continue through 2009/10 and 2010/11.<sup>72</sup>

34. In March 2009, the Foreign Secretary suggested that exchange-rate pressures on the FCO in 2009–10 might again amount to at least £90 million.<sup>73</sup> In November 2009, the NAO confirmed that the FCO estimated exchange-rate pressures in 2009–10 as amounting to around £100 million, or around 12% of the £830 million which the Department reckons as being available for its “discretionary” spending.<sup>74</sup> On 20 January 2010, the FCO Minister Baroness Kinnock said that the shortfall in the FCO’s budget for 2009–10 now stood at £110 million.<sup>75</sup> Sir Peter Ricketts told us in December that the Department was “struggling” to meet its budget in 2009–10.<sup>76</sup> Overall, the NAO assessed the withdrawal of the OPM and the subsequent fall of Sterling as having had “a major impact on the FCO’s business worldwide”.<sup>77</sup>

**35. We conclude that, on the basis of the figures given by Baroness Kinnock in January 2010, the FCO has lost around 13% of the purchasing power of its core 2009–10 budget as a consequence of the fall of Sterling. We concur with the National Audit Office, that**

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69 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 211–213

70 Ev 29

71 FCO, *Autumn Performance Report*, December 2009, p 5

72 Ev 79

73 HC Deb, 2 March 2009, col 1239–40W

74 Ev 134; HC Deb, 8 December 2009, col 240–1W

75 HL Deb, 20 January 2010, col 992

76 Q 49

77 Ev 134

the withdrawal of the Overseas Price Mechanism and the subsequent fall of Sterling have had “a major impact on the FCO’s business worldwide”. We note that the budgetary transfers which the FCO has made to try to help cope with the hit have absorbed all of the Department’s contingency reserve at the Treasury in both 2008–09 and 2009–10, and we conclude that this represents an unacceptable risk to the FCO’s ability to perform its functions.

### *Dues to international organisations*

36. A particular issue in relation to the FCO’s budget and the fall of Sterling is that of the UK’s subscriptions and other obligatory (“assessed”) contributions to international organisations, such as assessed peacekeeping costs. The UK’s subscriptions are paid almost entirely out of the budget of the FCO (see paragraph 42); assessed conflict-related costs are shared with the MOD and DFID. Contributions to international organisations are typically paid in US Dollars or Euros, depending on the organisation.<sup>78</sup> A state takes on a legal obligation to pay the relevant subscriptions and other assessed contributions when it accedes to an international organisation. Member States’ dues are normally calculated as a share of the relevant budget, the share being based on a formula which is often subject to only difficult and infrequent renegotiation, and which typically reflects most heavily the sizes of Member States’ economies—although, certainly at the UN, the UK pays a disproportionately large share compared to some states with larger and/or rapidly growing economies.<sup>79</sup>

37. Year-on-year, Member States can control the size of their dues to international organisations most directly by influencing the size of the organisations’ budgets. For example, in its 2008–09 Annual Report the FCO noted that it had “successfully maintained a zero real growth budget [...] for the Council of Europe”.<sup>80</sup> The Foreign Secretary told the House in March 2009 that the Department was seeking to do likewise across the range of international organisations as they set their budgets for 2009–10.<sup>81</sup> During our 2008–09 inquiry into “Global Security: Non-Proliferation”, we noted with some disquiet the Government’s unwillingness to countenance an increase in the core budget of the International Atomic Energy Agency (IAEA), despite its support for an expansion in the Agency’s activities<sup>82</sup>—although we also identified scope for rationalisation of the large number of organisations and initiatives in the non-proliferation field.<sup>83</sup> However, at least as regards the UN, Sir Peter Ricketts admitted that there was “little [the FCO] can do” about the “inexorable” rise in the UK’s subscription, because of the UN’s consensus-based decision-making.<sup>84</sup>

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78 See Ev 103.

79 Q 22

80 FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 1, HC 460-I, p xxii

81 HC Deb, 2 March 2009, col 1238–9W

82 Foreign Affairs Committee, Fourth Report of Session 2008–09, *Global Security: Non-Proliferation*, HC 222, paras 73–82

83 Foreign Affairs Committee, *Global Security: Non-Proliferation*, paras 40–44

84 Q 51

38. The UK's dues to many international organisations are rising independently of Sterling weakness, and are set to continue to do so in forthcoming years. This is partly because the UN and the EU are undertaking more peacekeeping activities (the UK is the fourth-largest funder of UN peacekeeping);<sup>85</sup> and partly the result of a number of one-off capital projects, such as the construction of NATO's new headquarters (for which the UK is liable for 13% of the cost).<sup>86</sup> Sir Peter Ricketts told our inquiry two years ago that the FCO's budget had "not kept pace" with rising international subscriptions.<sup>87</sup> Former Ambassador Sir Ivor Roberts was more forceful, telling us in evidence at that time that it was "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".<sup>88</sup>

39. Given that they are due in foreign currencies, the fall of Sterling has directly increased the Sterling costs of the UK's international subscriptions and other dues, and therefore the FCO's spending obligations. For example, the FCO told us that the Sterling cost of the UK's share of the NATO HQ project had risen from £98 million in 2007 to £129 million as of October 2009.<sup>89</sup> At our request, the FCO provided us with a table comparing the changes in the UK's dues in foreign currency terms with the same changes converted into Sterling. The figures show that, for example, while in Dollar terms the UK's payment to the UN Regular Budget is expected to rise by 18.8% from 2008–09 to 2009–10, in Sterling terms this converts into an expected increase of 30.9%. Whereas the UK secured an expected reduction in its Euro-denominated subscription to the Organisation for Security and Co-operation in Europe (OSCE) of 10.3% between 2008–09 and 2009–10, in Sterling terms this converted into an expected 6.8% rise.<sup>90</sup>

40. In Sterling terms, the UK's total payments for international subscriptions rose from £136.2 million in 2007–08 to £147.5 million in 2008–09 and an expected £172.7 million in 2009–10.<sup>91</sup> For 2010–11, in March 2009 the FCO was estimating likely international subscription costs of £163 million.<sup>92</sup> However, its estimate of likely subscription costs for 2009–10 has shifted from around £146 million in February 2009 to £193 million in March 2009 to £173 million in its February 2010 letter to us.<sup>93</sup> This highlights the serious difficulties involved in predicting the required payments in Sterling terms.

41. These figures for international subscriptions exclude assessed peacekeeping costs, which came to £309.6 million in 2008–09.<sup>94</sup> For 2009–10, the FCO said in March 2009 that

85 Q 21

86 Ev 78

87 Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, para 15

88 Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2006–07*, para 15

89 Ev 78

90 Ev 103–104

91 Ev 103; these figures differ slightly from those given by the Department at HC Deb, 27 February 2009, col 1199–200W and FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, p 128

92 HC Deb, 26 March 2009, col 600–1W, 604–5W

93 HC Deb, 2 February 2009, col 1238–9W; HC Deb, 26 March 2009, col 600–1W, 604–5W; Ev 103

94 Calculated from FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, pp 33–36, Table 13

it was budgeting for £456 million in combined payments from itself, DFID and the MOD for assessed peacekeeping, a rise of around 50% on 2008–09 (see paragraph 101).<sup>95</sup>

42. As part of the CSR 07, the Treasury agreed that when the Sterling costs of the UK's international subscriptions exceeded £102 million a year, it would fund 60% of the excess. Previously, from 2003–04, the Treasury had funded 50% above the same baseline.<sup>96</sup> The Treasury regarded the increase as compensation for the withdrawal of the OPM. The increase in the Treasury's obligation under the cost-sharing agreement partly accounts for the successive rises in the amount for international subscriptions claimed by the FCO from the Treasury Reserve in the Spring Supplementary Estimate, from £12.8 million in 2006–07 to £18.5 million the following year, £24 million in 2008–09 and £44.5 million in 2009–10.<sup>97</sup> In total, the FCO said that it received just under £30 million from the Treasury in 2008–09 under the international subscriptions cost-sharing agreement.<sup>98</sup> This should have reduced the costs paid by the FCO to around £120.2 million (5.3% of the Department's overall budget), compared to the UK's total subscription costs of £147.5 million. For 2009–10, on the basis of the FCO's forecast of £172.7 million in overall subscription costs, the cost-sharing agreement should make the FCO's share around £130.3 million, or around 6.1% of the Department's total budget. While the cost-sharing agreement has not saved the FCO from encountering serious difficulties as a result of the UK's rising subscriptions, the Department welcomed the fact that it at least means that "the risks of rising subscriptions and exchange-rate losses are shared between the FCO and the Treasury".<sup>99</sup>

**43. We conclude that the rising Sterling costs of the UK's subscriptions and other obligatory contributions to international organisations are placing very severe strains on the FCO's budget and materially affecting its ability to continue with other spending. The FCO expects to spend around 6.1% of its total budget on international subscriptions in 2009–10. We further conclude that the strain on the FCO's budget is arising despite the fact that the increase in costs is to a significant extent beyond the Department's control, as it arises partly from Sterling's fall and partly from complex multilateral factors at the organisations concerned.**

44. In our Report on the FCO's 2007–08 Annual Report, we said that we were "deeply concerned that as a result of the Treasury's decision to withdraw its support for the Overseas Price Mechanism, the FCO may not be able to meet higher international subscriptions over the next two financial years unless it cuts its activities".<sup>100</sup> We also said that the UK's subscriptions to international organisations benefit other departments, as well as the FCO. Under these circumstances, we said that it was "deplorable that the FCO should have to shoulder" all of the financial burden arising. We recommended that "additional non-discretionary costs [of the UK's international subscriptions] should

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95 HC Deb, 26 March 2009, col 598W, 602W; HC Deb, 2 April 2009, col 1307W

96 Ev 78

97 Ev 32, 78, 113

98 Ev 78

99 Ev 78

100 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 214

properly be met by the Treasury”.<sup>101</sup> In its response, the FCO told us that our recommendation would have to be considered in the next Comprehensive Spending Review.<sup>102</sup>

45. In April 2009, after the Foreign Secretary announced reductions in UK secondments to international civilian post-conflict missions as a result of Sterling’s fall (see paragraphs 101–104), the Chairman of the Committee wrote to the Prime Minister (copied to the Chancellor and Foreign Secretary) to express our growing disquiet. The Chairman said that it was:

a matter for great concern that work in critically important fields such as conflict prevention is being undermined as a consequence of currency fluctuations which are outwith the control of the FCO. My colleagues and I are strongly of the opinion that cuts in conflict prevention could prove very short-sighted and may lead to heavier burdens on public spending in the future. We wish to repeat our recommendation that the Government should pay non-discretionary costs such as subscriptions to international institutions directly from Treasury funds, and should put in place a mechanism to ensure that at this time of financial difficulties the work of the FCO, critical to long-term international stability and the interests of the UK, can be maintained at its previous level. We consider it appropriate for such allocations to be made wholly from the Treasury reserve.<sup>103</sup>

The Chairman received no reply.<sup>104</sup>

46. The Foreign Secretary told us in December 2009 that “in [his] experience, one must always be careful about suggesting to the Treasury that it should take responsibility for international subscriptions. What happens is that it allows you to bear the rise in costs, and then if ever the costs go down, it will snaffle the gain. There are swings and roundabouts that have to be handled quite carefully”.<sup>105</sup>

47. We suggested to Sir Peter Ricketts that international civilian missions which support the police and judicial sectors in vulnerable states bring benefits to the UK which may be felt by the Home Office, and perhaps the Ministry of Justice, as much as the FCO or DFID. We wondered whether there might be a case for asking these Departments also to contribute to the costs of such missions. Sir Peter said that it was a “fair point” and that he would “take away [the] idea”.<sup>106</sup>

**48. We conclude that the UK’s membership of international organisations such as the United Nations benefits many government departments. We therefore reiterate our**

101 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 214

102 FCO, *Second Report from the Foreign Affairs Committee Session 2008–09: Foreign and Commonwealth Office Annual Report 2007–08: Response of the Secretary of State for Foreign and Commonwealth Affairs*, Cm 7585, April 2009, para 41

103 Ev 119

104 Although we were separately in correspondence with the Foreign Secretary about UK secondments to international post-conflict missions; see para 100 and Ev 42–44.

105 Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 9 December 2009, HC (2009–10) 144, Q 2

106 Q 21

previous recommendation that the costs of the UK's international subscriptions should be shared more equitably across Government, rather than falling almost entirely on the budget of the FCO. We recommend that the Government should agree a stable long-term mechanism to distribute more widely the costs of the UK's membership of international organisations as part of the Comprehensive Spending Review which is expected after the 2010 General Election. We further recommend that consideration should be given to involving relevant home departments in supporting international missions in the police and judicial sectors.

49. The increased international peacekeeping activities which are increasing the strain on the FCO's budget can be seen as evidence that the Department is making progress towards the policy objectives which the Treasury agreed for it. One of the performance indicators for the Government's Public Service Agreement 30 (PSA 30) on "Global Conflict", for which the FCO is the lead Department, is the existence of "more effective international institutions, better able to prevent, manage and resolve conflict and build peace".<sup>107</sup> Similarly, for its Departmental Strategic Objective on conflict (DSO 6), the FCO aims to encourage a "better-integrated national and international approach to peace support operations", "better [...] early action to prevent conflict" and "increased national and international capabilities to tackle conflict".<sup>108</sup> Under its Departmental Strategic Objective to develop effective international institutions (DSO 8), the FCO aims to foster "greater international institutional capacity to deal with emerging global crises such as [...] conflict".<sup>109</sup> In one example, the FCO cited to us the EU's new anti-piracy maritime operation "Atalanta" off the Horn of Africa as evidence of the Union's increased willingness to tackle security threats, in accordance with DSO 6.<sup>110</sup> Sir Peter Ricketts noted that "the growth of UN peacekeeping is not in itself a bad thing [...] but [the] financial burden on our available money is becoming very serious".<sup>111</sup>

50. Inasmuch as the FCO can influence the size of the international budgets to which it must contribute, we conclude that its current policy and budgetary framework provides it with contradictory incentives—both to promote reform and an expansion in activities at international organisations, which might help the FCO to achieve its policy objectives; and to favour the *status quo* in order to keep its own budget down. We recommend that, while maintaining its strong commitment to international organisations, the FCO should continue to bear down on their costs—where this is compatible with the achievement of UK policy objectives—and pursue the more equitable sharing of costs among Member States as part of its agenda for international institutional reform.

### Spending cuts

51. In March 2009, the Foreign Secretary said that the FCO was "minimising" the impact of Sterling's fall on its budget through "delayed activity, by making additional efficiency

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107 FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, p 47

108 FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, pp 66–67

109 FCO, *Autumn Performance Report*, December 2009, p 25

110 Ev 74

111 Q 22

savings, and implementing a strategy of forward purchasing of foreign exchange” (see paragraphs 110–123).<sup>112</sup> In July 2009, after examining the FCO’s first results for the 2009–10 financial year, the FCO Board agreed that the Department would have to reallocate funds within its budget, including perhaps to some of the Posts worst affected by Sterling’s fall.<sup>113</sup> By September 2009, the FCO Board felt obliged to agree to “a package of measures to address the pressures on the FCO budget, many of which were as a direct or indirect consequence of the collapse of Sterling”.<sup>114</sup> Sir Peter Ricketts described the measures to the Public Accounts Committee in October as “pretty drastic”, and said that they had been triggered when it became clear that the FCO was heading for an overspend on its 2009–10 budget.<sup>115</sup>

52. The NAO told us in November 2009 that the measures taken by the FCO had “led to wide-ranging cuts to programmes supporting international priorities, including counter-terrorism”. The NAO said that cuts had been made to security abroad, health and safety (including essential works in Africa), and “current and future capability”.<sup>116</sup>

53. In his evidence to us in December, Sir Peter Ricketts confirmed that the FCO was having to “stop a lot of activity [...] in order to come within our parliamentary control totals”. He said that the Department had:

stopped whatever programme activity was not committed, stopped most of our training and cut into our travel and our hospitality for posts overseas. [...] local staff have not had overtime payments or, in some cases pay rises, and some are on involuntary unpaid leave or four-day weeks. We have a real problem within the budget at the current levels of Sterling.<sup>117</sup>

The NAO told us in November that the FCO regarded the cuts as “severely impacting on its ability to deliver frontline diplomacy”.<sup>118</sup> Sir Peter Ricketts told us that the cuts had “not stopped [the FCO’s] diplomats around the world doing the key jobs that they should be doing” and had not “as yet [...] had an impact on our effectiveness as an organisation. If they continue, [...] they will”.<sup>119</sup>

54. The scale of the cutbacks being implemented by the FCO gained widespread attention in January 2010, when FCO Minister Baroness Kinnock told the House of Lords that FCO budget constraints had led to “staff redundancies, cuts to travel and training, and reduced programme funding including our work on counterterrorism and climate change”. Baroness Kinnock went on:

We have had staff redundancies in Argentina, Japan and across the United States. Counter-narcotics programmes in Afghanistan, capacity building to help conflict

112 HC Deb, 2 March 2009, col 1239–40W

113 Summary minutes of FCO Board meeting, 23 July 2009, via [www.fco.gov.uk](http://www.fco.gov.uk)

114 Summary minutes of FCO Board meeting, 25 September 2009, via [www.fco.gov.uk](http://www.fco.gov.uk)

115 Public Accounts Committee, Third Report of Session 2009–10, *Financial Management in the FCO*, HC 164, Q 106

116 Ev 134

117 Q 10

118 Ev 134

119 Q 41

prevention in Africa, and counterterrorism and counter-radicalisation in Pakistan have all been cut; the list goes on.<sup>120</sup>

55. Baroness Kinnock’s remarks triggered intense political debate about the level of UK funding for counter-terrorism work in Pakistan. FCO Ministers told both Houses in answer to urgent questions that the FCO’s overseas counter-terrorism budget was rising, from £35 million in 2008–09 to £36.9 million in 2009–10 and around £38 million in 2010–11; and that Pakistan was receiving the largest share, with counter-terrorism spending there rising from £6.2 million in 2008–09 to £8.3 million in 2009–10 and a projected £9.0–9.5 million in 2010–11.<sup>121</sup> However, Parliamentary Under-Secretary Chris Bryant MP admitted that the FCO would be “spending less in 2010–11 than [it] had an ambition to spend”.<sup>122</sup>

56. In its 2009 Autumn Performance Report, the FCO classed as a “risk” to its counter-terrorism work the fact that “the volume of counter-terrorism-related litigation is putting increasing pressure on [the FCO’s] resources in London”.<sup>123</sup> In subsequent correspondence, the FCO clarified that the costs of counter-terrorism litigation were not being met from programme funds but from the Counter-Terrorism Department’s administration budget and from central funds.<sup>124</sup>

57. In November 2009, the FCO Board “agreed that the cuts imposed at the end of the first quarter were serving to bring down the projected shortfall, though the impact of foreign exchange movements over the remainder of the year could not be predicted”. The Board “emphasised the importance of maintaining downward pressure on spending, but decided that the organisation could not absorb further cuts to compensate for foreign exchange pressures”.<sup>125</sup>

58. In the course of our current inquiry and other work in 2009–10, we have been made aware of the impact of the financial pressures facing the FCO in two areas in particular, namely spending at its overseas Posts, and secondments to international civilian peacekeeping missions, particularly in the Western Balkans. We consider each of these in more detail below.

### *Overseas Posts*

59. The FCO operates a network of over 260 Posts in over 170 countries. Its Posts comprise sovereign ones, namely Embassies, High Commissions (to Commonwealth countries) and Missions, Delegations and Permanent Representations to international organisations; and subordinate ones, comprising consulates and trade and other representative offices. There

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120 HL Deb, 20 January 2010, col 992

121 HC Deb, 21 January 2010, col 439; HL Deb, 21 January 2010, cols 1105–7; see also Ev 102.

122 HC Deb, 21 January 2010, col 442

123 FCO, *Autumn Performance Report*, December 2009, p 16

124 Ev 102

125 Summary minutes of FCO Board meeting, 27 November 2009, via [www.fco.gov.uk](http://www.fco.gov.uk)

is also the network of Posts in 12 of the 14 Overseas Territories (OTs).<sup>126</sup> To date, the FCO has set each Post's devolved budget each year in Sterling.

60. We discussed the state of the FCO's network of overseas Posts in our Report on the FCO's 2007–08 Annual Report, in February 2009. We warned then that "bearing in mind the FCO's tight financial situation, its desire to operate in particularly difficult places and the prospect of future staff reductions, [...] there is a serious risk of over-stretch in some areas".<sup>127</sup>

61. In March 2009, the FCO put the pressures on spending by its overseas Posts arising from Sterling's fall as amounting to around £60 million in 2008–09.<sup>128</sup> In evidence which suggested the much greater difficulties being faced by the FCO, DFID's Permanent Secretary told the International Development Committee in November 2009 that that Department had had to purchase only around £3 million in extra foreign currency for 2008–09 to cover the additional administration costs at its overseas offices arising from Sterling's fall; and that for 2009–10 the extra purchase amounted to around £2.1 million.<sup>129</sup> For 2009–10, for the FCO, the Foreign Secretary said in December 2009 that he expected pressures on the overseas network to come to around £80 million.<sup>130</sup> Sir Peter Ricketts said in December 2009 that for 2010–11 the expected figure was around £120 million.<sup>131</sup> The Foreign Secretary told the House in December that 190 Posts in the FCO network—that is, over 70%—had faced exchange-rate and inflationary pressures against which the OPM would previously have offered protection.<sup>132</sup>

62. We referred to cuts being made at overseas Posts in paragraphs 52–54 above. In its November 2009 submission to our inquiry, the NAO confirmed that, in order to remain within their budgets, Posts were introducing short-time working, requiring unpaid leave and making redundancies among locally-engaged staff.<sup>133</sup> The Foreign Secretary has confirmed that programme activity has been stopped in Berne, Madrid, Reykjavik, Stockholm and Valletta.<sup>134</sup> Looking ahead, Sir Peter Ricketts told us that "the budgetary pressures [...] put a question mark over whether we can maintain the number of people we have abroad [...] there will have to be further reductions in the size of Posts".<sup>135</sup>

63. We have been made aware of the effects of the financial situation at overseas Posts during visits which we have made in connection with other inquiries, in October 2009 to the United States (New York and Washington) and the Western Balkans (Belgrade,

126 See Foreign Affairs Committee, Seventh Report of Session 2007–08, *Overseas Territories*, HC 147-I, para 9.

127 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 75

128 HC Deb, 2 March 2009, col 1239–40W; see also HC Deb, 8 December 2009, col 240–1W.

129 International Development Committee, Fourth Report of Session 2009–10, *DFID's Performance in 2008–09 and the 2009 White Paper*, HC 48-II, Q 52

130 Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 9 December 2009, HC (2009–10) 144, Q 4; HC Deb, 8 December 2009, col 240–1W; Ev 80

131 Q 9

132 HC Deb, 8 December 2009, col 240–1

133 Ev 134

134 HC Deb, 26 January 2010, col 835W

135 Q 26

Pristina and Sarajevo), and in January 2010 to Madrid, Lisbon, Nicosia and Valletta. Our impression is that the cuts are impacting on both large and small Posts, in different ways—unsettling remaining staff, demanding significant management resources, curtailing planned programme and diplomatic work, and significantly limiting Posts’ capacity to respond to unexpected developments if necessary. At large Posts, such as Washington, even a small weakening of Sterling can result in large absolute losses to local budgets; while at small Posts, such as in the Western Balkans, exchange-rate losses can render nearly unworkable budgets for small-scale programme projects. In his letter accompanying the Annual Report of the FCO’s Strategic Programme Fund for 2008–09, the Foreign Secretary noted that the Report “illustrates how relatively small funds can help us to make a real impact on policy delivery”.<sup>136</sup>

64. We were particularly shocked during our visit to the US by the scale of the cutbacks being required to the operation of UK Posts in that country. As it must do its local spending in Dollars, the US network of Posts is seeing its budget being particularly badly affected by Sterling’s decline against the US currency. We found that Posts in the US had made locally-engaged staff redundant, asked staff to take unpaid leave, frozen recruitment, cut overtime and suspended some employer pension payments; halted programme spending for the rest of the financial year; cancelled non-core training; cut travel and entertainment budgets; and halted all but urgent and essential maintenance work on the estate. Our impression was that the measures were making the work of the UK’s Posts in the US considerably more difficult. We have pursued the question of the possible impact of the cuts on the FCO’s work with the US as part of our current inquiry into “Global Security: UK-US Relations”, and will report our detailed findings in that Report. Sir David Manning, former British Ambassador to Washington, told that inquiry that “if we keep taking people away and if, by some chance, we find ourselves apparently deciding on the numbers of people we have [at Posts in the US] according to the fluctuations of the exchange rate, we will certainly be in trouble”.<sup>137</sup>

65. We assume that other countries’ diplomatic networks will be aware of the cutbacks at overseas Posts that the FCO is having to make—indeed, we have anecdotal evidence that this is the case—and that they will read messages into them, both about the importance which the UK attributes to the relevant bilateral relationship, and about the UK’s capacity to continue to support its global diplomatic network. We take the view that diplomatic work to a significant extent involves personal interactions and contacts, including at what may appear, mistakenly, to be purely social functions. We also note that the impact of the cuts on locally-engaged staff will mean that local societies in the countries concerned are likely to be aware of the reduction in UK operations.

66. One element in the efficiency savings programme which the FCO is required to implement under the CSR 07 (see paragraph 144) is a programme to “reduce the overhead costs of overseas representation”. According to the Department’s 2009 Autumn Performance Report, far from yielding savings, this project is costing money, as it cannot deliver savings large enough to outweigh the impact of the fall of Sterling on the costs of

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136 Ev 84

137 Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 2 December 2009, HC (2009–10) 114-i, Q 142

overseas Posts. The “overseas representation” efficiency programme delivered “negative” savings of £5.12 million in 2008–09, a figure which had fallen to a cumulative “loss” of £2.28 million by the end of the second quarter of 2009–10, and was expected to deliver “negative” savings of £0.58 million by the end of the three-year period.<sup>138</sup>

**67. We conclude that the FCO’s overseas Posts are facing very severe financial pressures as a result of the fall of Sterling that in some cases are a significant strain on their work and in others are unacceptably disrupting and curtailing it. We further conclude that the cuts that the FCO is making at its overseas Posts represent a serious reputational risk to the Department and the UK, and thus a threat to the FCO’s effectiveness.**

68. Sir Peter Ricketts told us, in July 2009, that he was commissioning a review of all allowances for staff serving overseas, to ensure that they:

provide value for money to the Department and the taxpayer, support our business needs, fit the family circumstances of FCO staff in the 21st century, provide the right incentives to staff to serve in the places where we need them most and offer a fair and flexible package to enable staff and families to maintain a UK-level quality of life (or compensation for it) wherever they serve.<sup>139</sup>

Sir Peter said that the FCO was consulting on this issue with the MOD and DFID, which were engaged in a similar process.

69. After completion of the review, Sir Peter told us in December 2009 that the FCO was recommending “reduced access to business class air fares; less extra leave overseas; changes to education allowances; and the abolition, simplification or consolidation of a number of financial allowances”. Sir Peter told us that the Department was negotiating with the trade unions on the proposals, and hoped to implement many of them by April 2010.<sup>140</sup> Sir Peter said that the review “should result in a set of allowances which are fit for purpose, firmly based on the actual extra costs or hardships of living and working overseas, and simple to understand and administer”.<sup>141</sup> The Government’s Public Value Programme aims to generate £13 million in savings by 2012–13 from “ensuring payments made to public servants posted overseas reflect modern lifestyles and family circumstances”.<sup>142</sup> We consider the possible impact on staff morale of changes to allowances, plus the other cuts affecting staff serving overseas, in the next chapter.

70. As of January 2010, the FCO did not appear to have closed any Posts as a direct result of the financial pressures arising from Sterling’s fall, although we assume that the budgetary environment always figures in any decision about the shape of the network. Since 2007, the FCO has closed three High Commission offices (in St Vincent and the Grenadines, Antigua and Grenada, countries to which the High Commissioner in Barbados is accredited), plus the consulate in Nagoya (Japan) and trade offices in Aleppo (Syria) and southern Taiwan. In the same period, the FCO has opened Embassy offices in

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<sup>138</sup> FCO, *Autumn Performance Report*, December 2009, pp 27–28

<sup>139</sup> Ev 62

<sup>140</sup> Ev 93; see also Ev 103.

<sup>141</sup> Ev 93

<sup>142</sup> HM Treasury, *Pre-Budget Report*, Cm 7747, December 2009, p 110

Goma (Democratic Republic of Congo) and Juba (Sudan), and a British Interests Section in Madagascar.<sup>143</sup>

71. The FCO last closed a sovereign Post, the Embassy in Dili (East Timor), in October 2006. This was the final step in implementing the last major round of Post closures, announced by the FCO in 2004 and 2005 after the publication of the Department's first formal strategy document in December 2003<sup>144</sup> and the 2004 Spending Review. The closures implemented at that time left the UK with no Embassy/High Commission in Paraguay, the Bahamas, Lesotho, Swaziland or Madagascar.<sup>145</sup> At the time, we expressed regret at the closures of British sovereign Posts in Madagascar and the Commonwealth countries of Lesotho and Swaziland in particular.<sup>146</sup> We note that a British Interests Section in Madagascar, where the FCO closed the Embassy in August 2005, is one of the posts that the FCO has decided recently to open. As regards new sovereign Posts, after the UK recognised their independence in 2006 and 2008, respectively, the FCO converted non-sovereign Posts into Embassies in Montenegro and Kosovo.

72. As part of the "Strategy Refresh" initiated by the Foreign Secretary after he took office in June 2007, the FCO undertook a review of the "role and shape" of its overseas network.<sup>147</sup> As a result, the FCO's new Strategic Framework, which was agreed with the Treasury as the FCO's set of Departmental Strategic Objectives (DSOs) for 2008–11, included maintenance of a "flexible global network" as a DSO (DSO 1). Maintenance of a network of Posts around the world was not mentioned among the FCO's previous strategic priorities. Moreover, the post-2007 Strategic Framework refers to the network "serving the whole of the British Government".<sup>148</sup> Under the post-2007 framework, therefore, overseas Posts are conceptualised as resources for the whole of the Government, and as platforms from which departments other than the FCO may operate overseas, including by basing their staff there.

73. The FCO's assertion of its overseas network as a key asset came at a time when observers were sometimes questioning the added value of Embassies abroad, as the advent of instant global communications allowed all parts of Government to access their own information about developments overseas and conduct business directly with counterparts there, without having to go through Embassies and other Posts. We return to this debate in paragraphs 328–330 at the end of our Report.

74. The financial pressures facing the FCO have given rise to renewed press and political speculation about the possibility of further Post closures.<sup>149</sup> This is particularly the case because around half the FCO's Posts have fewer than four members of staff, meaning that

143 HC Deb, 9 July 2009, col 948–9W

144 FCO, *UK International Priorities: A Strategy for the FCO*, Cm 6052, December 2003

145 FCO, *Foreign and Commonwealth Office Departmental Report 1 April 2004–31 March 2005*, Cm 6533, June 2005, p 158; HC Deb, 15 December 2004, col 137–140WS; HC Deb, 11 October 2005, col 21–3WS; HC Deb, 2 February 2009, col 883–4W

146 Foreign Affairs Committee, Second Report of Session 2005–06, *Foreign and Commonwealth Office Annual Report 2004–05*, HC 522, paras 110–118

147 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 68

148 Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2007–08*, paras 51, 67

149 HC Deb, 26 February 2010, col 780W; "War of words over cut in terror budget", *Financial Times*, 22 January 2010

there might appear to be few money-saving options short of closure.<sup>150</sup> The FCO’s 2009 Autumn Performance Report already warned that “if the current budget pressure [as] a result of the sharp fall in Sterling continues, we may not be able to sustain our current global presence”.<sup>151</sup> An internal FCO memo from Sir Peter Ricketts from the turn of 2009–10, of which the FCO gave us sight, said that the resources which were in prospect for the FCO at that time for 2010–11 would require the Department to close Posts.<sup>152</sup>

75. We asked Sir Peter Ricketts about the possibility of Post closures. He said that he thought that:

the [FCO] Board and Ministers would be absolutely clear that our primary asset is our global network of Embassies and Consulates—our capacity to reach every country in the world, either for foreign policy or to help British citizens in terms of consular assistance. That is what we will seek to preserve. That is [...] our particular asset.<sup>153</sup>

However, Sir Peter also said that, since “the tightness of the budget [...] means we have to look at every option”, he would not rule out the possibility of Post closures, and it would be one of the money-saving measures which the Department would be looking at in early 2010. As of December, Sir Peter said that the Department had not conducted an exercise to identify where any Post closures would fall, and that there was “no secret list” of such Posts.<sup>154</sup> In January, Chris Bryant repeated to the House Sir Peter’s denial that plans existed for Post closures.<sup>155</sup>

**76. Given the dispersal around the world of potential threats and areas of concern to the UK, and the large numbers of British citizens who travel widely overseas, closures of FCO overseas Posts risk leaving potentially damaging gaps in UK information-gathering, provision of assistance and exercise of influence. Post closures are also costly to reverse if judged subsequently to have been mistaken. We therefore conclude that the FCO is correct to identify as its top priority the maintenance of global UK representation through a network of overseas Posts. However, we further conclude that, without a marked easing in the financial pressures which they are facing, the FCO risks maintaining some Posts which are insufficiently resourced to carry out much effective work. We recommend that funding for the FCO should be increased to redress this.**

77. The most significant development in the FCO’s overseas network under the post-2007 Strategic Framework so far has been a major shift of personnel out of continental Europe, where the FCO considered that work could be carried out by fewer staff, and into Posts seen as more important for the FCO’s global objectives, primarily in Asia, the Middle East and parts of Africa, Russia and Latin America. The shift encompasses UK-based as well as

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<sup>150</sup> HC Deb, 26 January 2010, col 245 WH

<sup>151</sup> FCO, *Autumn Performance Report*, December 2009, p 8

<sup>152</sup> Ev 114

<sup>153</sup> Q 13

<sup>154</sup> Qq 23–24

<sup>155</sup> HC Deb, 21 January 2010, col 439; HC Deb, 26 January 2010, col 244–245WH

locally-engaged staff.<sup>156</sup> The FCO has said that 77 policy jobs have been eliminated in continental Europe, with others being eliminated in London and the Americas, and 172 created elsewhere.<sup>157</sup> Sir Peter Ricketts told us that he thought the FCO would have to continue to shape the network on the basis of these kinds of considerations.<sup>158</sup>

78. As noted in paragraph 72, under its post-2007 Strategic Framework the FCO has been encouraging other departments to base their staff working overseas at its Posts. Sir Peter Ricketts confirmed that the FCO believes “that the Embassy is the best place normally to have all the different parts of HMG’s operations overseas”.<sup>159</sup>

79. When departments other than the FCO base staff in overseas Posts, the FCO seeks to recover the full economic costs involved by signing the relevant departments and agencies up to Service Level Agreements, which set out what the FCO will provide and the costs it will recover. The FCO expects to recover £37 million from other departments through such arrangements in 2009–10, plus a further £161 million from the UK Border Agency (UKBA).<sup>160</sup>

80. Both the process of reaching Service Level Agreements with the FCO, and what is seen as the high level of its charges, continue to be a difficulty for other departments. According to the FCO’s 2009 Survey of Whitehall Partners, unclear and high costings were the main sources of dissatisfaction with the Service Level Agreements among other departments and agencies. The Cabinet Office’s 2009 Capability Review of the FCO noted that “the charging system used in overseas Posts is a particular frustration for many other government departments”.<sup>161</sup> In its recent report on the FCO’s management of its estate, in February 2010, the NAO found that the charging regime “lack[ed] transparency and [was] confusing and costly”.<sup>162</sup> Sir Peter Ricketts told us in May 2009 that the FCO had “implemented a number of initiatives to simplify and streamline” the charging process,<sup>163</sup> and in July he said again that the FCO was “working to improve the arrangements for charging full economic costs to other government departments”.<sup>164</sup> However, he also acknowledged that “other departments find [the FCO] expensive as a place to operate from”.<sup>165</sup> This is particularly because FCO buildings overseas have more burdensome security requirements than those that other departments might face if operating independently. This is especially

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156 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 69–72

157 FCO, *Second Report from the Foreign Affairs Committee Session 2008–09: Foreign and Commonwealth Office Annual Report 2007–08: Response of the Secretary of State for Foreign and Commonwealth Affairs*, Cm 7585, April 2009, para 13 and Annex A; HC Deb, 28 January 2009, col 598–600W; Ev 66

158 Q 16

159 Q 46; see also the uncorrected transcript of oral evidence taken before the Public Accounts Committee on 1 March 2010, HC (2009–10) 417-i, Q 30 [Sir Peter Ricketts].

160 Q 46; Ev 98

161 Cabinet Office, *Foreign and Commonwealth Office: Progress and next steps*, Civil Service Capability Review, March 2009, p 11

162 NAO, *Adapting the Foreign and Commonwealth Office’s global estate to the modern world*, HC (2009–10) 295, 11 February 2010, p 11

163 Ev 55

164 Ev 61

165 Q 46; on the full cost recovery issue, see also the uncorrected transcript of oral evidence taken before the Public Accounts Committee on 1 March 2010, HC (2009–10) 417-i, Qq 60–64, 87–90 [Sir Peter Ricketts].

the case since the fatal attack on the British Consulate in Istanbul in 2003, which continues to shape the FCO's security requirements for its overseas buildings.

81. The difficulties involved in the FCO's cost-recovery process with other departments are being compounded by Sterling's fall and the financial pressures facing all of Government. The FCO pointed out that "costs directly incurred by the FCO at overseas Posts on behalf of other departments are passed onto those departments at the daily exchange rate and the other departments therefore bear the exchange-rate risk for these costs".<sup>166</sup> According to Keith Luck, FCO Director General Finance, other relevant departments are in turn "under the same sort of financial pressures [as the FCO] and are finding it difficult to find additional resources to cover the exchange-rate losses".<sup>167</sup>

82. In February 2010, Sir Peter Ricketts told us that the FCO had decided to retain the existing charging framework for other departments using FCO Posts for the rest of the CSR 07 period, but that "work [had] begun on identifying how funding for the overseas platform can be improved for the next Spending Review with a view to moving away from the current charging framework".<sup>168</sup>

**83. We concur with the FCO that as a general rule all British government departments and agencies should base their operations in any given overseas city in a single location. While we appreciate that other departments' use of FCO buildings may carry unavoidable extra security costs for them, we conclude that co-location in FCO premises is likely to enhance cross-departmental co-ordination and the projection of the UK presence.**

**84. Where other departments make use of the FCO's overseas Posts, we conclude that the current department-by-department system by which the FCO recovers the associated costs is cumbersome and inefficient. We note that the numbers of personnel and departments using FCO overseas Posts may rise, and we therefore welcome indications that the system may be re-examined as part of the next Comprehensive Spending Review (CSR) which is expected after the 2010 General Election. We recommend that the CSR should review the costs of the overseas network across relevant parts of Government and consider sharing costs on a more regularised, equitable and ongoing basis.**

85. There has been a particular drive for the FCO and DFID to share overseas offices, in order to reduce the number of countries in which the two Departments are maintaining separate representations, and facilitate the joint provision of corporate services, thereby reducing overall costs. Sir Peter Ricketts told our inquiry last year that co-location also had policy benefits.<sup>169</sup> In October 2009, the FCO told us that since the start of the CSR 07 period FCO-DFID co-locations had taken place in Brasilia, Georgetown, Harare, Kampala and Lilongwe. Work was underway for co-location in Dhaka, New Delhi and Jerusalem. However, the FCO noted at the same time that opportunities for co-location had fallen,

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<sup>166</sup> Ev 98

<sup>167</sup> Q 46; see also Ev 98.

<sup>168</sup> Ev 105

<sup>169</sup> Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 86

because DFID had closed its offices in some countries as a result of restructuring.<sup>170</sup> The FCO said that co-location in Abuja, Beijing, Bridgetown and Pretoria would now be considered in the next CSR period.

86. The FCO and DFID are seeking to harmonise the pay and conditions of their local staff at Posts where the two Departments are co-located. In September 2009, the FCO told us that two of three pilot Posts had nearly completed their reviews of local staff pay, and that a further ten Posts had started the process.<sup>171</sup> In January 2010, the Foreign Secretary said that six co-located Posts had now completed the process.<sup>172</sup> The aim is for all co-located Posts to complete their joint pay reviews by mid-2010.<sup>173</sup> The two Departments are also “exploring collaborative procurement opportunities”.<sup>174</sup>

**87. We recommend that in its response to this Report the FCO should list the number of locations where there is currently co-location with DFID and set out the number of co-locations with DFID which it expects will be completed in the CSR 07 period, confirming whether the number will be lower than originally planned.**

88. In its 2008–09 Annual Report, the FCO noted the creation of the Nordic-Baltic network, as an innovation aimed at facilitating the maintenance of even small Posts, by reducing the costs associated with each one. The FCO described the network as a “pilot scheme in which one larger Embassy (Stockholm) provides policy and administrative support to five much smaller embassies in the region”.<sup>175</sup> The 2009 Cabinet Office Capability Review said that the network was “pioneering new regional working arrangements that promise better use of scarce skills and knowledge, more resilience and greater efficiency”.<sup>176</sup> We had the opportunity to see for ourselves how the Nordic-Baltic network was operating when we visited Stockholm and Tallinn in October 2009, during the Swedish Presidency of the EU Council. We heard that work on particular issues was distributed around the network (which now involved eight Posts), so that specialist staff in one Embassy might cover an issue for the whole of the network. We also heard that the arrangement would allow the Ambassadors to the Nordic countries in the network, other than Sweden, to be appointed at a lower grade than previously.

89. The Cabinet Office Capability Review said that other regions were “keen to learn from the experience” of the Nordic-Baltic network.<sup>177</sup> The FCO Annual Report noted that the High Commission in Pretoria conducts work for several neighbouring states.<sup>178</sup> In subsequent correspondence, the FCO told us that the High Commission in Bridgetown acts as a hub for the Eastern Caribbean; the three posts in the Indian Ocean were already

170 Ev 76

171 Ev 68

172 HC Deb, 26 January 2010, col 835W

173 Ev 68; see also Q 27.

174 Ev 76

175 FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 1, HC 460-I, p 3

176 Cabinet Office, *Foreign and Commonwealth Office: Progress and next steps*, Civil Service Capability Review, March 2009, pp 11–12

177 Cabinet Office, *Foreign and Commonwealth Office: Progress and next steps*, p 12

178 FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 1, HC 460-I, p 3

operating as a single network; posts in the South Pacific were moving towards this; the ten Posts in the Arabian Peninsula were starting to work more closely together, “with a view to creating an Arabian Peninsula Network” in 2010; Posts in the Levant and North Africa were looking at integrating their work more closely; and other sets of Posts operated as networks for specific issues. In particular, the FCO noted that its Iberian Peninsula Posts operate as a network for consular issues, something which we were able to see for ourselves during our visit to Madrid and Lisbon in January 2010 (see paragraph 308).<sup>179</sup>

**90. Given the severe budgetary constraints facing the FCO, we conclude that the development of regional networks of Posts such as the Nordic-Baltic network, sharing work and resources while retaining representation in each country, represents a sensible—and potentially beneficial—way of maintaining the global network while reducing costs, as long as it does not come to act as “cover” for the downgrading or closure of British Embassies. We recommend that our successor Committee should keep this issue under review, and that the FCO should provide updated information on the development of regional networks of Posts in its response to this Report.**

91. As a further means of reducing the costs of maintaining a global presence, the FCO has been making increased use of information technology—such as videoconferencing, to reduce the need to travel for meetings; and “laptop diplomacy”, to enable staff to work without having to have access to a permanent office.<sup>180</sup> As part of the rollout of the FCO’s new IT system, Third Generation Firecrest (F3G), the Department has been deploying laptops compatible with the new system and able to handle material with a “Restricted” classification, better enabling staff to work outside the office.<sup>181</sup> In our previous Report, we largely welcomed the FCO’s willingness to be innovative in this respect, although we expressed some concern in case “laptop diplomacy” becomes a way of saving money in the short term while failing to implement worthwhile longer-term projects.<sup>182</sup>

92. A new factor in the environment for the FCO’s operation of its global network of Posts has arrived with the establishment of EU Delegations in third countries under the Lisbon Treaty, which came into force on 1 December 2009. The EU Delegations will form part of the European External Action Service (EEAS), which was formally created by the Lisbon Treaty and which is expected to become operational under the terms of a planned EU Council Decision which was under very active discussion in Brussels when we visited there at the beginning of March 2010. Under the Lisbon Treaty, over 130 EU Delegations in third countries have been established, by converting the previous European Commission Delegations. Whereas the previous European Commission Delegations were active only in limited areas, the new EU Delegations are to have a role across the full range of EU external activities, including the intergovernmental Common Foreign and Security Policy (CFSP).<sup>183</sup> In batches, depending on a number of technical and political factors, the new Delegations are being given upgraded powers compared to their Commission-only

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179 Ev 95–96

180 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 76–77

181 Ev 62

182 Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2007–08*, para 78

183 Foreign Affairs Committee, Third Report of Session 2007–08, *Foreign Policy Aspects of the Lisbon Treaty*, HC 120-I, paras 195–199

predecessors, including to chair the meetings of EU Member State Ambassadors and High Commissioners in the relevant capital on a permanent basis rather than rotating with the country having the EU Presidency, and to have Heads of Delegation who are authorised to speak publicly in the name of the EU, on the basis of statements pre-approved by all 27 Member States.<sup>184</sup> It is expected that, as the EEAS develops, EU Delegations may be established in new locations, and some existing Delegations—for example, to the UN in New York—may be significantly expanded in size to handle their larger post-Lisbon responsibilities. A key issue for the future will be how far individual EU Member States will, under budgetary pressures, decide to discontinue their bilateral Embassies and High Commissions in particular countries in the knowledge of a presence there of an EU Delegation.

93. In our Report on *Foreign Policy Aspects of the Lisbon Treaty* in January 2008, we concluded that “the emergence in third countries of EU Delegations which may be active in Common Foreign and Security Policy areas will at the least require careful management by UK Embassies on the ground”.<sup>185</sup> We have also previously raised concerns in case the new EU Delegations were to begin to encroach on the consular role of British Posts overseas.<sup>186</sup> In third countries where their state is not represented, EU Member State nationals are already entitled to receive consular assistance from a Member State other than their own. Member States often currently implement this right through informal agreements amongst themselves concerning the assistance to be provided to particular Member States’ nationals in specific third countries.<sup>187</sup> Under the Lisbon Treaty, the new EU Delegations “shall contribute” to the implementation of citizens’ right to consular assistance in states where they are not otherwise represented.<sup>188</sup> In the context of the discussion about consular assistance, we note with concern a parliamentary answer in March 2010 in which the FCO said that it was no longer collecting data on the numbers of non-UK nationals being assisted by its Posts overseas, an issue on which we have previously commented.<sup>189</sup>

94. The FCO has stated consistently that, in the words of the Foreign Secretary, it sees the new EU Delegations as “complementary, not substitutive” as regards British Posts overseas.<sup>190</sup> As regards the Delegations’ impact on the FCO’s management of its global network of Posts and its overseas estate, Sir Peter Ricketts said that he felt the FCO’s budgetary constraints were a far bigger pressure on the Department’s global presence than the incipient EEAS.<sup>191</sup> In evidence on 1 March 2010 to the Public Accounts Committee, Sir Peter suggested that, if anything, the arrival of EU Delegations around the world might

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184 “EU Commission ‘embassies’ granted new powers”, euobserver.com, 21 January 2010

185 Foreign Affairs Committee, Third Report of Session 2007–08, *Foreign Policy Aspects of the Lisbon Treaty*, HC 120-I, para 199

186 Foreign Affairs Committee, *Foreign Policy Aspects of the Lisbon Treaty*, paras 200–203

187 Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, paras 176–178; oral evidence taken before the European Scrutiny Committee on 28 October 2009, HC (2008–09) 1076, Qq 16–18 [Chris Bryant MP]

188 Treaty on European Union, Article 35

189 HC Deb, 1 March 2010, col 839W; Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, paras 176–178

190 Foreign Affairs Committee, *Foreign Policy Aspects of the Lisbon Treaty*, para 199; see also Q 26 [Sir Peter Ricketts].

191 Q 26

open up new opportunities for the FCO. Just as states' national diplomatic representations sometimes share premises in a given location, Sir Peter suggested that EU Delegations might become potential fee-paying occupiers (or purchasers) of some of the spare capacity which exists in some FCO buildings overseas; and that the FCO could co-locate small UK Posts into EU Delegation premises if this would enable a British presence where there would otherwise be no UK national diplomatic representation in the country in question.<sup>192</sup> Sir Peter said that such co-location "would only be to increase our coverage in countries where [the UK] is currently not represented".<sup>193</sup>

95. In October 2009, the European Council invited the EU's new High Representative for Foreign Affairs and Security Policy, Baroness Ashton, to bring forward her proposed Council Decision on the operation of the EEAS "with a view to its adoption by the Council at the latest by the end of April 2010".<sup>194</sup> The Council must adopt the Decision by unanimity, after consulting the European Parliament and obtaining the consent of the European Commission.<sup>195</sup> Chris Bryant, Minister for Europe, has given an assurance to the European Scrutiny Committee that Baroness Ashton's proposal will be deposited in Parliament at least two months before any Council decision, in line with the new procedures for national parliamentary scrutiny of EU proposals.<sup>196</sup> However, our discussions in Brussels at the beginning of March suggested that, of the two-month and the end-April timetables, at least one might slip. Discussions are also underway about the involvement of national Parliaments in the oversight of the EEAS, given the Service's role regarding the EU's intergovernmental Common Foreign and Security Policy.<sup>197</sup> The Chairman of the Committee and of the European Scrutiny Committee wrote jointly to the High Representative on this issue in December 2009.<sup>198</sup> Scrutiny of the EEAS and the CFSP by national Parliaments assumes even more importance given the right of the High Representative under the Lisbon Treaty to bring forward Common Foreign and Security Policy proposals.<sup>199</sup>

**96. We recommend that in its response to this Report the FCO should provide updated information on the number, size and development of the network of EU Delegations in third countries and at international organisations and on their relationship with UK overseas Posts, with particular respect to the future arrangement of the FCO global**

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192 Uncorrected transcript of oral evidence taken before the Public Accounts Committee on 1 March 2010, HC (2009–10) 417-i, Qq 46, 65, 76–81; on the issue of spare capacity in the FCO's global estate, see NAO, *Adapting the Foreign and Commonwealth Office's global estate to the modern world*, HC (2009–10) 295, 11 February 2010, p 28, Figure 11.

193 Uncorrected transcript of oral evidence taken before the Public Accounts Committee on 1 March 2010, HC (2009–10) 417-i, Q 80

194 Presidency Conclusions, European Council, 29–30 October 2009

195 Treaty on European Union, Article 27

196 Oral evidence taken before the European Scrutiny Committee on 28 October 2009, HC (2008–09) 1076, Qq 6, 8, 36–48

197 In particular, in light of Article 10 of the Lisbon Treaty's Protocol on the role of national parliaments in the EU, which provides that "a conference of Parliamentary Committees for the Affairs of the Union may submit any contribution it deems appropriate for the attention of the European Parliament, the Council and the Commission [...] [and] may also organise interparliamentary conferences on specific topics, in particular to debate matters of common foreign and security policy, including common security and defence policy".

198 See letter in reply from the High Representative (EU 118, 22 February 2010), published by the Committee at <http://www.publications.parliament.uk/pa/cm200910/cmselect/cmfaff/memo/eudevelop/contents.htm>

199 Foreign Affairs Committee, Third Report of Session 2007–08, *Foreign Policy Aspects of the Lisbon Treaty*, HC 120-I, para 97

network, given current UK budgetary pressures. We also recommend that in its response to this Report the FCO states whether it is examining the closure of its Embassy or High Commission in certain countries in the knowledge of the likely presence there of an EU Delegation and, if so, in which countries. We further recommend that the FCO should set out the steps that it is taking to ensure that the High Representative for Foreign Affairs and Security Policy and the European External Action Service function within the parameters of the Lisbon Treaty and do not take over the decision-making and other functions of national foreign ministries, including with respect to consular tasks. We further recommend that the FCO should confirm whether it has ceased collecting data on the numbers of non-UK nationals being assisted by its overseas Posts, and if so, explain the reasons for this change of practice, and that it should recommence the collection of this important data.

97. We recommend that, if it has not already done so by the time this Report is published, the FCO should copy to us at the earliest opportunity the High Representative's proposed Council Decision on the European External Action Service, since we would wish to consider it and to have the option of commenting on it prior to the dissolution of this Parliament. We recommend that our successor Committee in the next Parliament should continue to take a close interest in the operation of the External Action Service, through its scrutiny of the FCO and its Ministers at the national level, and through mechanisms for the involvement of national Parliaments at the EU level.

#### *Civilian conflict-related work: secondments to international missions*

98. Funding for UK support for international missions for peacekeeping and other conflict-related activities takes place under Public Service Agreement 30 (PSA 30), "Global conflict", for which the FCO is the lead Department. Some UK funding for such missions is due as obligatory assessed contributions to the organisations concerned (as discussed in paragraphs 36–41). Other UK funding is discretionary. For 2009–10, programme funding for PSA 30 originally comprised £556 million: £109 million through the Conflict Prevention Pool (CPP), £73 million through the Stabilisation Aid Fund (SAF) (for non-military activities in Iraq and Afghanistan), and a call on the Treasury Reserve of up to £374 million for peacekeeping (both assessed and discretionary). The CPP and SAF are owned jointly by the FCO, DFID and MOD. As part of the CSR 07, it was agreed that if peacekeeping costs rose above £374 million, the CPP would be the first port of call for the excess.<sup>200</sup>

99. There were signs through the winter of 2008–09 that the FCO was finding it increasingly difficult to fund its share of peacekeeping activities: it requested an additional £131 million from its DEL reserve at the Treasury for this purpose in its 2008–09 Winter Supplementary Estimate, and a further £27.6 million in its 2008–09 Spring Supplementary Estimate.<sup>201</sup>

100. On 2 March 2009, the *Financial Times* reported that the UK would be withdrawing police personnel from international missions as a result of funding cuts. The paper said

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200 HC Deb, 25 March 2009, col 17–9WS

201 Ev 21, 33

that the move represented “the first signs of the economic crisis eroding the UK’s foreign policy clout”.<sup>202</sup> The Chairman of the Committee wrote to the Foreign Secretary to seek clarification.<sup>203</sup> This came in the form of a Written Ministerial Statement on 25 March (delivered also on behalf of the Secretaries of State for Defence and International Development) with a covering letter,<sup>204</sup> followed by a further letter of reply from the Foreign Secretary in April.<sup>205</sup>

101. In his 25 March statement, the Foreign Secretary confirmed that assessed peacekeeping costs in 2009–10 were set to rise substantially, owing to increased peacekeeping activities by the EU and UN and the decline of Sterling (as discussed in paragraphs 38–41). As a result, £456 million of the total £556 million PSA 30 funding for the year was having to be allocated for assessed peacekeeping costs—i.e. all of the relevant Treasury Reserve, plus £82 million of the £109 million in the CPP, leaving only £100 million in total for all discretionary activity under PSA 30 (including discretionary peacekeeping). The FCO, DFID and MOD between them found an additional £71 million to add to the £100 million. However, the Foreign Secretary said that £171 million was insufficient to fund all planned activities, and that cuts were therefore being made to “prioritise UK discretionary conflict expenditure more tightly on countries where the risk and impact of conflict is greatest”.<sup>206</sup>

102. The Foreign Secretary announced that the Stabilisation Aid Fund was to be merged into the Conflict Prevention Pool, and that the CPP was henceforth to have five programmes. This represented a further consolidation of the Government’s conflict-related funding streams, after the CPP had itself incorporated the previously separate Africa Conflict Prevention Pool. Under the new arrangements, levels of CPP activity would be sustained in Afghanistan, as part of a South Asia programme of £61.3 million (36% of the total). Activity would be reduced in Africa (£43 million, 25%), Europe (£33 million, 19%) and the Middle East (£18 million, 11%), and ended in Latin America. As the fifth strand, there would be a £6.5 million thematic programme supporting the work of international organisations on conflict-related issues. The three Departments also felt obliged to keep back a reserve of £9.2 million in case of further Sterling weakening and/or increases in assessed contributions.<sup>207</sup> Sir Peter Ricketts summarised the changes as meaning that UK conflict-related funding was “focused on the UN peacekeeping contributions and our contributions to Afghanistan”.<sup>208</sup>

103. We have been made especially aware of the impact of the FCO’s spending cuts on EU civilian missions in the Western Balkans. In his April 2009 letter, the Foreign Secretary provided a table showing expected numbers of UK civilian secondees to international missions in 2009–10 compared with 2008–09. This showed the number of police seconded to the EU’s new rule-of-law mission in Kosovo, EULEX, falling from 45 to 17, and the

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202 “Civilian role in foreign missions faces cuts”, *Financial Times*, 2 March 2009

203 Ev 42

204 Ev 43

205 Ev 44

206 HC Deb, 25 March 2009, col 17–9WS

207 HC Deb, 25 March 2009, col 17–9WS; see also HC Deb, 3 June 2009, col 511–2W; Ev 43, 45.

208 Q 21

number of other civilian secondees to the mission down from 18 to 15; and the number of police seconded to the EU police mission in Bosnia-Herzegovina down from 9 to 3. The number of civilians seconded to missions of the Organisation for Security and Co-operation in Europe (OSCE) was also expected to be down from 15 to 6. The Foreign Secretary highlighted that the numbers of UK civilian secondees to the EU police mission in Afghanistan and the EU monitoring mission in Georgia were being maintained.<sup>209</sup>

104. Our impression is that both the suddenness and the scale of the reduction in the UK presence in EULEX, in particular, caused considerable embarrassment and personal inconvenience for the staff involved. During our visit to the region in October 2009, we heard concerns that the UK's reduced participation in the mission might weaken its influence in Kosovo, in the key early stage of the country's existence as an independent state. We heard similar concerns about the UK's reduced presence in Bosnia-Herzegovina. Leaving aside the scale of its presence in international missions, the UK has otherwise been a committed supporter of Kosovo independence and taken a prominent role in seeking to rescue Bosnia-Herzegovina's troubled reform and European integration processes.<sup>210</sup>

105. In its March report, the *Financial Times* suggested that the reductions in UK participation would be "a humbling setback for Gordon Brown, [...] who has made expanding civilian reconstruction efforts a top policy priority".<sup>211</sup> For example, according to its 2008 National Security Strategy, the Government "advocate[s] the development of a stronger international capacity, including through the EU and UN, to deploy civilian stabilisation experts, including judges, lawyers and police, at short notice and in larger numbers and to make them available for multilateral deployment".<sup>212</sup> As regards the EU in particular, in his Warsaw speech in June 2009 the Foreign Secretary said with respect to the Union's response to crises that its "ability to draw upon civilian expertise [...] [was] critical for dealing with fragile and failing states".<sup>213</sup> In a letter to us in December 2009 in connection with the Western Balkans, Mr Miliband reiterated that "the UK remains fully committed to civilian missions under the European Security and Defence Policy as a key tool to manage international crises and to prevent and resolve conflict".<sup>214</sup>

106. The Foreign Secretary also told us in December that it was "highly unlikely" that funding would be found in 2009–10 for additional UK secondments to civilian missions. He said that he was not yet able to give numbers for UK secondments in 2010–11.<sup>215</sup>

107. In December 2009, DFID announced the launch by the joint FCO-DFID-MOD Stabilisation Unit of a Civilian Stabilisation Group comprising 1,000 civilian personnel

209 Ev 45

210 The UK was among the first states to recognise Kosovo, on 18 February 2008, the day following its declaration of independence. On Bosnia-Herzegovina, in July 2008, for example, the Foreign Secretary wrote jointly with his Czech counterpart to all other EU Foreign Ministers, to "flag up Bosnia as a big issue"; Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 10 December 2008, HC (2008–09) 70-i, Q 56

211 "Civilian role in foreign missions faces cuts", *Financial Times*, 2 March 2009

212 Cabinet Office, *The National Security Strategy of the United Kingdom*, Cm 7291, March 2008, para 4.47

213 "European Renewal Amidst Global Adversity", Warsaw, 23 June 2009, text at [http://www.davidmiliband.info/speeches/speeches\\_09\\_07.htm](http://www.davidmiliband.info/speeches/speeches_09_07.htm)

214 Letter to the Chairman (EU 107, 6 December 2009), published by the Committee at <http://www.publications.parliament.uk/pa/cm200910/cmselect/cmaff/memo/eudevelop/contents.htm>

215 *Ibid.*

potentially deployable to post-conflict missions overseas.<sup>216</sup> The personnel consist of 200 civil servants and 800 external experts. The Group is managed by three Stabilisation Unit staff.<sup>217</sup> As a result of the creation of the Group, the Government expects the number of civilians that the Stabilisation Unit could deploy at any one time to rise to 200 if required.<sup>218</sup> The FCO confirmed that no additional funding was accompanying the creation of the Group, which would continue to be funded from discretionary monies in the Conflict Prevention Pool.<sup>219</sup>

**108. We conclude that, as a result of the need for spending cuts, the FCO has made reductions to the numbers of UK secondees to international civilian missions in the Western Balkans which are deeply regrettable. As regards support for secondees, we recognise that the UK must prioritise among a large number of international civilian missions, and that the UK continues to have a large presence in some cases. However, the UK has a significant interest in the success of the international post-conflict effort in the Western Balkans. We conclude that the message sent by the reduction in UK participation in these high-profile missions sits uncomfortably with the Government's stated commitment to the region and to the development of effective international civilian post-conflict capabilities.**

**109. We conclude that the creation of the Civilian Stabilisation Group under the joint FCO-DFID-MOD Stabilisation Unit is to be welcomed, as potentially increasing the UK's ability quickly to deploy a wide range of civilian experts to post-conflict missions overseas. However, we further conclude that a major constraint on UK civilian deployments has been funding, and that the creation of the Civilian Stabilisation Group does not in itself address this. We recommend that the FCO should inform us, in its response to this Report or earlier if the information is available, of the funding that will be available for peacekeeping and other post-conflict and conflict prevention activities in 2010–11, and of the numbers of UK secondees to international civilian missions that it expects to be able to support in that year. We further recommend that our successor Committee may wish to consider inquiring into the UK's capacity to deploy civilians to post-conflict missions overseas.**

### ***Management of exchange-rate risk***

110. We outlined in our Report last year the FCO's initial efforts to mitigate the effects of exchange-rate risk, following the withdrawal of the OPM, through the forward-purchasing of foreign currencies.<sup>220</sup> The NAO explained these efforts more fully in its submission to our current inquiry.<sup>221</sup> The NAO told us that the FCO began considering how to manage its exposure to exchange-rate risk immediately after receiving confirmation that the CSR 07 settlement would involve the withdrawal of the OPM. The FCO decided to start to

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216 HC Deb, 16 December 2009, col 139WS

217 HC Deb, 29 January 2010, col 1135W

218 HC Deb, 16 December 2009, col 139WS; Ev 101

219 Ev 101

220 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 212

221 Ev 129

forward-purchase at least some of its foreign currency needs, and received Treasury approval for this strategy. The FCO further decided to forward-purchase a substantial share, rather than all of its requirements, in major currencies, in order to allow for error.

111. In April 2008, the FCO contracted a specialist foreign exchange trading company, HiFX Intelligent, to provide it with advice. HiFX made recommendations for derivative-based hedging strategies, which the FCO initially approved. However, the Treasury has a stated policy of refusing any proposals to speculate, and it therefore rejected the FCO's proposed strategies. The FCO then submitted revised proposals for straightforward forward-purchasing, which the Treasury approved. The FCO went ahead in May 2008 with the forward-purchase of 80% of its US Dollar and Euro requirements for 2008–09. The FCO has subsequently started also to forward-purchase some of its requirement for Japanese Yen. The Treasury agreed in August 2008 that the FCO could proceed with forward-purchases for its 2009–10 requirements, and it has subsequently given approval for forward-purchases into the post-2011 period. In December 2008, rather than simply buying a given month's exposure one year in advance as it had been doing, the FCO began to buy each month one-twelfth of each of the following 12 months' exposure, as a means of gaining greater budget certainty and spreading the risk of sudden exchange-rate fluctuations.

112. The FCO pays HiFX a fee of £41,400 a year.<sup>222</sup> Explaining the FCO's decision to take professional advice from the company, Sir Peter Ricketts told us that the Department wanted to be “very, very careful” about engaging in forward-purchasing, especially in order to avoid any suspicion that it was speculating.<sup>223</sup> Keith Luck, the FCO's Director General Finance, also told us that the Department had originally lacked the specialist skills required. However, the NAO told us that on-the-job training had since been provided and that there had been no need to recruit additional staff.<sup>224</sup> Mr Luck said that HiFX's contract was now “tiny” and consisted of “making sure that our Treasury Management policy documents are up to date, that we are complying and that our people have somebody they can go to—the two or three individuals who work on this area—if they need particular advice”.<sup>225</sup> The NAO confirmed that the FCO regards the ongoing in-house staff costs of operating its forward-purchasing regime as “relatively small”.<sup>226</sup>

113. Apart from the overall costs occasioned by the fall of Sterling since 2007, the FCO confirmed that it lost money specifically as a result of the fact that it only placed its first forward contract for its 2008–09 foreign currency needs in May 2008 (rather than sooner after the conclusion of the CSR 07 in October 2007), and Sterling had by then already fallen compared to the rates assumed in the CSR 07. The FCO suggested that the delay arose partly because the withdrawal of the OPM was only confirmed late in the CSR process, and partly owing to its own need to develop a response and the capacity to implement it. The FCO told us that:

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222 HC Deb, 8 December 2009, col 240–1W

223 Q 48

224 Ev 132

225 Q 48

226 Ev 133

The timing of the decision meant that we had only a short time to build up the technical skills to implement an operation to forward purchase our foreign currency requirements and we are still improving the skills required. We also incurred additional costs from the need to build and buy in exchange rate management capacity at short notice. By the time we had developed sufficient skills and agreed how to operate, Sterling had started to decline from the levels it had occupied in 2007.<sup>227</sup>

114. The NAO noted that, while the day-to-day costs of operating the forward-purchasing regime are small, the FCO “considers [that] the indirect costs of managing the broader consequences of the withdrawal of the OPM have been far greater, with a considerable amount of senior management time, including that of the FCO Board, Heads of Mission and Management Officers, taken up in managing the impact of currency fluctuations”.<sup>228</sup> The Foreign Secretary told us in December 2009 that he would “prefer to spend all [his] time on policy questions, but [...] can’t when there are financial and management issues” of the kind raised by the impact of the OPM’s withdrawal.<sup>229</sup>

115. In June 2009, the NAO published a report on *Financial Management in the FCO*, in which it noted that “foreign exchange is new territory for the Department” but said that, as of that time, the FCO had “taken appropriate action to seek to manage this risk”.<sup>230</sup> The NAO also told us that the FCO’s Director of Finance had commissioned external consultants to review the Department’s foreign currency management arrangements. In their report, completed in September 2009, they concluded that progress had been made in a number of areas but that there was a need for a formal guidance document. They noted that a formal Treasury policy was being drafted, and recommended that the Treasury should supplement this with a procedures manual.<sup>231</sup>

**116. We conclude that, because Sterling weakened between the conclusion of the 2007 Comprehensive Spending Review (CSR 07) in October 2007 and the time at which the FCO placed its first forward contracts for foreign currency purchases in May 2008, the FCO incurred direct extra costs as an immediate consequence of the withdrawal of the Overseas Price Mechanism (OPM) under the CSR 07, and as a result of the timing of the decision. We further conclude that the failure to put mitigating arrangements in place by the time the withdrawal of the OPM was put into effect, at the start of the 2008–09 financial year, suggests a lack of effective joint working between the FCO and the Treasury, and that this amounts to poor management of the withdrawal.**

**117. We conclude that as a result of the OPM’s withdrawal, managers throughout the FCO network, including those at the most senior level, have spent considerable amounts of time since late 2007 seeking to manage and mitigate the effects of currency fluctuations. We do not consider that senior FCO staff are the most appropriate**

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227 Ev 79

228 Ev 133

229 Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 9 December 2009, HC (2009–10) 144, Q 4

230 NAO, *Financial Management in the Foreign and Commonwealth Office*, HC (2008–09) 289, 3 June 2009, para 2.70

231 Ev 133

**personnel to be carrying out this work, nor that this is the best use of their time and skills.**

118. The FCO's forward-purchasing activity was one of the factors which helped it to remain within budget in 2008–09. The FCO did not, in the end, need to draw the full £15 million in 2008–09 End-Year Flexibility which the Treasury had authorised to compensate for exchange-rate losses, as the Department made gains under its early forward-purchase contracts.<sup>232</sup> In the 2008–09 Spring Supplementary Estimate, the FCO was able to transfer £29 million which it had gained through forward contracts towards peacekeeping in Africa.<sup>233</sup> According to the NAO, the FCO's forward-purchasing operations gained it some £40 million overall in 2008–09, compared to the situation which would have prevailed had the Department continued only to make spot purchases.<sup>234</sup>

119. As long as Sterling remains below the levels assumed in the CSR 07, forward-purchasing cannot provide complete protection from the effects of Sterling decline.<sup>235</sup> The NAO pointed out that, as Sterling was largely weaker in 2009–10 than in 2008–09, the gap between the CSR assumptions and the rates available in forward-purchase contracts would be wider, resulting in a greater loss of purchasing power.<sup>236</sup> At the same time, the FCO said that it had entered into some forward contracts in December 2008-January 2009 when Sterling was at its weakest, and that inasmuch as Sterling subsequently strengthened, these contracts would result in an exchange-rate loss for the Department.<sup>237</sup> In addition, the FCO has not considered it cost-effective to forward-purchase any currencies other than US Dollars, Euros and Yen. It has exposure of over £4 million in only another three currencies, and its exposure in 14 currencies is below £2 million a year.<sup>238</sup> Forward-purchasing is in any case not available for the majority of the 120 currencies in which the FCO operates, as they cannot be purchased in the UK.

120. Rather than protection against losses, under current circumstances forward-purchasing mainly provides certainty. In a letter to us of October 2009, the FCO summarised the situation thus:

although the forward purchasing strategy we developed for US Dollar/Euro/Japanese Yen helped us plan our activity in these currencies around our known costs, [...] it has done nothing to help us manage the long term impact of, and the additional costs generated by, Sterling's collapse in the autumn of 2008 against nearly all currencies. [...] Forward purchasing cannot solve this.<sup>239</sup>

**121. We commend the FCO for developing, after an uncertain start, a forward-purchasing operation which reduced the scale of the losses that would otherwise have**

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232 Ev 79, 133

233 Ev 33

234 Ev 133

235 Ev 29 [FCO], 133 [NAO]

236 Ev 134

237 Ev 80

238 Ev 131 [NAO]

239 Ev 79

arisen from Sterling’s fall and helped the Department to remain within budget in 2008–09. However, we conclude that forward-purchasing in a limited number of foreign currencies, as the FCO has done, whilst providing greater foreign exchange certainty, cannot protect the Department’s non-Sterling purchasing power from the basic fact of Sterling depreciation. We deplore the fact that the policy of the Treasury and the ending of the Overseas Price Mechanism in 2007 have made forward-purchasing by the FCO necessary.

122. The FCO suggested in January 2009 that forward-purchasing could help it to achieve the savings it requires in 2009–10, perhaps to the tune of £90 million in total over the two years 2009–10 and 2010–11, although the Department warned that “the reality of course could be very different”.<sup>240</sup> By October 2009, the FCO said that the forecast net gain over the two years had fallen to £19.3 million, because Sterling had strengthened compared to the rates fixed in its forward contracts. The expected net gain arose from a forecast gain of £36.4 million in 2009–10 and a forecast loss of £17.1 million in 2010–11.<sup>241</sup>

**123. We recommend that in its response to this Report the FCO should set out how it is weighing the increased certainty which is achieved through forward-purchasing, on the one hand, against the risk, on the other, that forward contracts could be less favourable than spot purchases if Sterling strengthens. We further recommend that in its response to this Report, or earlier if possible, the Department should provide an update on its foreign currency management plans for the 2010–11 financial year.**

124. In an evidence session with the Public Accounts Committee (PAC) in October 2009, Sir Peter Ricketts discussed possible co-operation between departments in the management of exchange-rate risk.<sup>242</sup> Our understanding is that the MOD has used relatively long-term forward-purchasing for many years, to secure the foreign currency needed to make fixed-date payments on major capital projects.<sup>243</sup> As of early 2010, DFID has not felt a need to make forward-purchases of foreign currency, and its witnesses indicated to the International Development Committee in November 2009 that the Department could probably continue to manage without doing so, with the exception of its Euro-denominated contribution to the European Development Fund, for which it might forward-buy its currency requirement.<sup>244</sup> Sir Peter told the PAC that he “would see lots of value in other departments clubbing together” with the FCO to forward-purchase foreign currencies.<sup>245</sup> The PAC recommended that “with input from the Treasury, [the FCO] should work alongside other Departments, such as the Ministry of Defence and Department for International Development, to identify the most effective way to manage exchange-rate risk for the Government as a whole”.<sup>246</sup>

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240 Ev 29

241 Ev 80

242 Public Accounts Committee, Third Report of Session 2009–10, *Financial Management in the FCO*, HC 164, Q 21

243 Ev 134 [NAO]

244 International Development Committee, Fourth Report of Session 2009–10, *DFID’s Performance in 2008–09 and the 2009 White Paper*, HC 48-II, Q 53

245 Public Accounts Committee, *Financial Management in the FCO*, Q 21

246 Public Accounts Committee, *Financial Management in the FCO*, Conclusions and recommendations, para 6

125. We recommend that in its response to this Report the FCO should update us on any discussions which it is having with other government departments about the possible joint management of exchange-rate risk, and on the development by the Treasury of cross-government guidance on foreign currency management.

### *Prospects for 2010–11 and beyond*

126. The figure currently given for the FCO’s expected 2010–11 DEL budget is £1.69 billion.<sup>247</sup> However, this includes no spending on conflict prevention and thus appears to represent an artificially large drop (21%) compared to the FCO’s budget for 2009–10. The FCO told us in February 2010 that conflict prevention allocations for 2010–11 had not yet been confirmed.<sup>248</sup>

127. In February 2009, the FCO Board minutes already described the Department’s budgetary prospects for 2010–11 as “sombre”.<sup>249</sup> In her January 2010 parliamentary answer, Baroness Kinnock said that the FCO expected its projected budget shortfall of £110 million in 2009–10 to “increase slightly” in 2010–11,<sup>250</sup> although in his subsequent Written Ministerial Statement of 10 February the Foreign Secretary put the expected figure for 2010–11 back at £110 million.<sup>251</sup> Once the effects of Sterling’s fall are factored in, the minutes show that as of December 2009 the FCO Board was expecting the Department’s budget for 2010–11 to be “8–9% lower than the one for 2009–10, due mostly to the continued fall of Sterling”. The Board said that coping with this would require “difficult decisions”.<sup>252</sup> The FCO confirmed in February 2010 that the 8–9% figure was “indicative of the likely reductions in planned spending needed to stay within our parliamentary control totals and CSR settlement in the light of our exchange-rate pressures”.<sup>253</sup>

128. As we prepared this Report in late January and February 2010, departments’ discussions with the Treasury over the details of their 2010–11 budget settlements remained underway.<sup>254</sup> In 2008–09, late internal allocation of budgets within the FCO caused problems at the start of the financial year, but the FCO issued its 2009–10 budgets in March 2009, and for 2010–11 it planned to do so in February.<sup>255</sup> Sir Peter Ricketts also told us that he wanted to “get to a position as soon as [he could] where Posts have certainty about their budgets in local currency for the year ahead, so that they are in a sense protected from movements of sterling during that year”.<sup>256</sup> This was confirmed in an internal FCO memo from Sir Peter of which the FCO gave us sight, in which Sir Peter also

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247 DEL budget, calculated from FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, pp 14–15, Table 4

248 Ev 101

249 Summary minutes of FCO Board meeting, 27 February 2009, via [www.fco.gov.uk](http://www.fco.gov.uk)

250 HL Deb, 20 January 2010, col 992

251 HC Deb, 10 February 2010, col 53WS

252 Summary minutes of FCO Board meeting, 18 December 2009, via [www.fco.gov.uk](http://www.fco.gov.uk)

253 Ev 100

254 HC Deb, 21 January 2010, col 439–444

255 Public Accounts Committee, *Financial Management in the FCO*, para 8

256 Q 61

referred to plans to “create a central fund to manage in-year currency fluctuations”.<sup>257</sup> If the FCO plans to convert Posts’ budgets into local currencies before the start of the financial year, and put new internal arrangements in place to protect the Department against subsequent Sterling weakening, this suggests another reason to try to reach a 2010–11 budget settlement with the Treasury relatively early.

**129. Given the way in which the FCO has recently improved the timeliness of its budgetary processes, and especially if it seeks to allocate Posts’ budgets in local currencies rather than Sterling for the first time, we recommend that the Department should do all it can to ensure that it reaches a 2010–11 budgetary settlement with the Treasury in good time to allow it to allocate internal budgets before the start of the 2010–11 financial year.**

130. The FCO told us that in a letter to the Foreign Secretary of 22 November 2007, after the announcement of the CSR 07 settlement, the then Chief Secretary to the Treasury had said that “if there were a sudden and extreme pressure on the FCO relating from exchange-rate fluctuations [*sic*], the [Chief Secretary] would consider a Reserve claim if the alternative would be that the FCO would breach its DEL and Estimates”.<sup>258</sup>

131. The FCO has been frank in its responses to our questions about its finances, but in general the Department seems to have preferred to take a relatively discreet and low-key approach to its negotiations with the Treasury, rather than “go public” about the scale of the threat to its budget and the reasons for its difficulties. The Foreign Secretary told us in December 2009 that he had “not found that waving bleeding stumps in public is the way to impress one’s colleagues”.<sup>259</sup> We find the Foreign Secretary’s choice of metaphor telling as an indication of the potential severity of the cuts facing the FCO.

132. On 10 February 2010, the Foreign Secretary announced that, as a result of an agreement with the Treasury aimed at helping to manage exchange-rate pressures, in 2010–11:

- an additional £25 million from asset sales would be recycled into the FCO’s budget;
- a further £35 million would be made available to the FCO from the Reserve, of which £20 million would form a “foreign exchange adjustment account”, to be drawn on in agreement with the Treasury; and
- a further £15 million would be made available in End-Year Flexibility, “focussed on restructuring and modernisation costs subject to a business case being made”.<sup>260</sup>

In subsequent written answers, the FCO explained that the “foreign exchange adjustment account” would be a Departmental Unallocated Provision (DUP), and said expressly that it did not represent a return to the OPM.<sup>261</sup> As regards the asset sales, Sir Peter Ricketts

257 Ev 114

258 Ev 80

259 Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 9 December 2009, HC (2009–10) 144, Q 3

260 HC Deb, 10 February 2010, col 53WS

261 HC Deb, 22 February 2010, col 213W

clarified in evidence to the Public Accounts Committee on 1 March that the additional £25 million represented an increase in the maximum annual amount of funds which the Treasury allows the FCO to retain for itself from its own asset sales.<sup>262</sup> In his 10 February statement, the Foreign Secretary also said that he had agreed with FCO Services Trading Fund (for which, see paragraph 147) that it would make an additional contribution towards helping the main FCO budget in 2010–11, a contribution which has been identified subsequently as a dividend payment of £3 million.<sup>263</sup> The Foreign Secretary also said that the FCO itself would implement “a broad programme of streamlining and cost-savings” to further reduce its budgetary shortfall.<sup>264</sup>

133. In his 10 February statement, the Foreign Secretary also said that he had agreed with the British Council and the BBC World Service that they would make additional contributions towards helping the main FCO budget in 2010–11. Both organisations provided further details in subsequent submissions to us. The BBC World Service told us that its projected underspend of £4 million in 2009–10 would be offset against the FCO’s projected overspend, in line with normal practice. For 2010–11, as an “exceptional measure”, £3.7 million of World Service funding was being made available to the FCO “with the express understanding that this will not be a permanent reduction in the BBC World Service baseline”. The World Service said that, for the period beyond 2010–11, the FCO would “make every effort in the forthcoming Spending Review to support [it] in negotiating satisfactory funding”.<sup>265</sup> For its part, the British Council is to provide £5 million to the FCO budget in 2010–11. Under plans approved by the Board of Trustees on 23 February 2010, the British Council is to raise £1.1 million from operating budget cuts, and £1.5 million by “refocusing” programme activity under its Reconnect initiative, which provides leadership training to young people in Muslim states, while seeking to “maintain impact in Pakistan and Afghanistan”. A cut of £1.5 million represents half of the planned budget for the “Reconnect” initiative in 2010–11. The British Council will also pass on the net surplus raised from the sale of its Mumbai office, estimated at £2.4 million.<sup>266</sup>

134. The Foreign Secretary said in his 10 February statement that the package of measures agreed with the Treasury would “substantially offset the foreign exchange pressures on the FCO budget” in 2010–11.<sup>267</sup> The measures costed as of mid-February 2010 totalled £90.7 million, which remained less than the FCO’s expected shortfall for 2010–11 of around £110 million, but represented over 10% of the FCO’s core budget of around £830 million. The remainder of the shortfall was presumably to be found from the FCO’s own programme of cost savings, which remained to be finalised.

**135. We conclude that recent public statements by the Foreign Secretary and Baroness Kinnock are evidence that the FCO is “going public” about the scale of its financial difficulties. We welcome the agreement with the Treasury for additional financial**

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262 Uncorrected transcript of oral evidence taken before the Public Accounts Committee on 1 March 2010, HC (2009–10) 417-i, Q 97; see also paragraph 175 below.

263 HC Deb, 22 February 2010, col 214W

264 HC Deb, 10 February 2010, col 53WS

265 Ev 141

266 Ev 142

267 HC Deb, 10 February 2010, col 53WS

resources for 2010–11 which appears to have resulted. We welcome in particular the Treasury’s implicit acknowledgement that the management of the exchange-rate pressures which face the FCO requires support from the Treasury Reserve. We conclude that the measures announced in February 2010 should substantially reduce the pressures on the FCO budget in 2010–11 arising from the withdrawal of the Overseas Price Mechanism and the fall of Sterling, although we note that the currently costed plans do not make up all the expected shortfall. We regard it as unacceptable that as a result of Treasury policy the FCO’s operations came to be under such strain before agreement on some financial relief was reached. We recommend that in its response to this Report the FCO should provide further details of the expected operation of the measures announced in February 2010, as well as its estimate of the cash increase to the FCO’s 2010–11 budgeted income which is likely to be realised as a result.

136. We are concerned that the agreement announced in February 2010 between the FCO and the Treasury on the FCO’s finances for 2010–11 breaches the ring-fencing of funding for the British Council and BBC World Service. We recommend that in its response to this Report the FCO should provide an assurance that this will not be repeated.

137. For the period beyond 2010–11, Departments’ budgets are expected to be determined in a new Comprehensive Spending Review following the 2010 General Election. The Foreign Secretary appeared to imply that, in principle, he favoured adhering to a three-year settlement rather than seeking major changes during a spending round period.<sup>268</sup> The minutes of the January 2010 meeting show that the FCO Board is already planning on having to reduce the FCO’s headcount by 10% over the next five years;<sup>269</sup> and Sir Peter Ricketts indicated that, if necessary, the FCO would continue to raise the difficulties it was facing with the Treasury into the new spending round.<sup>270</sup>

138. We note that the agreement with the Treasury which was announced by the FCO in February 2010 comprises a set of one-off measures which apply only to the 2010–11 financial year and which do not address the impact of the withdrawal of the Overseas Price Mechanism (OPM) on a longer-term basis. We recommend that the OPM should be re-established, or an alternative mechanism put in place to protect the FCO, with its unique degree of exposure to currency fluctuations, from suffering severe financial consequences as a result of such fluctuations.

139. The expected 2010 CSR will follow two spending rounds which were relatively tough for the FCO. We have noted previously that what Sir Peter Ricketts described to us as the FCO’s “flat or less than flat”<sup>271</sup> real-terms budget under the 2004 and 2007 spending rounds contrasted with the increases enjoyed by some other departments and agencies. For example, the average real-term reduction in the FCO’s budget under the CSR 07 which we

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268 Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 9 December 2009, HC (2009–10) 144, Q 5

269 Summary minutes of FCO Board meeting, 29 January 2010, via [www.fco.gov.uk](http://www.fco.gov.uk)

270 Q 20

271 Q 4

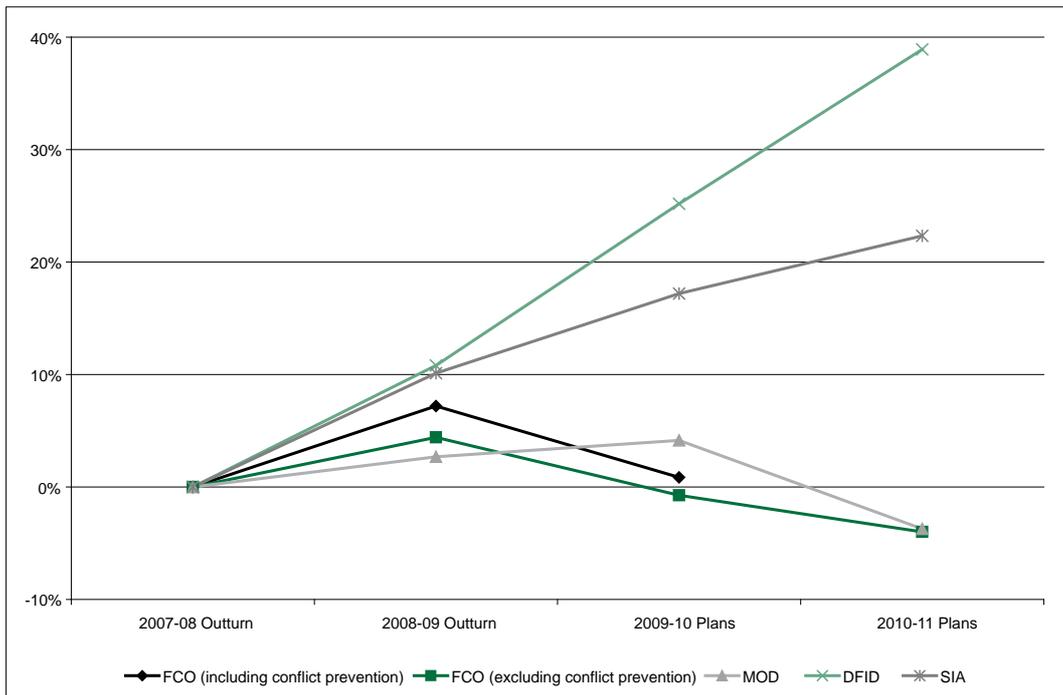
identified in our Report two years ago, of 0.2% a year, contrasted with an average real increase for other departments of 2.1%.<sup>272</sup>

140. Figures 1 and 2 show the real-term change in the Total Departmental Spending of the FCO, DFID, MOD and the Security and Intelligence Agencies (SIA) for the CSR 07 and 2004 Spending Review periods, using 2007–08 and 2004–05, respectively, as the reference years. The FCO's spending is shown both including and excluding conflict prevention spending, to enable comparison of plans for 2010–11 (for which conflict prevention funding is not yet allocated) with spending in previous years. The figures show that, whether for the post-2004 or post-2007 spending period, the FCO's expected spending for 2009–10 and 2010–11 is in real terms only slightly, if at all, above its level at the start, whereas the spend for DFID and the intelligence agencies is between 20% and 70% higher, depending on the basis used.

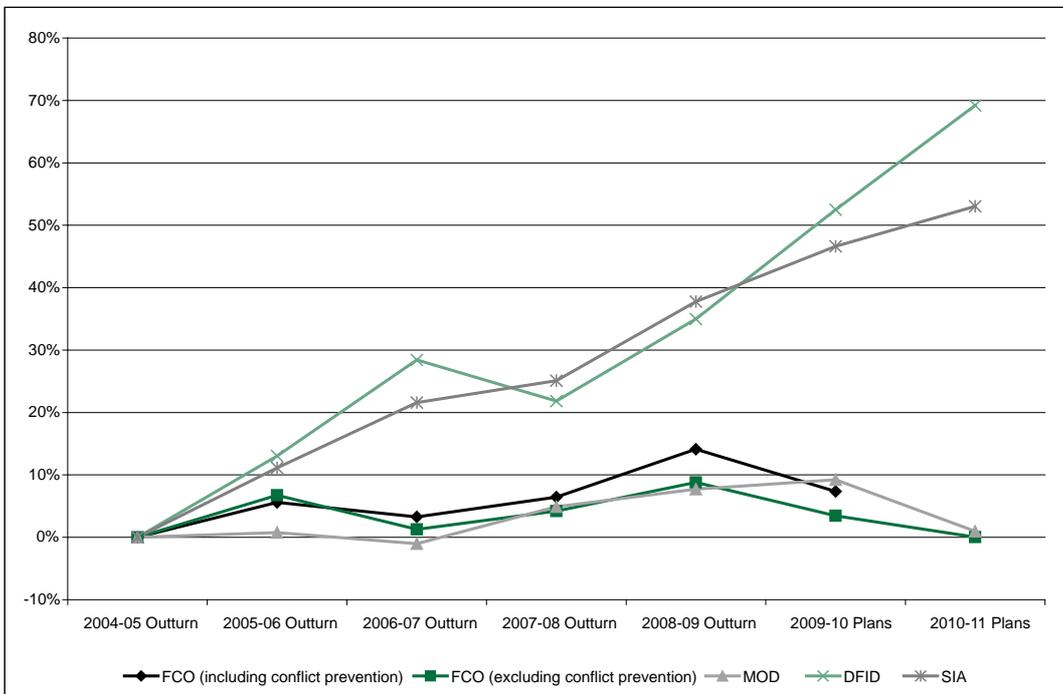
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<sup>272</sup> Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, paras 18–21

**Figure 1: Real-term change in Total Departmental Spending of FCO, MOD, DFID and SIA, 2007–08 – 2010–11**



**Figure 2: Real-term change in Total Departmental Spending of FCO, MOD, DFID and SIA, 2004–05 – 2010–11**



SIA - Security and Intelligence Agencies. The two Figures show the real-term percentage change in the respective bodies' Total Departmental Spending for the post-2007 Comprehensive Spending Review and post-2004 Spending Review periods, using 2007–08 and 2004–05 prices, respectively. Prices have been calculated in real terms using the HM Treasury Gross Domestic Product deflators; see [http://www.hm-treasury.gov.uk/data\\_gdp\\_index.htm](http://www.hm-treasury.gov.uk/data_gdp_index.htm).

Sources for Total Department Spending figures: FCO, *Departmental Report and Resource Accounts, 1 April 2008–31 March 2009, Vol. 2, HC 460-II, pp 14–15*; DFID, *Annual Report and Resource Accounts 2008–09, Vol. 1, HC 867-I, p 61*; MOD, *Annual Report and Accounts 2008–09, Vol. 1, HC 467-I, pp 20–21*; Cabinet Office, *Annual Report and Accounts 2008–09, HC 442, pp 125–126*

141. The Foreign Secretary suggested that departments' relative influence should not be judged by "the respective size of [their] cheque books", because the FCO exercised influence not by programme spending but by its "diplomatic and political links".<sup>273</sup>

**142. We conclude that the FCO has been losing out relative to other departments and agencies in the allocation of government spending, in a consistent trend over the last two spending rounds. In real terms, the FCO's Total Departmental Spending excluding conflict prevention (in Sterling terms) is expected to be around 3% above the 2004–05 baseline in 2009–10 and 0% above the same baseline in 2010–11, whereas the figures for DFID, for example, are around 50% and 70% higher, respectively. We agree with the Foreign Secretary that there is no absolute correlation between budgets and influence. Nevertheless, we recommend that the trend whereby the FCO has been losing out relative to other departments in the allocation of government spending should be reversed.**

**143. We appreciate that all government departments face a major squeeze on public spending, and that protecting the work done by the FCO may not be at the top of the British public's list of priorities. Nevertheless, we conclude that the FCO has a strong case to make about the value of its work in the national interest, about the extent to which it has already made cuts, and about the severity of the budgetary situation in which it finds itself, largely for reasons beyond its control.**

## Efficiency savings

144. Under the CSR 07, the FCO was set a target of 3% annual efficiency savings, like other government departments. For the FCO, this is equivalent to £144 million in net cash-releasing savings over the three-year period. In the Government's 2009 budget, it was announced that the FCO and its associated public bodies would be required to find additional savings of £20 million by 2010–11. The FCO has established a range of efficiency or value-for-money (VFM) programmes aimed at delivering its overall savings targets. We have commented in detail on several of these in previous Reports.<sup>274</sup>

145. At the time of our Report on the Department's 2007–08 Annual Report, the FCO was forecasting that its efficiency programmes should yield £155 million in savings over the CSR 07 period. The Department thus deliberately built in a buffer to increase its prospects of achieving the £144 million target, even if projects failed to deliver fully or on time.<sup>275</sup> In its 2008–09 Annual Report, the FCO said that it was now running efficiency programmes which should yield £167.4 million in savings by 2010–11.<sup>276</sup> By the time of the 2009 Autumn Performance Report, the FCO was reporting that its efficiency savings programmes should save a cumulative total of £172.6 million over the CSR 07 period.<sup>277</sup>

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<sup>273</sup> Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 9 December 2009, HC (2009–10) 144, Q 8

<sup>274</sup> Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, paras 77–93; Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 204–208

<sup>275</sup> FCO, *Autumn Performance Report*, December 2008, p 26

<sup>276</sup> FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, p 3

<sup>277</sup> FCO, *Autumn Performance Report*, December 2009, p 27

146. In 2008–09, the FCO’s efficiency programmes delivered £85.8 million in savings (including £12.1 million by the BBC World Service and British Council), against £75.5 million forecast in the 2008 Autumn Performance Report.<sup>278</sup> As of the end of the second quarter of 2009–10, the FCO’s cumulative savings since the start of the CSR 07 period amounted to £120.6 million. The FCO said that if it maintained its performance, it would be “on track” to achieve the CSR 07 target.<sup>279</sup> The FCO reaffirmed this expectation in letters to us in February 2010, when it said that the forecast was supported by initial indications from the 2009–10 third-quarter figures.<sup>280</sup>

147. In our Report last year, we considered in particular detail the organisation FCO Services, which provides a range of services including logistics, IT, language services, biometrics, vetting and physical security, and which became a Trading Fund on 1 April 2008, with the aim of generating increasing revenues from non-FCO customers.<sup>281</sup> We concluded last year that “FCO Services [had] made a promising start following its transformation to a Trading Fund” but that “there must be concerns about its ability to expand into wider markets under current economic conditions”.<sup>282</sup> In the event, FCO Services posted 15.3% growth in wider market revenue in 2008–09, above its 10% target. Sir Peter Ricketts told us that FCO Services’ performance had “enabled it to play an important role in enabling [the FCO] to meet [its] overall efficiency saving obligations under the CSR”.<sup>283</sup>

148. The FCO told us in October 2009 that some of its efficiency projects were having to find more savings than planned, in order to compensate for exchange-rate fluctuations.<sup>284</sup> Similarly, the Department’s 2009 Autumn Performance Report noted that “if exchange rates remain at their current level or fall further, the FCO is likely to have to exceed its efficiency targets in order to maintain delivery of its DSO and PSA targets”.<sup>285</sup>

149. The FCO commissioned an internal audit of its value-for-money programme, to assess compliance with Treasury guidance, which was completed in January 2009. The audit rated risk management of the programme as being “satisfactory”. The FCO told us that the audit had made only five recommendations, all of which had been implemented by the end of the 2008–09 financial year.<sup>286</sup> The audit report also noted that “the FCO has received praise from [...] HMT for being proactive in its approach to the CSR 07 VFM process and is seen to be ahead of other HMG Departments”.<sup>287</sup>

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278 FCO, *Autumn Performance Report*, December 2008, p 26; FCO, *Autumn Performance Report*, December 2009, p 26

279 FCO, *Autumn Performance Report*, December 2009, p 26

280 Ev 103, 105

281 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 125–149

282 Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2007–08*, para 141

283 Ev 62

284 Ev 74

285 FCO, *Autumn Performance Report*, December 2009, p 26

286 Ev 51

287 FCO, *Autumn Performance Report*, December 2009, p 30

150. The FCO's CSR 07 programme of efficiency savings follows a similar programme established under the 2004 Spending Review, under which the FCO exceeded its savings target, achieving £132 million in savings against a target of £120 million.<sup>288</sup> Given the efficiencies that the FCO has implemented in recent years, Sir Peter Ricketts described as "limited" its scope to make further such savings in order to recoup its current budget shortfall.<sup>289</sup> Sir Peter said that the FCO had "been living on pretty thin rations for at least a couple of spending rounds" and had therefore already "got rid of the fat".<sup>290</sup>

**151. We conclude that in the last two spending round periods the FCO has consistently taken seriously the Government's efficiency savings requirements, and has met or exceeded savings targets. We recommend that the FCO should continue to make a sustained effort to reduce costs where it reasonably can, in line with the requirements of the Comprehensive Spending Review 2007—but that it should resist the temptation to seek savings over-aggressively in order to make up the Department's budgetary shortfall, at the risk of cutting into its substantive operations and capabilities.**

152. In his quarterly management letter for January-March 2009, Sir Peter Ricketts told us that the FCO was looking especially to the Corporate Services Programme (CSP) to "save significant money from the next financial year onwards".<sup>291</sup> The FCO approved the CSP in September 2008 as a replacement for the Shared Services Programme, which had received a "red" rating from the Office of Government Commerce and which the FCO effectively admitted was flawed, although it also said that it had made some useful contributions. The CSP is intended to improve the Department's corporate services such as financial processing, facilities management, procurement and human resources, with a view in particular to providing more of such services from single centres to several overseas Posts at once, so that individual Posts can stop having to carry out all such functions.<sup>292</sup> A new FCO UK Corporate Services Centre opened in Milton Keynes in September 2009. The CSP is also running a project called "10,000 days", which is aimed at eliminating unnecessary bureaucracy; the FCO told us in May 2009 that the project had by that stage saved over 9,000 days of management time, and in February 2010 that it had now "removed over 50,000 days of processes from [the Department's] systems".<sup>293</sup>

**153. We recommend that in its response to this Report the FCO should set out the basis for its claims regarding the amount of management time being saved by the "10,000 days" project, with examples of the kinds of bureaucracy that have been eliminated. We further recommend that the FCO should provide details of the work which is planned under the Corporate Services Programme for 2010–11, including information on the savings which the programme is expected to generate over the year. We further recommend that the FCO should provide us with an assessment of the initial operation of the new Corporate Services Centre in Milton Keynes.**

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288 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 205; FCO, *Autumn Performance Report*, December 2009, p 26

289 Q 12

290 Qq 14–15

291 Ev 53

292 Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2007–08*, paras 215–218

293 Ev 52, 104

## Financial management

154. As we noted in paragraph 115, the NAO carried out an inquiry into “Financial Management in the FCO” which reported in June 2009.<sup>294</sup> We also have taken a close interest in the FCO’s efforts to improve its financial management, which we said two years ago “continue[d] to need improvement”.<sup>295</sup> Following the 2005 Collinson Grant review and the first Cabinet Office Capability Review of the Department in 2006–07,<sup>296</sup> the FCO’s efforts to improve its finance function have been a prominent feature of its recent management activities, especially since the launch in July 2007 of a major reform programme known as “5 Star Finance”. Under the programme, “5 Star” status is achieved when an organisation meets top NAO standards for the accuracy and timeliness of its financial information. Performance may be assessed both by the organisation concerned and by external bodies.

155. We detailed some of the steps which the FCO was taking under the “5 Star Finance” programme in our Report last year, in which we welcomed the reforms.<sup>297</sup> Among further steps taken since publication of our Report, the FCO recruited a further seven accountancy trainees to join the Department in September 2009, following the eight who joined in 2008–09. The trainees pursue a dedicated career track aimed at equipping them to occupy senior management positions. The FCO has also continued to provide specialist financial training for existing finance staff.<sup>298</sup> The Department refers to these schemes as “growing its own” accountants (the FCO’s Director General Finance, Keith Luck, was recruited externally in February 2007). The proportion of FCO finance staff with professional qualifications rose from 8% at the time of the NAO Report to 12% by September 2009;<sup>299</sup> this remained below the Whitehall average of 14%, but the FCO expected the figure to rise to 17% by the end of the financial year.<sup>300</sup> The FCO has also continued to provide financial training for general staff, including at senior management and Board levels.<sup>301</sup>

**156. We recommend that in its response to this Report the FCO should state whether it achieved its forecast of having 17% of its financial staff with professional qualifications by the end of the 2009–10 financial year.**

157. In its 2009 report, the NAO noted the use of a large number of consultants and contractors in the FCO Finance Directorate, and recommended that the Department should set targets for a reduction.<sup>302</sup> The FCO has subsequently set a target for a reduction

294 NAO, *Financial Management in the Foreign and Commonwealth Office*, HC (2008–09) 289, 3 June 2009

295 Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, para 106

296 See Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2006–07*, paras 97–105.

297 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 196–202

298 Ev 53

299 NAO, *Financial Management in the Foreign and Commonwealth Office*, HC (2008–09) 289, 3 June 2009, p 5; Public Accounts Committee, Third Report of Session 2009–10, *Financial Management in the FCO*, HC 164, para 5

300 NAO, *Financial Management in the Foreign and Commonwealth Office*, p 17; Public Accounts Committee, *Financial Management in the FCO*, Q 65

301 Ev 53

302 NAO, *Financial Management in the Foreign and Commonwealth Office*, Summary, para 16c

of 45–50% in these temporary staff,<sup>303</sup> and it is recruiting onto its permanent staff a number of specialists, to allow it to achieve the cut.<sup>304</sup> The FCO also told us that it was implementing an Office of Government Commerce Consultancy Value Programme to ensure that it was “bearing down” on consultancy costs, and that it expected to achieve £2 million in savings through this means.<sup>305</sup> The FCO’s 2008–09 Annual Report said that consultancy spend in the year was an estimated £60 million, up from £30 million in 2007–08, but the Department said subsequently that the two figures were not comparable, as the 2008–09 figure included “managed service provision” which had not been included in 2007–08, and that the Department’s actual spend on consultancy ‘proper’ in 2008–09 was £29.9 million.<sup>306</sup>

**158. We recommend that the FCO should continue to bear down heavily on its consultancy costs. We further recommend that the FCO should provide an estimate of its spending on consultancy in 2009–10 in its response to this Report.**

159. The 2009 Cabinet Office Capability Review of the FCO reported that “a number of stakeholders noted that [the] FCO underperforms when required to run programmes and projects”, and that there was “a need to ensure that staff understand the importance of good programme and project management skills and apply them to deliver work on the ground”.<sup>307</sup> The FCO told us that it had commissioned an action plan from the Office of Government Commerce for improving the Department’s programme and project management capability, and was enhancing its training and information provision in this area.<sup>308</sup>

**160. We recommend that in its response to this Report the FCO should update us on the implementation of its action plan for improving programme and project management capability, including information on its plans for assessing the impact of the project.**

161. The Office of Government Commerce carried out a Procurement Capability Review of the FCO in September–November 2008 which was largely critical, noting a number of weaknesses in the FCO’s procurement capabilities and practices.<sup>309</sup> In response to the review, the FCO has established an improvement plan, which is to be completed by February 2011. The Department told us in October 2009 that the plan had 39 elements, of which 11 were slipping from their original timescales.<sup>310</sup> The FCO said that four of these were related to work which needed to be carried out by the new Commercial Director, who arrived in post in August 2009. Through improved procurement, the FCO’s aim is to make

303 Public Accounts Committee, Third Report of Session 2009–10, *Financial Management in the FCO*, HC 164, Ev 13

304 Ev 81

305 Ev 78; FCO, *Autumn Performance Report*, December 2009, p 28

306 FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, p 39; HC Deb, 14 July 2009, col 320W; HC Deb, 29 January 2010, col 1115W

307 Cabinet Office, *Foreign and Commonwealth Office: Progress and next steps*, Civil Service Capability Review, March 2009, p 12

308 Ev 82

309 Office of Government Commerce, Procurement Capability Review Programme, *FCO Review Report*, September–November 2008, [http://www.ogc.gov.uk/documents/FCO\\_PCR\\_Report.pdf](http://www.ogc.gov.uk/documents/FCO_PCR_Report.pdf)

310 Ev 82

£11 million in savings during the CSR 07 period; it forecasts that it will in fact achieve £13.2 million.<sup>311</sup>

**162. We conclude that there appears to be significant scope for the FCO to improve its procurement practices. We recommend that in its response to this Report the FCO should update us on its progress in implementing its procurement improvement plan, and in particular set out whether all elements are now back on track for completion on time by February 2011. We further recommend that the FCO should provide its estimates for the savings achieved so far and likely to be achieved by the end of the project.**

163. A key indicator of weak financial management in the FCO in the past has been a consistent tendency to underspend.<sup>312</sup> In 2007–08, the FCO underspent by around 6%. In 2008–09, the Department’s total underspend was 3.1%,<sup>313</sup> and Sir Peter Ricketts told us that the underspend on the main administration and programme budget was just 0.14%. This was below the 1% target set by the FCO Board at the start of the financial year. Sir Peter said that the reduced underspend was partly the result of the financial pressures facing the FCO, which had helped to “cure” the problem,<sup>314</sup> but that it was also “concrete evidence that the 5 Star Finance programme [was] delivering sustained improvement throughout the year in [the FCO’s] financial management”.<sup>315</sup> The FCO explained that, under the programme, budget holders are now required to report monthly on their expected spend for the year, and to identify activities which can be “switched on” or “switched off” at short notice, in order to increase the Department’s prospects of avoiding both underspend and overspend.<sup>316</sup> In its June 2009 Report, the NAO said that more frequent and detailed internal scrutiny of budget forecasts appeared to be proving effective.<sup>317</sup>

164. The FCO has been among the first of the major Departments to lay its Resource Accounts for two years in succession, 2008 and 2009. The NAO took this as evidence for its conclusion that the FCO had “improved the accuracy, reliability and timeliness of financial information reported both externally and internally”.<sup>318</sup>

**165. We conclude that the way in which the FCO picked up on its likely overspend early in the 2009–10 financial year reflects the effectiveness of its efforts to improve its in-year budgetary monitoring.**

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311 FCO, *Autumn Performance Report*, December 2009, p 28

312 NAO, *Financial Management in the Foreign and Commonwealth Office*, HC (2008–09) 289, 3 June 2009, paras 1.25–1.28

313 Information provided by the House of Commons Department of Chamber and Committee Services Scrutiny Unit. On a different basis, the NAO put the figure at 2.5%; Public Accounts Committee, Third Report of Session 2009–10, *Financial Management in the FCO*, HC 164, Ev 13. See also FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, p 86.

314 Q 49

315 Ev 60

316 Ev 81

317 NAO, *Financial Management in the Foreign and Commonwealth Office*, HC (2008–09) 289, 3 June 2009, Summary, para 12

318 NAO, *Financial Management in the Foreign and Commonwealth Office*, Summary, para 13; see also Ev 60 [FCO].

166. When it launched the “5 Star Finance” programme in mid-2007, the FCO assessed itself as being at “2½ stars”. It aimed originally to achieve “5 Star” status by April 2009. It has not met this target. In our Report last year we noted that in late 2008 the FCO had encountered difficulties in achieving “4 Star” standards, and that the Department had modified its target date for the achievement of “5 Star” status to the 2009–10 financial year.<sup>319</sup> In its response to our Report, the FCO said that it was aiming for “5 Star” status by May 2010, but this subsequently slipped further to July 2010.<sup>320</sup> The FCO assessed itself as having achieved “4 Star” status in December 2009.<sup>321</sup> In November 2009, the FCO Board agreed to “consolidate” at that level, “before pushing on to 4½ in the summer of 2010”.<sup>322</sup>

167. We reported last year that the delay in achieving “5 Star” status had arisen partly because the FCO had toughened the detailed criteria involved, as standards of financial management had risen across Whitehall. We commended the FCO for resisting the temptation to “gild the lily” in its self-assessment.<sup>323</sup> In its June 2009 Report, the NAO judged that the FCO’s then “3½ Star” self-assessment was “reasonable and soundly based”.<sup>324</sup>

168. Overall, in its June 2009 Report the NAO concluded that “the FCO has made significant progress in developing its financial management capability”,<sup>325</sup> a conclusion which was endorsed by the Public Accounts Committee.<sup>326</sup> The NAO subsequently told that Committee that the FCO had “responded positively” to the recommendations for further improvements which it had made in its Report.<sup>327</sup> The 2009 Cabinet Office Capability Review concluded similarly that the “5 Star Finance” programme had had “a significant impact on the quality of financial information and on budgetary control”.<sup>328</sup>

169. The FCO told us that, as “5 Star” status and thus the end of the “5 Star Finance” programme approached:

a transition plan will be drawn up to move the transformation in financial management performance from being a step change programme activity to being an on-going business development activity within the FCO’s normal scope of business. Consideration will be given at that point as to whether there is a need for further

319 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 198–200

320 FCO, *Second Report from the Foreign Affairs Committee Session 2008–09: Foreign and Commonwealth Office Annual Report 2007–08: Response of the Secretary of State for Foreign and Commonwealth Affairs*, Cm 7585, April 2009, para 40; Ev 80, 105

321 Ev 105

322 Summary minutes of FCO Board meeting, 27 November 2009, via [www.fco.gov.uk](http://www.fco.gov.uk); see also Ev 105.

323 Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2007–08*, paras 200–202

324 NAO, *Financial Management in the Foreign and Commonwealth Office*, HC (2008–09) 289, 3 June 2009, Summary, para 4

325 NAO, *Financial Management in the Foreign and Commonwealth Office*, Summary, para 4

326 Public Accounts Committee, Third Report of Session 2009–10, *Financial Management in the FCO*, HC 164, Conclusions and recommendations, para 1

327 Public Accounts Committee, *Financial Management in the FCO*, Ev 13

328 Cabinet Office, *Foreign and Commonwealth Office: Progress and next steps*, Civil Service Capability Review, March 2009, p 11

intensive activity through a new transformation programme to build on the progress made through the 5 Star Programme.<sup>329</sup>

**170. We conclude that the FCO’s failure to complete its “5 Star Finance” programme during the 2009–10 financial year is disappointing. However, we further conclude that there is no evidence that the delay reflects any deterioration in FCO financial management. Rather, we concur with the National Audit Office and the Public Accounts Committee that the FCO’s financial management has improved significantly in recent years. We conclude that the FCO’s elimination of its underspending habit in 2008–09 is especially to be welcomed. We further conclude that the delay in achieving “5 Star” status largely reflects the high standards which the FCO is setting for itself; and that the fact that the Department too recognises that there remains scope for important improvement is to be welcomed. We recommend that in its response to this Report the FCO should provide its current estimated completion date for the “5 Star Finance” programme.**

### Estate management

171. On the basis of the figures in the Department’s 2008–09 Annual Report, the FCO’s total estate was worth £2.2 billion at the end of March 2009 (including assets owned, leased and forming part of PFI arrangements).<sup>330</sup> According to the NAO, the FCO’s overseas estate—defined as FCO-owned properties only—was worth £1.6 billion at open-market value.<sup>331</sup> The overseas estate comprises just over 4,000 properties.<sup>332</sup>

172. Under the CSR 07, the Treasury required the FCO to deliver a minimum of £54 million from asset sales over the three-year period.<sup>333</sup> After the FCO delivered this amount early in the first year of the settlement, following some successful sales, the target was raised in-year to £60 million. In our Report last year, we expressed some concern in case the increased target placed extra pressure on the FCO to make sales which were not well-founded, especially at a time of international economic downturn and therefore depressed property prices.<sup>334</sup> We have consistently taken the view that sales of FCO properties around the world should take place solely on the merits of each case, rather than as a revenue-raising measure.<sup>335</sup>

173. Sir Peter Ricketts includes details of the FCO’s asset sales and purchases in each of his quarterly management letters to us.<sup>336</sup> The FCO generated £61.5 million from asset sales in

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329 Ev 81

330 Net book value; FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, p 131, Table 12

331 NAO, *Adapting the Foreign and Commonwealth Office’s global estate to the modern world*, HC (2009–10) 295, 11 February 2010, p 13, Figure 2

332 *Ibid.*

333 Ev 77

334 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 92–93

335 Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, para 161

336 Ev 27, 55, 63–64, 107

2008–09, of which almost £40 million accrued from the sale of the Embassy site in Madrid.<sup>337</sup> In the financial year, the FCO also sold properties in Abidjan, Amsterdam, Buenos Aires, Cape Town, Durban, Lilongwe, Manila, Montserrat, Ottawa, Stockholm and Wellington, and land in Tallinn. The final sale of Marlay Grange in Dublin, the intended but never-occupied new Residence, also fell in the 2008–09 year; we have commented extensively on the dispiriting Marlay Grange saga in previous Reports.<sup>338</sup> The property in Durban was the only other Residence of a Head of Mission to be sold in 2008–09. As regards purchases, in 2008–09 the FCO bought land in Dushanbe, and properties in Antalya, Montserrat, Washington and Panama, the last being a new Residence.<sup>339</sup>

174. For 2009–10, the FCO’s asset sales target is £8 million. As of December 2009, it had delivered £5.6 million, with a further £3 million under offer.<sup>340</sup>

175. The financial pressures facing the FCO have prompted renewed speculation about the possibility of asset sales to raise cash. The Government’s December 2009 *Operational Efficiency Programme: Asset Portfolio* publication identified a cross-government target of £16 billion to be delivered from asset and property sales by 2013–14.<sup>341</sup> In October 2009, Sir Peter Ricketts answered “no” when asked by the Public Accounts Committee if the FCO was going to “sell off cheaply Residences that do so much for our image just to meet some Treasury demand”.<sup>342</sup> We requested and received the same assurance from Sir Peter in December; he told us that any sale would “be justified and make sense on its merits”.<sup>343</sup> However, Sir Peter noted that “there will always be opportunities to sell buildings that are underused, obsolete or extremely valuable when compared with the benefit they bring us”, and he confirmed that the FCO would “look to sell more of those in line with the Government’s policy on greater asset disposals”.<sup>344</sup> Sir Peter also confirmed that the FCO could use the vast majority of the proceeds from asset sales to invest back into its own estate.<sup>345</sup> In October, he told the Public Accounts Committee that driving asset sales would be part of the remit of the FCO’s new Director of Estates, Alan Cronney, who took up his post in June 2009.<sup>346</sup>

176. In December 2009, the Foreign Secretary confirmed to the House that the FCO intended to sell 106 properties between 2010–11 and 2013–14, with a book value of £71 million. The list includes six Residences.<sup>347</sup> In his evidence to us in December 2009, Sir Peter Ricketts promised to keep the Committee “closely informed” when the FCO was

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337 Ev 77

338 Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, paras 162–166; Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 101–105

339 Ev 64

340 HC Deb, 8 December 2009, col 236W

341 HM Treasury, *Pre-Budget Report*, Cm 7747, December 2009, p 111

342 Public Accounts Committee, Third Report of Session 2009–10, *Financial Management in the FCO*, HC 164, Q 9

343 Q 53

344 Q 53

345 Qq 58–60

346 Public Accounts Committee, *Financial Management in the FCO*, Q 8

347 HC Deb, 8 December 2009, col 236W

planning to sell assets,<sup>348</sup> although the FCO has stated publicly that it does not reveal details of planned asset sales in advance, for commercial reasons and in order to realise the maximum possible value from disposals.<sup>349</sup> As noted in paragraph 132, revenue from asset sales forms a key element in the agreement reached between the FCO and the Treasury in February 2010 aimed at plugging the gap in the FCO's finances in 2010–11.

**177. Despite the FCO's need to plug its budget shortfall, we reiterate our previous conclusion that sales of FCO properties should take place on their merits, rather than purely to raise revenue. We continue to recommend that the FCO should keep us and our successor Committee closely informed about the FCO's plans for asset sales.**

178. Sir Peter Ricketts told the Public Accounts Committee in October 2009 that there was an “instruction from the top” of the FCO to “sweat the asset” as regards the FCO estate—that is, to use the Department's buildings to generate income.<sup>350</sup> Sir Peter confirmed to us that “a lot” of Ambassadors were now hiring out their Residences and appropriate Embassy spaces for commercial functions.<sup>351</sup> However, he also noted that the revenues raised from such activities “will never be more than quite a small proportion of what it cost[s] to run these buildings”.<sup>352</sup>

**179. We conclude that the FCO's new strategy of seeking to exploit its estate for greater financial return is to be welcomed, but subject to the proviso that such efforts do not generate conflicts of interest or compromise the Department's reputation or policies. We recommend that in its response to this Report the FCO should list a sample of non-FCO events for which the Department hired out its premises in 2009–10 and provide an estimate of the income generated from such activities.**

180. We have previously expressed concerns where the FCO has appeared to be mismanaging estate projects. This has applied in recent years both to asset sales, such as that of Marley Grange, and to estate development projects.<sup>353</sup> Following our criticisms last year of the FCO's management of a residential project in Pakistan, Sir Peter Ricketts copied to us the “action plan” arising from the review which was conducted of the project, which appeared to include a number of important potential improvements to FCO project management procedures.<sup>354</sup>

181. In the context of our previous concerns, we note that the cost of the new Embassy building in Harare—opened in March 2009—came in at £27 million, against an initial estimate of £17.5 million. The FCO attributed the overshoot to “difficult local conditions”, highlighting that the project had been implemented during a period of “political upheaval and economic collapse” in Zimbabwe. The FCO said that it was conducting a full review of the project, “to establish whether those on the FCO side [...] took all possible steps to keep

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348 Q 54

349 HC Deb, 22 February 2010, col 213W; Ev 114

350 Public Accounts Committee, Third Report of Session 2009–10, *Financial Management in the FCO*, HC 164, Q 53

351 Q 54

352 Q 54

353 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 94–105

354 Not printed; see Ev 54.

costs down”.<sup>355</sup> Among other recent estate projects, new Embassy buildings in Algiers and Warsaw also came in over-budget, partly owing to unfavourable exchange-rate movements.<sup>356</sup>

**182. We recommend that the FCO should give us sight of its review of the Harare Embassy project, or otherwise report to us in its response to this Report on the findings of the review.**

183. In February 2010, Sir Peter Ricketts informed the Public Accounts Committee and ourselves that work had had to be suspended at an early stage on the FCO’s new Embassy offices in Damascus, after evidence came to light that the security of the site may have been compromised. Sir Peter told the PAC that he thought the case represented a “failure” on the FCO’s part.<sup>357</sup>

184. We were particularly dismayed during our inquiry this year to hear that the project for the renovation of the Residence in Moscow had not been completed on schedule by December 2007/spring 2008, and was only finished in time for the Ambassador to be expected to move in during March 2010; and that the cost of the project was expected to come in at £13.8 million, compared to an original forecast of £10.6 million.<sup>358</sup> We pursued further details of the project from the FCO. The Department told us that the delays had arisen partly because of a failure to keep to schedule by the main contractor and partly because the Russian authorities had made unexpected demands regarding standards for—and their own involvement in—the work, on what is a historic building. The delays in turn pushed up costs. In September 2009, the main contractor applied for protection from its creditors. The FCO told us that it was “assessing the implications” of this.<sup>359</sup>

**185. With regard to the Moscow Residence renovation project, we conclude that the Russian authorities may well have made unexpected demands, but that it appears that elements of the project may also have suffered from poor planning and management on the FCO side. We recommend that in its response to this Report, the FCO should state whether the new estate project management procedures which were introduced as a result of the recent troubled residential project in Pakistan would have prevented at least some of the difficulties which have been encountered with the Moscow Residence project; and if not, whether the Moscow experience will lead to any further strengthening of FCO practices.**

186. One of the FCO’s recent high-profile estate developments was the opening of new Embassy offices in Madrid. We had the opportunity to see the new offices for ourselves during a visit there in January 2010, at the start of the Spanish Presidency of the EU Council. Sir Peter Ricketts had told us that the new premises comprised open-plan offices in a “fantastic, modern office tower in a wonderful position”, and that the move had

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355 Ev 54

356 Uncorrected transcript of oral evidence taken before the Public Accounts Committee on 1 March 2010, HC (2009–10) 417-i, Qq 12–13 [Sir Peter Ricketts]

357 Uncorrected transcript of oral evidence taken before the Public Accounts Committee on 1 March 2010, HC (2009–10) 417-i, Q 18

358 Ev 61, 93

359 Ev 96

generated a “tangible” lift in staff morale and effectiveness.<sup>360</sup> During our visit, we were indeed impressed with the new premises, although we noted that they were well outside the centre of the city. However, following our visit, there was a serious flood in the premises, apparently caused by a faulty water sprinkler system. The incident may present the FCO with as-yet unknown financial liabilities.<sup>361</sup>

187. In addition to the Algiers, Harare, Madrid and Warsaw projects, since 2008 the FCO has opened new Embassy and High Commission buildings in Basra, Boston, Mumbai and Podgorica, and a new housing complex in Bangkok.<sup>362</sup> The bilateral Embassy to Belgium has also moved into the same premises as the UK’s Permanent Representation to the EU, an arrangement which we were able to see for ourselves during our visit to Brussels in March 2010.<sup>363</sup> To set alongside the over-budget projects which we have noted, several others—such as in Brussels—came in on (or under-) budget.<sup>364</sup>

188. In connection with the opening in October 2009 of the new Embassy building in Warsaw, designed by Tony Fretton Architects, the specialist publication *Building Design* said that the FCO had been an “enlightened client” which believed that “buildings matter and good design is the only worthwhile option”. However, the publication said that the Warsaw Embassy was now viewed within the FCO as “lavish” and that it “could be the last of its kind, thanks to a new cost-cutting drive” which was being established under the FCO’s new estates strategy, which was itself being developed by Alan Croney, the FCO’s new Director of Estates, Security and Facilities Management.<sup>365</sup>

189. The Civil Service Capability Review in March 2009 had already indicated that the FCO was due to bring forward an estates management strategy for “making better use of the Department’s assets”, something which the Review saw as “an opportunity to improve efficiency”.<sup>366</sup> The minutes show that the FCO Board “discussed a paper on the outlines of a new estates strategy” at its September 2009 meeting;<sup>367</sup> and Sir Peter Ricketts told the Public Accounts Committee on 1 March 2010 that the Board discussed the full draft strategy at its February 2010 meeting and expected to finalise it “very rapidly”.<sup>368</sup> In a letter, Sir Peter shared with the PAC and ourselves the principles which will be applied to all future FCO estate projects, and he told PAC that he would send that Committee a copy of the new estates strategy when it was finalised.<sup>369</sup>

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360 Q 53

361 Uncorrected transcript of oral evidence taken before the Public Accounts Committee on 1 March 2010, HC (2009–10) 417-i, Qq 21–24

362 Ev 26, 105–106

363 Ev 106

364 Ev 106

365 “Foreign Office U-turn over embassy costs” and “End of an era for Embassies”, *Building Design*, 16 October 2009

366 Cabinet Office, *Foreign and Commonwealth Office: Progress and next steps*, Civil Service Capability Review, March 2009, p 12

367 Summary minutes of FCO Board meeting, 25 September 2009, via [www.fco.gov.uk](http://www.fco.gov.uk)

368 Uncorrected transcript of oral evidence taken before the Public Accounts Committee on 1 March 2010, HC (2009–10) 417-i, Q 2; see also summary minutes of FCO Board meeting, 26 February 2010, via [www.fco.gov.uk](http://www.fco.gov.uk).

369 Uncorrected transcript of oral evidence taken before the Public Accounts Committee on 1 March 2010, HC (2009–10) 417-i, Q 2

**190. We recommend that the FCO should send us or our successor Committee, as well as the Public Accounts Committee, a copy of its new estates strategy as soon as it is finalised.**

191. Mr Crony was recruited externally through an open competition; he followed Keith Luck, Director General Finance, in joining the FCO from the Metropolitan Police. Mr Crony heads a newly unified team covering estates, security and facilities management.<sup>370</sup> His appointment is part of the major effort which the FCO is now making to strengthen its estates management. Sir Peter Ricketts told us in May 2009 that the FCO was “looking at how to improve the governance and budgeting of future estate projects to ensure spend is tightly controlled and the taxpayer gets the best value for money”.<sup>371</sup>

192. The NAO published a major report on the FCO’s estate, *Adapting the FCO’s global estate to the modern world*, in mid-February 2010. The NAO found that the FCO’s current estate strategy had only “scant” underpinning detail and did not constitute a “clear framework to assess estate performance and drive change”. The NAO also found that the FCO’s data on the cost and use of the estate was poor, and that this was one of the factors behind the existence of significant unused space and a failure to take up some potential opportunities for co-location with other government departments and agencies. As regards the management of estate projects, the NAO found that:

the FCO does not have an effective system for bringing together the information necessary to manage its programme of capital projects around its estate. Poor information hinders the FCO’s ability to monitor effectively project costs against budget, or to identify the systemic causes of delays and cost overruns.<sup>372</sup>

The NAO also found that FCO management and incentive structures regarding the estate hampered its more effective use, and that there was no drive from above the Department for better cross-government use of FCO properties. Overall, the NAO concluded that “to date the [FCO] has not secured value for money in the way it manages its global estate as a whole”.<sup>373</sup>

**193. We conclude that the Department’s new drive to strengthen its estates management is to be welcomed. This is especially the case given our previous criticisms of some FCO estate projects and the shortcomings identified by the National Audit Office in its recent Report on the FCO’s management of its estate. We recommend that the FCO’s new estates management strategy should give due weight to the non-financial, ‘prestige’ value of some FCO properties, which we conclude can bring material benefits in terms of projecting the UK presence.**

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370 Ev 61

371 Ev 54

372 NAO, *Adapting the Foreign and Commonwealth Office’s global estate to the modern world*, HC (2009–10) 295, 11 February 2010, p 6

373 NAO, *Adapting the Foreign and Commonwealth Office’s global estate to the modern world*, p 9

## 3 Staffing issues

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### Localisation of staff

194. The FCO's staff comprises:

- UK-based staff, who are recruited in the UK for potentially complete careers, during which they will typically serve in a variety of positions, both in the UK and overseas, and who are paid throughout in Sterling, according to common civil servant pay scales; and
- Locally-engaged (LE) staff, who are recruited in-country for specific jobs in particular overseas missions, and employed by the mission concerned rather than the FCO 'proper'. LE staff are usually nationals of the country where they are employed, although not necessarily; increasing numbers of LE staff are British, especially in cities—such as in continental Europe—where there may be a significant pool of resident British potential employees. As non-permanent staff who do not sign up to the global mobility obligation of UK-based staff, LE staff do not have the same terms and conditions as their UK-based counterparts. LE staff are paid in local currency.

195. The share of LE staff in the FCO's total is rising. As of June 2009, the FCO said that it employed 5,400 UK civil servants and 10,400 LE staff, making the LE share 66%.<sup>374</sup> For comparison, in 2003 the figures were roughly 6,120 and 8,790 (LE share 59%);<sup>375</sup> and in 2007, 6,200 and 10,730 (LE share 63%).<sup>376</sup> As one example, Sir Peter Ricketts told us that LE staff now made up around 80% of the total at the Madrid Embassy.<sup>377</sup>

196. Decisions about the employment of individual LE staff are devolved to Heads of Mission, but the overall increase in the share of LE staff is FCO policy, and has been for some time. LE staff are seen as bringing valuable local knowledge to British Posts, but the process is taking place latterly primarily as a means of reducing costs.<sup>378</sup> Some jobs were "localised" as part of the Zero-Based Review of the FCO's European Posts under the post-2007 efficiency programme (see paragraph 144), to allow UK-based staff to be moved elsewhere (although some local jobs in European Posts were also eliminated).<sup>379</sup> In our Report on the FCO's 2006–07 Annual Report, we noted the Department's decision to give

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374 HC Deb, 1 June 2009, col 224W; see also the Foreign Secretary at HC Deb, 30 June 2009, col 147. These figures include the staff of FCO Services and are thus higher than those given in the FCO's Annual Report; see FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, p 21.

375 On the basis of FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, p 21 for UK-based staff and HC Deb, 27 April 2004, col 965–6W for LE staff.

376 On the basis of FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, p 21 for UK-based staff and HC Deb, 23 April 2007, col 910–1W for LE staff.

377 Q 63

378 Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, Ev 380

379 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 69–72; FCO, *Second Report from the Foreign Affairs Committee Session 2008–09: Foreign and Commonwealth Office Annual Report 2007–08: Response of the Secretary of State for Foreign and Commonwealth Affairs*, Cm 7585, April 2009, Annex A; Ev 66; FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, pp 3–5; FCO, *Autumn Performance Report*, December 2009, pp 27–28

Heads of Mission greater flexibility to appoint LE rather than UK-based staff;<sup>380</sup> and some jobs are being “flexi-graded”, so that they may be carried out by either type of personnel.<sup>381</sup> The FCO is also increasingly employing LE staff in more senior positions. Two years ago, the Department already had 40 Posts headed by LE staff,<sup>382</sup> and Sir Peter Ricketts confirmed the trend to us in his evidence this year.<sup>383</sup> FCO Director General Change and Delivery James Bevan told us that the Department was now “promoting people from local staff into some really challenging senior jobs”.<sup>384</sup>

197. In May 2009, the FCO Board approved plans to localise Management Officer positions in many overseas posts. This is as part of the money-saving Corporate Services Programme launched in late 2008, to which we referred in paragraph 152.<sup>385</sup> The plans are for the replacement of over 100 UK-based Management Officers with LE staff;<sup>386</sup> the Public and Commercial Services Union (PCS) told us that this was equivalent to the replacement of around 50% of UK-based Management Officers, and that the change would take place at Posts in 50 countries, including those in Islamabad, Kinshasa, Lagos, Tehran and Sana’a.<sup>387</sup>

198. The PCS, which has over 1,300 members among FCO staff, opposes the localisation of the Management Officer positions. Some of the Union’s concerns are about the substance of the changes. Given that Management Officers are responsible for day-to-day estate management, budgetary and human resource tasks at overseas Posts, and given the risk of fraud, in particular, the Union suggested that by localising Management Officer positions the FCO was “taking real chances with the integrity of its overseas operations including the security of FCO staff, families, information and assets”, and in the worst cases could conceivably be endangering national security.<sup>388</sup> Among its concerns, the PCS suggested that if staff needed to be deployed away from their normal Post in a crisis, LE staff might face political or visa problems in gaining access to some locations which would not be faced by their UK-based counterparts. The PCS also suggested that where Management Officer positions were localised in small Posts, tasks might “drift upwards” to UK-based Deputy Heads and Heads of Mission; we have heard anecdotal evidence of tasks certainly “drifting sideways” to UK-based staff below this level. The Union was also concerned about the personal and career impact on the UK-based staff affected, especially those whose overseas postings would be terminated early as a consequence. The PCS felt that the potential problems associated with the localisation programme would be compounded by what it said was the Board’s decision to compress the programme’s implementation from five years to three.<sup>389</sup>

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380 Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, para 150

381 Ev 27, 68

382 Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2006–07*, Ev 83

383 Q 30

384 Q 62

385 Ev 61 [FCO], 135 [PCS]; summary minutes of FCO Board meeting, 29 May 2009, via [www.fco.gov.uk](http://www.fco.gov.uk)

386 Ev 104

387 Ev 136

388 Ev 136

389 Ev 136

199. The PCS also objects to the process by which the localisation process was decided on and implemented. The Union told us that “there were no consultations with Posts or the FCO trade union side prior to the decision”, and that it regarded the consultation which had taken place subsequently as unsatisfactory. The PCS said that it had not been given sight of all relevant documents, and that it did not believe that the FCO had conducted detailed risk assessments for all the positions being localised. Overall, the PCS said that it could “not recall any previous examples of the FCO Board taking such an arbitrary and far-reaching decision with so little consultation”.<sup>390</sup>

200. The Foreign Secretary described the FCO’s increasing use of LE staff to us as a “very healthy development”.<sup>391</sup> He said that the FCO’s usage of LE staff gave the Department “flexibility, [...] local routes and [...] credibility, which is very valuable”.<sup>392</sup> During our visits to FCO Posts overseas, we have often had cause to appreciate for ourselves the value of the work being done by LE staff, including in difficult circumstances, and including some of the newly-localised Management Officers.

201. We have also been made aware of some of the problems that can arise from the FCO’s increasing use of LE staff. For example, foreign LE staff usually cannot receive the same level of security clearance as their UK-based counterparts, restricting the work that they can do and their level of integration with UK-based staff. Especially where they have been in post for some time, LE staff can feel resentful of the better terms and conditions enjoyed by even newly-arrived and less senior UK-based counterparts. During our inquiry two years ago, we heard suggestions that the drop in the number of FCO staff learning languages might be associated with the increasing use of LE staff, as an alternative to UK-based personnel, something about which we expressed concern.<sup>393</sup>

202. The PCS expressed doubt as to whether the Corporate Services Programme, of which the localisation process is part, would achieve its expected efficiency savings. Given that LE staff are paid in local currency, their increasing use presumably creates upward cost pressures when Sterling is weak, to set against the lower costs of their poorer terms and conditions when compared with UK-based staff. At the same time, making LE staff redundant may generate considerable short-term costs, where local labour laws require severance payments, especially for staff who have been in post for some time.

**203. We conclude that locally-engaged (LE) staff make an important contribution to the work of the FCO, and bring considerable value to the organisation. However, we also conclude that their use in a growing range of jobs, some at increasingly senior level, carries some risks for the Department. We would be concerned if the localisation of FCO jobs were being driven purely by cost considerations. Difficulties might arise if the use of LE staff reached a level which would restrict the opportunities of UK-based staff to serve in overseas Posts, including in Management Officer positions, because such**

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390 Ev 135

391 Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 9 December 2009, HC (2009–10) 144, Q 1

392 Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 9 December 2009, HC (2009–10) 144, Q 9

393 Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, paras 143–145

service is a crucial element in building the FCO’s policy knowledge and management capabilities. We would also be concerned if the increasing use of LE staff were to be associated with any further reduction in the number of UK-based staff acquiring language skills, since we have consistently taken the view that their language skills have been one of the major assets of British diplomats abroad. We further conclude that the localisation process requires careful management in terms of its impact on UK-based staff. We recommend that in its response to this Report, the FCO should provide further details on the process by which it is localising Management Officer positions in many overseas Posts.

204. In January 2009, the FCO launched a new Local Staff Strategy, following an internal review.<sup>394</sup> The Department’s aim was to further its aim of “One Team”—that is, to lessen the traditionally sharp distinction which has existed between UK-based and LE staff.<sup>395</sup> Under the ‘One Team’ initiative:

- Some jobs are being opened to existing LE staff who wish to transfer ‘internally’, so that their FCO careers are no longer necessarily confined to the specific post to which they were originally appointed. Most positions being opened in this way are in overseas Posts, but a few London attachments are now being offered to LE staff.<sup>396</sup>
- The FCO’s new-generation IT system, Third Generation Firecrest (F3G), involves the introduction of separate “universal-” and “confidential-” level workstations. The “universal” level can handle classified material up to “restricted”.<sup>397</sup> As a result of the introduction of the new system, LE staff—who cannot have access to some higher-level classified material—can for the first time work on the same IT system as their UK-based colleagues; and, where LE staff are cleared to receive material up to “restricted” grade, they can do so directly at their normal workstations. These changes are often enabling UK-based and LE staff to work in the same rooms for the first time. As of December 2009, 69% of staff overseas were using F3G, and the FCO expects to complete deployment of the system across the full UK and overseas network by April 2010.<sup>398</sup>
- The FCO is increasing the training and development it offers to LE staff.<sup>399</sup>
- Since April 2009, LE staff with a security clearance of “restricted” or above have had unescorted access to all FCO buildings.<sup>400</sup>

The March 2009 Cabinet Office Capability Review of the FCO said that the Local Staff Strategy had “the potential to deliver a step change in [the] FCO’s effectiveness overseas”.<sup>401</sup>

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394 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 163–165

395 Ev 27

396 Ev 27, 67; “Moving towards One Team”, *News + Views* [the FCO staff magazine], October 2009, p 18

397 Q 77

398 Ev 62, 106; “Fired up for F3G”, *News + Views*, October 2009, p 8

399 Q 62; Ev 67

400 Ev 67

401 Cabinet Office, *Foreign and Commonwealth Office: Progress and next steps*, Civil Service Capability Review, March 2009, p 9

In his Foreword, Cabinet Secretary Sir Gus O'Donnell particularly welcomed the Strategy, which he said was “transforming the way the Department works overseas”.<sup>402</sup>

205. At the same time as the FCO is pursuing ‘One Team’, LE staff are taking the brunt of the cuts that the Department is making at overseas Posts to try to remain within budget in 2009–10. In paragraphs 62–64, we noted that LE staff had been made redundant, moved onto short-time working and asked to take unpaid leave.<sup>403</sup> In the 2008 FCO Staff Survey, 44% of LE staff said that they felt that they had job security, against 61% of UK-based staff.<sup>404</sup> There was no breakdown between LE and UK-based staff in the 2009 Survey results provided to us.

**206. We recommend that in its response to this Report the FCO should provide a breakdown of its 2009 Staff Survey results between UK-based and locally-engaged staff, as it did for its 2008 Survey; or explain why this data was not produced, at a time when local staff morale is of particular importance.**

207. Sir Peter Ricketts told us that he “share[d] [the] uncomfortable feelings” that we have about some of the measures that the FCO has taken with respect to its LE staff. Amplifying on Sir Peter’s reference to the need to provide “appropriate protection” for LE staff,<sup>405</sup> James Bevan, the FCO’s Director General Change and Delivery, said that the FCO sought to ensure that local staff associations were “encouraged and supported” and that senior staff knew that they were expected to consult local staff, including on their terms and conditions.<sup>406</sup>

**208. We conclude that the steps which the FCO is taking better to integrate its locally-engaged (LE) and UK-based staff are to be welcomed. We further conclude, however, that the way in which LE staff are taking the brunt of the cuts necessitated by the FCO’s current financial situation risks seriously undermining this effort and potentially weakening the FCO’s ability to recruit good local staff in future.**

### ***Locally-engaged staff and diplomatic immunity***

209. A particular issue raised by the FCO’s employment of foreign LE staff has been highlighted by the case of Hossein Rassam. Mr Rassam, an Iranian national, is employed by the British Embassy in Tehran as a political adviser. He was one of the nine LE British Embassy employees—the full complement of LE staff in the Embassy’s political and economic section—arrested by the Iranian authorities over their alleged role in the protests and unrest that followed the disputed re-election of President Ahmadinejad in June 2009. The other British Embassy staff have been released, although at least some have been prevented from returning to work, but in October 2009 Mr Rassam was jailed for four years for spying and inciting unrest.<sup>407</sup> The then EU Presidency condemned the sentence as

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402 Cabinet Office, *Foreign and Commonwealth Office: Progress and next steps*, Civil Service Capability Review, March 2009, p 2

403 Ev 134 [NAO]

404 2008 FCO Staff Survey, at <http://www.fco.gov.uk/resources/en/pdf/feedback-survey-fco-2008.pdf>, p 17

405 Q 61

406 Q 62

407 Q 63

“an attack on normal diplomatic activity”,<sup>408</sup> and the Foreign Secretary said that it represented “further harassment of Embassy staff for going about their normal and legitimate duties” and noted that “important principles are at stake”.<sup>409</sup> The FCO called in the Iranian Ambassador in London to express its concerns. As of early February 2010, Mr Rassam is appealing against his sentence.

210. Given its firm position that during the post-election unrest in Iran Mr Rassam was engaged only in legitimate activities arising from his official function at the Embassy,<sup>410</sup> we pursued with the FCO the question of the degree of diplomatic immunity enjoyed by Mr Rassam and the FCO’s other foreign LE staff in Iran and elsewhere. We were conscious of the harassment which has been suffered by FCO and British Council staff in Russia,<sup>411</sup> and of the potential vulnerability of staff in British overseas missions in some other states. In its submission to us on the localisation of FCO jobs, the PCS Union referred to Mr Rassam’s case as suggesting the limits that can exist on the use of LE staff.<sup>412</sup>

211. The main international instrument governing diplomatic immunity is the 1961 Vienna Convention on Diplomatic Relations. The Convention makes the enjoyment of diplomatic immunity dependent on two factors, diplomatic status and nationality. Sending states can designate staff of their overseas missions who are their own nationals as having diplomatic status, subject to the formal accreditation process with the receiving state. Under the Vienna Convention, accredited diplomats in overseas missions who are nationals of the sending state enjoy full diplomatic immunity (i.e. immunity from prosecution in the receiving state as regards all criminal matters and all civil matters relating to their official functions). However, sending states cannot on their own designate as having diplomatic status staff of their overseas missions who are nationals of the receiving state. Under Article 8 of the Vienna Convention, such staff can receive diplomatic status only with the consent of the receiving state, which under the Convention “may be withdrawn at any time”.<sup>413</sup> Moreover, even if the receiving state agrees that its nationals may be designated as diplomats of another country, such personnel are not entitled under the Vienna Convention to full diplomatic immunity. Article 38(1) of the Convention provides that they enjoy immunity from prosecution only “in respect of official acts performed in the exercise of [their] functions”, not in respect of all possible criminal acts, unless the receiving state grants additional exemptions.<sup>414</sup> The Article 38(1) provision of the Vienna Convention regarding nationals of the receiving state applies also to the receiving state’s permanent residents—i.e. in the case of the FCO, potentially to British locally-engaged staff who are permanently resident in the country where they are employed at an FCO Post.<sup>415</sup> Where nationals or permanent residents of the receiving state

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408 “EU Presidency Statement on the sentencing of an Iranian British Embassy Employee”, 30 October 2009, via [www.fco.gov.uk](http://www.fco.gov.uk)

409 “Iran: Hossein Rassam Sentence - Foreign Secretary Statement”, 29 October 2009, via [www.fco.gov.uk](http://www.fco.gov.uk)

410 Q 64 [Sir Peter Ricketts]

411 Foreign Affairs Committee, Second Report of Session 2007–08, *Global Security: Russia*, HC 51, paras 93, 132–137; Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 270

412 Ev 136

413 Vienna Convention on Diplomatic Relations, Article 8

414 Vienna Convention on Diplomatic Relations, Article 38 (1)

415 Ev 96–97

are members of staff of a foreign mission and do not have diplomatic status, the Vienna Convention requires the receiving state to exercise its jurisdiction over them “in such a manner as not to interfere unduly with the performance of the functions of the mission”.<sup>416</sup> The FCO’s Diplomatic Service Regulations state that Heads of UK Missions may confer diplomatic status on non-Diplomatic Service staff if the duties of such staff require it in order to meet the Post’s objectives.<sup>417</sup> However, the Diplomatic Service Regulations “do not apply to locally engaged staff”;<sup>418</sup> our understanding is that this provision in the Regulations is intended to cover British UK-based staff from outwith the Diplomatic Service who are serving overseas, such as from departments other than the FCO, or organisations such as the British Council.

212. The FCO confirmed that none of the LE staff at its Tehran Embassy has the limited diplomatic immunity which is potentially available under Article 38(1) of the Vienna Convention (to which Iran is a party).<sup>419</sup> The FCO told us that, given the right of any receiving state to “withdraw any (limited) immunity afforded to locally-engaged staff at will”, it did not see the possible acquisition of such immunity as “a viable means of affording any substantive additional protection to [its] staff in those countries where relations with the host government are sometimes strained”.<sup>420</sup> The FCO implied that there might be some instances in which requesting diplomatic status for LE staff might cause “further difficulties for the individuals concerned”.<sup>421</sup>

213. Sir Peter Ricketts told us that, “apart from the specific case of Iran”, the FCO had not found the use of LE staff to have raised the kind of legal difficulties faced by Mr Rassam and his colleagues in Tehran.<sup>422</sup> Sir Peter said that he did not think that the Iranian experience “invalidate[d] [the FCO’s] approach of relying significantly on local staff in many countries”.<sup>423</sup>

**214. We conclude that the actions taken by the Iranian authorities against the British Embassy’s Iranian staff are deplorable. We further conclude that the limitations that exist on the diplomatic protection that may be available to locally-engaged staff, especially in the case of nationals of the receiving state, represent a constraint on the FCO’s ability to make greater use of such personnel. We recommend that the FCO should consider requesting the conferral of diplomatic status on locally-engaged staff, as it is entitled to do under the Vienna Convention, on a case-by-case basis if the relevant Head of Mission judges that this would facilitate the work of the relevant Post, and that this possibility should be made clear in the FCO’s Diplomatic Service Regulations.**

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416 Vienna Convention on Diplomatic Relations, Article 38 (2)

417 Diplomatic Service Regulation 3

418 HC Deb, 21 July 2009, col 1255–6W

419 HC Deb, 21 July 2009, col 1255W

420 Ev 97; see also HC Deb, 21 January 2010, col 487W.

421 Ev 97

422 Q 68

423 Q 63

## Staff morale issues

215. James Bevan acknowledged to us that morale in the FCO was being hit by the cuts the Department was making, and the accompanying uncertainty. The drop in morale was evident among both UK-based and locally-engaged staff. Mr Bevan told us that, in the 2009 FCO Staff Survey, the share of staff who said that they were proud to work for the FCO had fallen by 5 points compared to 2008, and the share of those who would recommend the FCO as a place to work was down by 7 points. Mr Bevan said that the FCO's scores on these measures—79% and 63%—remained high, compared both to other Departments and to what he said many in the FCO expected, but that the drop nevertheless suggested to him that “we have an organisation that is experiencing pain”.<sup>424</sup>

216. Among other results from the 2009 Staff Survey, in answer to standard general questions about change asked each year, 71% of respondents said that they understood why the FCO was changing, up slightly from 68% in 2008; but only 41% agreed with the statement that change was making the FCO a better place to work, down from 44% in 2008. In 2009, 48% felt that change in the FCO was being managed well, up from 39% in 2008.<sup>425</sup>

217. We referred in paragraphs 68–69 to planned changes to travel and other allowances for staff serving overseas. We received one submission, from the spouse of an FCO employee, suggesting that cuts to the number of paid-for flights back to the UK, in particular, especially if combined with the kinds of salaries found at lower pay grades, might start to discourage UK-based staff from accepting postings in distant or difficult locations.<sup>426</sup> We have heard on previous occasions, for example during our inquiry into Afghanistan and Pakistan in 2009, that an inability to take accompanying family to some postings, or to return to the UK easily in the leave time available, can have a similar effect. Our correspondent suggested that the result of the changes could be that permanent UK-based staff are increasingly found in London, while overseas Posts are staffed by others. However, the most recent Staff Survey showed a slight increase in the proportion of respondents expressing satisfaction with their total benefits package, at 39% compared to 36% in 2008.

218. Sir Peter Ricketts told us in December 2009 that the financial pressures facing the FCO had had no effect so far on the numbers or quality of the graduate-level staff that it was recruiting. He said that, despite government-wide pressures to reduce numbers of senior civil service staff, and the FCO's own moves to downgrade some Ambassadorial posts, the Department would continue to need a relatively large number of senior staff, to head its overseas Posts. Sir Peter said that, as a consequence, “the career prospects for bright graduates joining [the FCO] now are still very good”.<sup>427</sup>

219. We have expressed concerns on previous occasions about the FCO's human resources practices and support. Drawing especially on the results of an independent “Cultural

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424 Q 39

425 Ev 92

426 Ev 135

427 Q 73

Audit” conducted of the FCO, in our Report last year we concluded that “it would appear that [...] staff have substantive and deep-rooted concerns about the HR support they receive”. We recommended that the FCO should consider undertaking a review of its human resources function.<sup>428</sup> The Department rejected this recommendation, but has highlighted a number of steps it is taking to try to improve its human resources operation. For example, in July 2009 the FCO launched a new “People Strategy”, of which it sent us a copy.<sup>429</sup> Under the Strategy, the FCO aims to:

- “build, equip and reward a dynamic, professional and flexible workforce to achieve the objectives of the FCO of today and tomorrow” and to “foster a culture in which our staff exemplify the behaviours we want”;
- “be a good employer to all our staff”, and
- “provide a professional and efficient HR service”.<sup>430</sup>

**220. We conclude that FCO staff morale has strong roots and the Department’s management and staff are showing considerable resilience in difficult circumstances. However, we further conclude that cutbacks and a large degree of change at the FCO pose considerable challenges to maintaining staff morale in future years. Given the weaknesses which we have identified previously in the FCO’s human resources function, we are less than fully confident that the Department will provide the necessary support. We recommend that in its response to this Report, the FCO should provide information on the impact on staff morale of already-implemented and planned cuts, including those to travel and other allowances. We further recommend that the FCO should outline its plans for supporting staff through the current period of change and uncertainty, giving details of the support that will be provided to the categories of staff likely to be hardest hit, such as UK-based Management Officers whose postings will be ended early.**

221. We received one submission suggesting that concerns remain about the FCO’s “pool” system, whereby staff are not moved automatically into a new position as one comes to an end but have to apply internally, and when they are not successful are placed in a “pool”. While in the “pool”, staff may be deployed to fill short-term gaps in requirements, or left without a position.<sup>431</sup> Our correspondent suggested that this represented a waste of money and skills, and was demoralising for the staff concerned. We have been aware ourselves of some such cases. In the Staff Survey, the proportion of respondents regarding the process of filling FCO vacancies as fair was 49% in 2008 and 51% in 2009.

**222. We conclude that the FCO’s “pool” system, for staff who have not yet found a new position in internal competitions, may waste resources and have a demoralising effect. We recommend that in its response to this Report, the FCO should provide its view of the “pool” system and information on any plans it may have to change it, particularly**

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428 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 159

429 Not printed; see Ev 67.

430 Ev 67

431 Ev 129

**by reducing the potential for damaging consequences for staff who spend a period of time between long-term positions.**

223. In our inquiry this year we pursued the issue of discrimination, harassment and bullying among FCO staff. In the 2008 FCO Staff Survey, 17% of respondents said that they had experienced at least one of these.<sup>432</sup> Sir Peter Ricketts told us that this was the result of “greatest concern” to him from the Survey,<sup>433</sup> that he found it “absolutely unacceptable”,<sup>434</sup> took the issue “very seriously” and was enforcing a “zero tolerance” policy, including by recalling individuals from overseas postings if necessary.<sup>435</sup> However, the share of respondents reporting discrimination, harassment and bullying dropped only to 16% in the 2009 Staff Survey. The Civil Service average is 10%.

224. Referring to the figure for the share of staff reporting discrimination, harassment and bullying, James Bevan said that “the main reason it’s high is that it’s happening”.<sup>436</sup> The FCO also suggested that the figure reflected the fact that staff were being encouraged to speak out more than in the past. In the 2009 Staff survey, 62% of respondents said that they would feel able to report such behaviour. Finally, the FCO suggested that, in some cases, staff whose poor performance was now being tackled were reporting this as bullying.<sup>437</sup>

225. The Public and Commercial Services Union (PCS) disputed the FCO’s two suggested mitigating explanations for the high reported level of discrimination, harassment and bullying. The PCS contended that, if FCO staff felt increasingly able to report unacceptable behaviour, this was not being reflected in any increase in the number of formal grievances being brought. The FCO told us that the number of formal grievance procedures brought for bullying, harassment and discrimination was 7 in 2006, 3 in 2007, 16 in 2008 and 5 in 2009. These figures are for UK staff only, as the FCO keeps no central record of grievance procedures brought by locally-engaged staff.<sup>438</sup> The PCS also disputed the FCO’s suggestion that processes for managing poor performance were being misreported as bullying, saying that such processes instead sometimes became vehicles for such behaviour. Overall, the PCS did not believe that enough was being done to tackle bullying and harassment in the FCO.<sup>439</sup> Mr Bevan said that the Department would continue to take a “very tough approach” on the issue. He highlighted the new provision of access to an independent “dispute resolution counsellor” in the FCO in cases where an individual experiencing such behaviour found their line manager unable to help.<sup>440</sup>

**226. We share the concern of the FCO’s management about the relatively high levels of discrimination, harassment and bullying being reported by FCO staff. We recommend that in its response to this Report, the FCO should provide any conclusions it has**

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432 2008 FCO Staff Survey, at <http://www.fco.gov.uk/resources/en/pdf/feedback-survey-fco-2008.pdf>, p 10

433 Ev 37

434 Q 78

435 Q 78; Ev 37, 52, 92

436 Q 78

437 Q 78; Ev 37, 52

438 Ev 97

439 Ev 124

440 Qq 78, 81

**reached as to why its attempts so far to reduce discrimination, harassment and bullying appear to have had little impact, and outline any changes it plans to make to its efforts in this regard. We recommend that our successor Committee in the next Parliament should continue to scrutinise this issue.**

227. The overall figure of 17% of respondents reporting harassment, discrimination or bullying in the 2008 Staff Survey is disaggregated into 14% among UK-based staff and 20% among locally-engaged staff. The PCS sent us a copy of a further survey which the FCO had commissioned in the wake of the 2008 Staff Survey, to investigate further the nature and causes of the problem.<sup>441</sup> The survey, which the FCO shared with its staff, showed that reported levels of discrimination, harassment and bullying tended also to be higher among staff at lower grades, disabled staff and—among minority ethnic groups—black staff, among whom 35% of respondents reported experiencing these practices. James Bevan told us that he had followed the results of the further survey up via a meeting with black staff representatives, which in turn prompted him to write to all Heads of Mission.<sup>442</sup>

228. Among the FCO’s workforce as a whole, 74% of respondents in the 2009 Staff Survey felt that the Department respected individual differences, against 71% in 2008. In 2009, 85% of respondents felt that they were treated with respect by their colleagues.

229. Mr Bevan told us that the FCO was not increasing the diversity of its workforce as much as it would like, and would “keep going aggressively” on its efforts in this regard. The 2008–09 Annual Report shows that women make up 41% of the FCO’s UK-based workforce (21% in Senior Management), minority ethnic staff make up 8.8% (3.5%) and declared disabled staff 3.4% (2.2%).<sup>443</sup> The FCO’s targets are for the Senior Management shares for these groups to rise to 28%, 5% and 5%, respectively, by 2013.<sup>444</sup>

**230. We note the fact that ethnic minority staff in the FCO are disproportionately reporting discrimination, harassment and bullying. We recommend that the FCO should pay particular attention to addressing this. We welcome the steps that the FCO has taken so far to try to increase the diversity of its workforce, and we look forward to the results of these efforts becoming increasingly evident at senior management levels.**

## Secondments to the European External Action Service (EEAS)

231. New opportunities will open up for FCO staff as a result of the creation of the EU’s European External Action Service (EEAS). As we outlined in paragraph 92, the EEAS is being created under the Lisbon Treaty, which came into force on 1 December 2009. It is intended to support and implement the more unified EU external action which the framers and supporters of the Lisbon Treaty hope that that Treaty will foster. The EEAS will be a new, single service bringing together departments and officials currently in the European Commission, departments and officials currently in the Council Secretariat, and seconded national diplomats. The Service will fall under the authority of the new EU High

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441 Not printed; see Ev 124.

442 Q 82

443 FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, p 24, Table 10

444 FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 1, HC 460-I, p 56

Representative for Foreign Affairs and Security Policy, the UK's Baroness Ashton, who is “double-hatted”—having responsibility to the Member States in the Council for the intergovernmental Common Foreign and Security Policy, and simultaneously being Vice-President of the European Commission, carrying out the work of the former Commissioner for External Relations and co-ordinating all Commission external action. As referred to in paragraph 92, the EEAS will take over the network of over 130 Commission Delegations in third countries and at international organisations, which will become Delegations of the EU as a whole, with a role in delivering policy across the full range of EU external action.

232. We considered the EEAS in our Report on *Foreign Policy Aspects of the Lisbon Treaty*, published in January 2008. We noted then that “the Lisbon Treaty gives only a bare outline of the role” of the Service, “leaving most of the details of its functioning to be determined”. These details included the share of EEAS staff which should be made up from national secondees, whether there should be quotas for seconded personnel from different Member States, and the terms, conditions and status of seconded national staff.<sup>445</sup>

233. As regards the staffing aspects of the EEAS, in our 2008 Report we “welcomed[d] the opportunity that the new European External Action Service will offer for a greater intermingling of national and EU personnel and careers”. We concluded that “it would be beneficial to the UK for national secondees to be well represented among the new Service’s staff”, and we recommended that the FCO should “encourage high-quality candidates among its staff to undertake secondments to the European External Action Service, by assuring them that they will have a ‘right of return’ and that the experience will form a valued part of an FCO career”.<sup>446</sup> The FCO agreed with our conclusions and said that it would take note of our recommendations regarding secondments.<sup>447</sup>

234. At its meeting in October 2009, the European Council (of EU Heads of State or Government) approved a report from the then-Swedish Presidency of the Council which set out “guidelines” for the High Representative’s proposal for the required Council Decision on the detailed operation of the EEAS. The Swedish Presidency report included proposals on many of the issues which we had said remained unresolved at the time of our 2008 Report. As regards staffing, the report suggested that seconded national staff should make up at least one-third of the EEAS total; that staff should be recruited through “a transparent procedure based on merit” but that the contingent of seconded national staff should include “a meaningful presence of nationals from all EU Member States”; that the EEAS recruitment process should involve representatives of the Council, the Commission and the Member States; and that national staff seconded to the EEAS should become “temporary agents”, in EU terminology—i.e. employed by the relevant EU institution, on the same terms and conditions as permanent staff, so that there will be no distinction on these grounds between Council and Commission and national personnel. This is the practice followed already when UK officials are seconded into EU institutions.<sup>448</sup> The

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445 Foreign Affairs Committee, Third Report of Session 2007–08, *Foreign Policy Aspects of the Lisbon Treaty*, HC 120-I, paras 182–189

446 Foreign Affairs Committee, *Foreign Policy Aspects of the Lisbon Treaty*, para 194

447 FCO, *Government Response to the Foreign Affairs Committee Report on “Foreign Policy Aspects of the Lisbon Treaty” (Third Report of Session 2007–08)*, Cm 7332, February 2008, para 23

448 Ev 98

Foreign Secretary told us in December 2009 that he would be “surprised” if Baroness Ashton’s formal proposal on the EEAS were radically different from the suggestions in the Swedish Presidency report.<sup>449</sup>

235. The Swedish Presidency report suggested that the EEAS should reach “full cruising speed” sometime before 2012. Sir Peter Ricketts told us that he expected the EEAS to start operations with existing personnel from the Council and Commission, and for the insertion of national secondees into the Service to be only a “gradual” process.<sup>450</sup> The Foreign Secretary said that he hoped that between 18 and 25 British officials would come to be seconded into the EEAS at any one time;<sup>451</sup> Sir Peter also mentioned the figure of 25.<sup>452</sup> The FCO told us that being seconded into the EEAS (and other EU institutions) “should not mean that UK secondees have any less favourable terms and conditions to colleagues in the FCO”.<sup>453</sup> The Foreign Secretary expressed strong support for FCO secondments into the EEAS, and said that he expected experience there to “count for” officials when they returned to national positions.<sup>454</sup> Summarising, Sir Peter said that the EEAS would be “a good and interesting secondment opportunity for a small number of our staff”.<sup>455</sup>

236. Sir Peter told us that British secondees into the EEAS are expected to include not only FCO diplomats but also officials from other departments.<sup>456</sup> The FCO told us that “for example, it might make sense for someone from DFID with a particular development background to be in an EU Delegation in a country where development assistance plays a key role in the relationship with that country”. The FCO stated that arrangements for managing secondments from other departments needed “to be worked through with the Departments in question” but that it expected the FCO EU Secondments Unit to “help with the process in close co-ordination with those departments providing secondees”.<sup>457</sup>

237. As regards the allocation of the most weighty and high-profile jobs within the new EEAS, and especially in its Delegations in third countries, some observers have suggested that Council and Commission staff will have an advantage, as a result of being in place first (although existing Council and Commission staff in Brussels have not had to sign up to any obligation to accept postings overseas).<sup>458</sup> There is also the issue that, while all EEAS staff will have the same terms and conditions, by definition national secondees will come and go from the Service, whereas former Council and Commission personnel are permanent. However, our discussions in Brussels in early March 2010 indicated that the

449 Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 9 December 2009, HC (2009–10) 144, Q 57. The Swedish Presidency Report on the EEAS has been published as one of the documents submitted to the 29–30 October 2009 European Council meeting, as document 14930/09, 23 October 2009, at <http://register.consilium.europa.eu/pdf/en/09/st14/st14930.en09.pdf>

450 Qq 25, 87

451 Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 9 December 2009, HC (2009–10) 144, Qq 52, 77

452 Qq 25, 88

453 Ev 98

454 Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 9 December 2009, HC (2009–10) 144, Q 78

455 Q 25

456 Ev 98

457 Ev 98

458 For Sir Peter Ricketts on this point, see Q 87.

detailed recruitment procedures for the EEAS remained very much to be determined, and that some policy-makers envisaged some national secondees remaining with the Service for quite lengthy stretches of their careers. There are indications that some in the post-2004 Member States fear that representatives of their pre-2004 counterparts will take the “top jobs” available to national secondees, on the basis of these states’ longer and more wide-ranging foreign policy experience.<sup>459</sup> It has further been suggested that particular Member States may seek to secure positions for their national secondees dealing with issues or countries which are of particular importance for their national foreign policies.

238. Both the Foreign Secretary and Sir Peter Ricketts told us that the Government opposes national quotas for Member States’ representation among secondees into the EEAS, and strongly wants recruitment to be based on merit.<sup>460</sup> The FCO told us that the recruitment procedures:

should include appropriate evidence of skills and experience, for example foreign language skills relevant for those serving in delegations overseas. So, the candidates might not necessarily need to speak, for example, several Community languages if the skills required were a thorough knowledge of a particular region of the world or specific policy issue.<sup>461</sup>

239. **We reiterate our conclusion from 2008, that “it would be beneficial to the UK for national secondees to be well represented among the new [European External Action] Service’s staff”. We welcome the support which the FCO has expressed for UK secondments into the Service, and we conclude that British officials may be in a strong position to take important External Action Service positions, although significant UK representation in the Service may require relations to be carefully managed with Member States who may feel that they are under-represented.**

240. **We conclude that some aspects of the participation of national secondees in the European External Action Service are becoming clearer than they were at the time of our Report in January 2008. Nevertheless, many further important details of the recruitment process into the Service remain to be clarified, at both the national and EU levels. While we recognise that only a small number of FCO staff are likely to be seconded into the Service, we recommend that the FCO should continue to keep us and our successor Committee closely informed, including by forwarding at the earliest opportunity Baroness Ashton’s proposed Council Decision on the External Action Service, if it has not already done so by the time this Report is published.**

241. **We recommend that our successor Committee in the next Parliament should continue to take a close interest in the operation of the External Action Service and the work of the High Representative for Foreign Affairs and Security Policy, through its scrutiny of the FCO and its Ministers at the national level.**

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459 “EU mandarins drafting blueprint for diplomatic corps”, 22 January 2010, and “New EU states make bid for more diplomatic clout”, euobserver.com, 10 March 2010

460 Q 93; Ev 98; Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 9 December 2009, HC (2009–10) 144, Q 77 [David Miliband]

461 Ev 98

## 4 Senior personnel issues

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### Ministerial line-up

242. The last two years have seen a significant turnover in FCO Ministers, although the Foreign Secretary himself has remained in post. At the level of Minister of State, Bill Rammell MP and Caroline Flint MP were in post only from October 2008 to June 2009, when they were replaced by Ivan Lewis MP and Baroness Kinnock of Holyhead respectively. Rt Hon Lord Malloch-Brown resigned as a Minister of State in July 2009 and has not been replaced, reducing the Department's tally of Ministers of State from three to two. At the level of Parliamentary Under-Secretary, Gillian Merron MP took the position in October 2008, to be replaced by Chris Bryant MP in June 2009. These "FCO-only" Ministers are in addition to two Ministers whom the FCO shares with other departments, Lord Davies of Abersoch as a Minister of State with the Department for Business, Innovation and Skills, and Baroness Taylor of Bolton as a Parliamentary Under-Secretary with the MOD. The rest of this section of our Report refers only to "FCO-only" Ministers.

243. Whether Lord Malloch-Brown would be replaced was not initially clear. That the FCO expected a replacement to be named can be inferred from the July 2009 version of its widely-distributed organigram, which had a blank space ready to take another Ministerial photograph, under the legend "To be announced". However, in October 2009 it was confirmed that the FCO Ministerial team would continue to number only four, with a Secretary of State, two Ministers of State and a Parliamentary Under-Secretary.

244. The FCO announced that Chris Bryant was to take on Baroness Kinnock's previous responsibilities for Europe, in addition to his existing portfolio, thus making for a further change of Europe Minister, in this case after only four months. Lord Malloch-Brown's previous responsibilities were split between Baroness Kinnock and Ivan Lewis, the latter also retaining his previous portfolio. Following the reallocation, Ivan Lewis's expanded list of Ministerial responsibilities has covered counter-terrorism, counter-proliferation, South-East and South Asia (including Afghanistan), the Middle East, the Far East, North America, North Africa, NATO, migration, drugs, international crime, and global and economic issues apart from climate change. A single Minister is therefore responsible for two of the Government's top international priorities, namely Afghanistan (for which Lord Malloch-Brown previously had responsibility) and counter-proliferation (during a period which will see a five-yearly Review Conference of the Nuclear Non-Proliferation Treaty, in May 2010). Chris Bryant's European portfolio includes the EU, Russia and the rest of the former Soviet Union, the Balkans, other non-EU European states, the Organisation for Security and Co-operation in Europe (OSCE) and the Council of Europe, in addition to his other responsibilities for the Overseas Territories (see paragraphs 322–327), South America, Australasia and the Pacific, the Olympics, consular policy, human resources, protocol and public diplomacy (including the British Council and BBC World Service) (see paragraphs 285–287).

245. The allocation of European responsibilities to Chris Bryant means that, for the first time since the UK acceded to what was then the European Economic Community (EEC) in 1973, the member of the Government with responsibility for the EEC/EU is at the lowest Ministerial rank, that of Parliamentary Under-Secretary. In addition, Mr Bryant's portfolio

means that he has significantly greater non-European responsibilities than any other Minister with responsibility for Europe since 1997. (The table in the Annex at the end of this Report summarises the status and portfolios of Ministers for Europe since 1979.)

246. We asked the Foreign Secretary about the smaller FCO Ministerial line-up following Lord Malloch-Brown's resignation. He told us that:

Ministerial appointments are at the discretion of the Prime Minister. There have been many different arrangements of Ministerial portfolios among FCO Ministers. The Minister dealing with EU and European matters has often had responsibilities for other subjects as well. I and my Ministerial team are confident of our capacity to discharge our responsibilities to Parliament and to provide Ministerial leadership of the Department.<sup>462</sup>

247. The table in the Annex shows that, although there have been fluctuations in the FCO Ministerial line-up over the past 30 years, in recent years there has been a distinct trend towards a reduction in the number and grading of Ministers. In 1979, and for many years thereafter, the Foreign Secretary was assisted by four Ministers of State and one Parliamentary Under-Secretary. That has now been reduced to two Ministers of State and one Parliamentary Under-Secretary.

248. In a written submission, Sir Peter Marshall, former UK Permanent Representative to the UN in Geneva, noted that during the 2005–10 Parliament there had been three Foreign Secretaries and more Ministers for Europe. He suggested that this “cannot make for efficiency”.<sup>463</sup>

**249. We conclude that the frequency of changes in the FCO Ministerial line-up in recent years has not been conducive to good government. We further conclude that this problem has been compounded by the reduction in the number of FCO Ministers, and the consequent increase in the breadth of Ministerial portfolios. We note that the FCO currently has a Ministerial team of only three in addition to the Secretary of State, which is significantly smaller than during most of the period since 1979. We conclude that requiring a small number of Ministers to cover increasingly large portfolios may carry risks, in terms of both the management of policy and the messages sent to partners in Government and other countries about the weight given to particular issues and relationships. The current over-loading of portfolios makes it difficult for individual Ministers, however talented and hard-working, to carry out their full range of duties effectively. We recommend that following the General Election the new Government, of whatever party, should increase the size of the FCO Ministerial team in the House of Commons, preferably by restoring at least one of the two Minister of State posts which the FCO has lost since 1997.**

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462 Ev 86

463 Ev 127

## Special representatives, envoys and advisers

250. As part of our inquiry this year, we decided to look at the issue of the Government's use of special representatives, envoys and advisers on a number of international issues. As of February 2010, the Foreign Secretary has two Special Representatives:

- John Ashton was appointed as the Foreign Secretary's Special Representative for Climate Change in June 2006, under the previous Foreign Secretary. Mr Ashton had been in the FCO previously, until 2002, when he left to found E3G, an environmental NGO.
- Sir Sherard Cowper-Coles became the Foreign Secretary's Special Representative for Afghanistan and Pakistan in February 2009, after being the British Ambassador in Kabul.

The Foreign Secretary has previously named Special Representatives, whose appointments are now concluded, to the Great Lakes (1998), Sierra Leone (2002), Iraq (2003), the South Caucasus (2003), Sudan (2003), Nepal (2003), Darfur (2006) and the Middle East (2007).<sup>464</sup>

251. The list of current Special Representatives on the FCO website also includes Rt Hon Jack McConnell MSP, former Scottish First Minister, who was appointed as the Prime Minister's Special Representative for Peacebuilding in October 2008. In addition to Mr McConnell, the Prime Minister retained his predecessor's appointee as special envoy for human rights in Iraq, Ann Clwyd MP. In 2007–08, the Prime Minister also had Joan Ryan MP as his special representative to Cyprus. In February 2009, the Prime Minister appointed Rt Hon Des Browne MP, the former Defence Secretary, as his Special Envoy for Sri Lanka.<sup>465</sup> In June 2009, Rt Hon Geoff Hoon MP, another former Defence Secretary, also received a new appointment. The Foreign Secretary told us that month that Mr Hoon was "going to be doing two tasks for the Prime Minister".<sup>466</sup> One of these roles is as a member of the 12-strong Group of Experts which NATO Secretary-General Anders Fogh Rasmussen has appointed to facilitate the process of developing NATO's new Strategic Concept.<sup>467</sup> The Foreign Secretary told us in July 2009 that Mr Hoon's second role would be "in a new advisory capacity on EU energy", and that the exact nature of his role was subject to discussion with the Department of Energy and Climate Change (DECC).<sup>468</sup>

252. The FCO has two envoys appointed jointly with other departments:

- In October 2008, Robin Gwynn became UK Climate Envoy for Vulnerable Countries. This is a joint FCO-DFID role, based in the FCO; the creation of the role was also agreed with DECC.<sup>469</sup> Mr Gwynn is a career diplomat who has focused particularly on

464 HC Deb, 27 February 2009, col 1198W

465 "PM announces UK Special Envoy for Sri Lanka", 12 February 2009, via [www.number10.gov.uk](http://www.number10.gov.uk)

466 Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 17 June 2009, HC (2008–09) 79-iii, Q 147

467 See <http://www.nato.int/strategic-concept/experts-strategic-concept.html>.

468 Letter to the Chairman from the Foreign Secretary, 15 July 2009, published in Foreign Affairs Committee, *Developments in the European Union*, Oral and written evidence, 17 June 2009, HC (2008–09) 79-iii, Ev 53

469 FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 1, HC 460-I, p 40; see also <http://blogs.fco.gov.uk/roller/gwynn/page/about>.

Africa. According to the FCO's Annual Report, Mr Gwynn's appointment was intended "to develop understanding of the likely impacts of climate change in vulnerable countries, and to help them more effectively make their concerns and needs known internationally".<sup>470</sup>

- In November 2009, the FCO told us that, jointly with the MOD, it had appointed Rear Admiral Neil Morisetti as the two Departments' Climate and Security Envoy. The FCO and MOD said that Admiral Morisetti's role was "to be the UK voice globally on climate security to broaden and deepen the debate on these issues", "to integrate the policy implications stemming from climate security across Whitehall" and "to help embed the MOD's climate strategy across the organisation".<sup>471</sup> The two Departments said that Admiral Morisetti had been appointed on a trial basis; as of February 2010, we understand that his position is currently only funded until the end of the 2009–10 financial year. In February 2010 we held an informal meeting with Admiral Morisetti jointly with the Defence Committee at which he outlined his work.

253. It will be noted that some of the Government's Special Representatives and Envoys are career civil servants or military officers, whereas others are politicians. Sir Peter Ricketts told us that extra officials, such as Sir Sherard Cowper-Coles, "are added to the existing structure to cope with a particular surge in work". He said that the politicians "give us specific amounts of time to do rather targeted things, which normally involve travelling and overseas representation. They add to our capacity to deal with particular problems".<sup>472</sup> For example, Sir Peter said that such representatives might be able "to spend more time in a country than a Minister could and get into the detail".<sup>473</sup> Sir Peter said that the FCO paid no salaries to politicians acting as special representatives or envoys, but covered their expenses when they travelled abroad on FCO business.<sup>474</sup> As part of our discussion on cost-cutting in the FCO, James Bevan noted that the use of a special envoy sent from the UK to deal with an issue might be driven by "a wish to cost less" than having a senior figure permanently based overseas.<sup>475</sup>

254. Sir Peter Ricketts told our inquiry last year that he did not find problematic the fact that, while Mr McConnell's position would be supported in the FCO, he would be reporting ultimately to the Prime Minister, as well as to the Foreign Secretary.<sup>476</sup> Sir Peter repeated his position this year. He told us that the situation did "not feel as confused or as difficult" as it might appear.<sup>477</sup>

**255. We conclude that special representatives and envoys on international issues can make a useful contribution to achieving the objectives of the FCO and the Government,**

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470 FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 1, HC 460-I, p 40

471 Ev 87

472 Q 101

473 Q 103

474 Q 103

475 Q 31

476 Foreign Affairs Committee, *Second Report of Session 2008–09, Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 169

477 Q 104

especially in new areas of work where mechanisms of co-operation across Whitehall or with foreign partners may not be well established. Suitably qualified individuals can be appointed to such roles without the need for major organisational change. However, we note with concern that the increasing use of individuals in these roles may be being driven partly by constraints on funding and Ministerial time. With respect to parliamentary scrutiny and accountability, we conclude that the appointment as special representatives and envoys of career officials for whom the Foreign Secretary is clearly responsible is largely unproblematic. However, the Prime Minister's appointment to such posts of serving politicians, answering to him rather than to the FCO, raises significant issues regarding their accountability to, and scrutiny by, this Committee and Parliament generally.

### *Chief Scientific Adviser*

256. In July 2009, the FCO announced the appointment of Professor David Clary FRS, President of Magdalen College, Oxford, as its first Chief Scientific Adviser. Professor Clary has been appointed on a part-time basis (40%), on a three-year contract. The appointment took place on a competitive basis, following public advertisement of the position. The Government's Chief Scientific Adviser, Professor John Beddington, was on the selection panel. The FCO told us that Professor Clary's role would be "to ensure that the FCO's policies and operations, and its contribution to wider government issues, are underpinned by excellent science, technology and innovation advice". The FCO confirmed that Professor Clary would retain his professional independence.<sup>478</sup> Professor Clary is supported by one full-time and one 50% member of staff in the FCO.<sup>479</sup>

257. The FCO indicated that it was planning to recruit a Chief Scientific Adviser during our inquiry into its 2007–08 Annual Report.<sup>480</sup> Part of the background to the move was the FCO's decision, under its new post-2007 Strategic Framework, to relinquish its position as lead Department on the Government's international work on science and innovation and to pass this responsibility to the then Department of Innovation, Universities and Skills (DIUS), subsequently subsumed into the Department for Business, Innovation and Skills (BIS). As part of the change, the Government's Science and Innovation Network has become a joint FCO-BIS operation, rather than an FCO-only one as before, with the two Departments due to be funding the Network on a 50/50 basis in 2010–11, and the FCO staff responsible for the Network moving into BIS.<sup>481</sup> In our Report last year, we regretted that "the FCO's ability to draw upon broad-based, in-house scientific support and advice has been decreased at a time when it is promoting action on climate change and a low-carbon, high-growth economy".<sup>482</sup> The Science and Innovation Network consists of around 90 personnel (of whom 18 are UK civil servants) based in 40 Posts in 25 countries, primarily those with the largest, fastest-growing or most economically significant science

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478 Ev 65

479 HC Deb, 1 December 2009, col 627W

480 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 33

481 Ev 65; Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2007–08*, para 31

482 Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2007–08*, para 34

and innovation sectors. Science and Innovation Network personnel are “scientifically literate” but do not necessarily come from a science background.<sup>483</sup>

258. During last year’s inquiry, Sir Peter Ricketts told us that the FCO would probably recruit a Chief Scientific Adviser shared with another Department. Following Professor Clary’s appointment, the FCO said that it had decided against this option “after a review of current practice elsewhere and consultation with Professor Beddington”.<sup>484</sup>

259. In exchanges with us during last year’s inquiry, the FCO stated that, assuming that its new Chief Scientific Adviser would take up the position in summer 2009, the role would be reviewed in the Department’s 2009–10 Annual Report.<sup>485</sup> The FCO informed us in September 2009 that it would evaluate the role at the end of the financial year and share its conclusions with us.<sup>486</sup> In his evidence to last year’s inquiry, in October 2008, Sir Peter Ricketts had appeared to acknowledge that the creation of an FCO Chief Scientific Adviser post was experimental, telling us that “if it turns out that [he] ... has nothing to do, we will not continue with this”.<sup>487</sup> In his evidence in December 2009, Sir Peter said that Professor Clary was “bringing in a capacity we didn’t have and that wasn’t being done before”.<sup>488</sup>

**260. We conclude that it is important that the FCO should have access to wide-ranging, high-quality independent scientific advice, but that it is not self-evident that the appointment of a Chief Scientific Adviser for the Department is the best way of achieving this. We recommend that the FCO should provide in its response to this Report more detailed information about the Chief Scientific Adviser’s work, including his salary; the Department’s evaluation of the contribution which he is making; and plans for his role and its assessment during the remainder of his contract. In particular, we recommend that the FCO should set out in detail the Chief Scientific Adviser’s role in relation to the management and use of the Science and Innovation Network in FCO Posts overseas. We further recommend that Professor Clary should be invited to submit to our successor Committee his personal views on the usefulness of his role, in particular regarding the appropriateness of the resources available to him and to science-related work in the FCO, and the value to his work of the Science and Innovation Network. We also recommend that the FCO should state in its response to this Report whether it will be subject to one of the Science and Engineering Assurance reviews which the Government Office for Science conducts of government departments.**

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483 HC Deb, 1 December 2009, col 627W

484 Ev 65

485 FCO, *Second Report from the Foreign Affairs Committee Session 2008–09: Foreign and Commonwealth Office Annual Report 2007–08: Response of the Secretary of State for Foreign and Commonwealth Affairs*, Cm 7585, April 2009, para 4

486 Ev 65

487 Foreign Affairs Committee, *Second Report of Session 2008–09, Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 33

488 Q 105

## Appointment of non-diplomats to senior diplomatic posts

261. The Diplomatic Service Order in Council 1991 states that selections for appointments in the FCO are to be made on merit on the basis of fair and open competition, although the Order also provides for exceptions to this principle in the case of certain senior appointments. The FCO told us that the Government recognised that the power to appoint outside the normal procedures for diplomatic appointments “should be used sparingly”.<sup>489</sup>

262. We have consistently asserted our right to scrutinise any major diplomatic or consular appointment of a person from outside the diplomatic service. The first such appointments in the 2005–10 Parliament, of Helen Liddell as High Commissioner to Australia and Paul Boateng as High Commissioner to South Africa, were made at the time of the 2005 General Election and were *faits accomplis* by the time the Committee was nominated, so we did not hold hearings with the individuals concerned.<sup>490</sup> In 2008, we took evidence from Rt Hon Jack McConnell MSP after the Government announced its intention of appointing him as High Commissioner to Malawi. We produced a short Report following our evidence session, in which we concluded that Mr McConnell was personally suited to the proposed position, and that both he and the FCO had “conducted themselves without impropriety in relation to [the] proposed appointment”, but that such political appointments should continue to be made only in exceptional circumstances and should be subject to parliamentary scrutiny.<sup>491</sup> In the event, Mr McConnell did not take up the post in Malawi, after the Prime Minister announced that he was instead being appointed as the Prime Minister’s Special Representative for Peacebuilding. In our Report on the FCO’s 2007–08 Annual Report, we concluded that “the affair of Mr McConnell’s two appointments [had] not been well handled by the Government”.<sup>492</sup> We reaffirmed our view that the appointment of non-diplomats to senior diplomatic posts should be subject to parliamentary scrutiny.

263. In July 2009, the Government announced that Rt Hon Baroness Amos would be the next High Commissioner to Australia. Baroness Amos is the fourth non-diplomat in succession to be appointed to the High Commissionership in Canberra.<sup>493</sup> We decided to take oral evidence from Baroness Amos in advance of her taking-up her new position, in accordance with our stated position on such appointments. We did so in October 2009, immediately before Baroness Amos departed from the UK to take up her new post. Both the FCO and Baroness Amos responded to written questions which we sent them in advance of the evidence session. We have printed their responses with the transcript.<sup>494</sup>

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489 Foreign Affairs Committee, *Proposed appointment of Rt Hon Baroness Amos as High Commissioner to Australia*, Oral and written evidence, HC 1052-i, Ev 15

490 Foreign Affairs Committee, First Report of Session 2006–07, *The Work of the Committee in 2005 and 2006*, HC 206, para 54

491 Foreign Affairs Committee, Sixth Report of Session 2007–08, *Proposed appointment of Rt Hon Jack McConnell MSP as High Commissioner to Malawi*, HC 507, para 14

492 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 171

493 The previous two High Commissioners to Australia, Rt Hon Helen Liddell (2005–09) and Rt Hon Alastair Goodlad (1999–2005), were both Parliamentarians rather than diplomats; and their predecessor Alex Allen (1997–99) was previously the Prime Minister’s principal private secretary and had not served in the FCO before taking up his appointment.

494 Foreign Affairs Committee, *Proposed appointment of Rt Hon Baroness Amos as High Commissioner to Australia*, Ev 14–20

After our evidence session, we decided to consider Baroness Amos’s appointment in our present Report.

264. In our evidence session, we discussed with Baroness Amos the process of her appointment, her suitability for the position and a number of issues relevant to UK-Australia relations. In particular, we explored both with her and the FCO why there has recently been a consistent pattern of the High Commissionership in Australia being given to political appointees. The FCO said that there were no guidelines as to when it might be appropriate to appoint a non-diplomat as Head of Mission, and no assessment had been conducted as to which Posts might be suitable for such appointments. It stated that the close relationship that the UK has with Australia makes a political appointment there “acceptable”.<sup>495</sup> Baroness Amos similarly suggested that the strength of the two countries’ historical relationship and the existence of close links between UK and Australian political parties mean that the High Commissionership “lends itself to a political appointment”.<sup>496</sup>

265. Sir Peter Ricketts told us that “it is never easy for staff in the [diplomatic] profession to see people coming from outside”, but he said that the FCO had “always worked well” with political appointees.<sup>497</sup> Baroness Amos acknowledged to us that “institutionally, the FCO does not like political appointments”.<sup>498</sup> However, she distinguished this from the treatment that she had received personally, saying that she felt that she had “had a lot of support from Foreign Office colleagues and a lot of warmth expressed [...] about [her] appointment”.<sup>499</sup>

266. Baroness Amos told us that the only difference between her terms and conditions and those that would apply had the High Commissionership been taken by a career diplomat was that she had been appointed initially for only one year. She said that Sir Peter Ricketts had told her this was because the appointment was being made in the year before a general election, and that “it’s important that any new Prime Minister has a choice”.<sup>500</sup> However, Baroness Amos also told us that the Shadow Foreign Secretary had been informed about her appointment before it was announced, and that in subsequent contacts with him she “got no sense that [her] appointment created any difficulties or was a problem”.<sup>501</sup>

267. Baroness Amos acknowledged to us that she had limited previous experience of Australia, having paid two short visits to that country.<sup>502</sup> In addition, the FCO told us that

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495 Foreign Affairs Committee, *Proposed appointment of Rt Hon Baroness Amos as High Commissioner to Australia*, Oral and written evidence, HC 1052-i, Ev 16

496 Foreign Affairs Committee, *Proposed appointment of Rt Hon Baroness Amos as High Commissioner to Australia*, Qq 6, 10

497 Q 106

498 Foreign Affairs Committee, *Proposed appointment of Rt Hon Baroness Amos as High Commissioner to Australia*, Q 11

499 Foreign Affairs Committee, *Proposed appointment of Rt Hon Baroness Amos as High Commissioner to Australia*, Q 17

500 Foreign Affairs Committee, *Proposed appointment of Rt Hon Baroness Amos as High Commissioner to Australia*, Q 31

501 Foreign Affairs Committee, *Proposed appointment of Rt Hon Baroness Amos as High Commissioner to Australia*, Q 41

502 Foreign Affairs Committee, *Proposed appointment of Rt Hon Baroness Amos as High Commissioner to Australia*, Qq 4, 42, Ev 14

“as the FCO Minister in the House of Lords from 2001–2003, Baroness Amos dealt with debates and questions relating to Australia”.<sup>503</sup>

**268. We conclude that Baroness Amos has had a distinguished career in politics, and we have no objection to her appointment as High Commissioner to Australia arising from her character or abilities, although we note that she has had very limited previous acquaintance with that country. We wish her well in her new post. However, we further conclude that the limited duration of her initial appointment, and the suggestion that this is in order to leave open the possibility of her recall if there were to be a change of Government, illustrate why the appointment of politicians to diplomatic postings can be problematic.**

269. We have continued to assert our right to scrutinise in advance appointments to senior diplomatic posts from outside the diplomatic service despite the fact that the Government does not accept that such appointments should be subject to the formal pre-appointment hearings which it has sought to encourage select committees to hold for some categories of appointments.<sup>504</sup> Rather than formal pre-appointment hearings, the Government told us that it was “content to offer the Committee post-appointment hearings” for such appointments.<sup>505</sup> The Liaison Committee and the Public Administration Select Committee have supported our view that diplomatic appointments from outside the diplomatic service should be on the list of appointments which are subject to formal pre-appointment hearings.<sup>506</sup>

270. With regard to the appointment of non-diplomats to senior diplomatic posts, the Constitutional Reform and Governance Bill which is currently before Parliament maintains the *status quo*—namely, that in the case of certain senior appointments, an exception can be made to the principle that appointments in the FCO are to be made on merit on the basis of fair and open competition. At the committee stage of the Bill, the Chairman of the Public Administration Select Committee, Dr Tony Wright MP, tabled an amendment which would cap at three the number of personnel in post at any time who had been appointed on the basis of this exception. The amendment was not reached for debate, but may be retabled at report stage or in the House of Lords.

**271. As in previous years, we reassert our right to carry out on behalf of Parliament advance scrutiny of the appointment of figures from outside the diplomatic service to senior diplomatic or consular posts. We support the principle of the amendment recently tabled to the Constitutional Reform and Governance Bill, which would have had the effect of limiting to three the number of personnel appointed to such posts at any one time.**

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503 Foreign Affairs Committee, *Proposed appointment of Rt Hon Baroness Amos as High Commissioner to Australia*, Oral and written evidence, HC 1052-i, Ev 16

504 Liaison Committee, First Report of Session 2007–08, *Pre-appointment hearings by select committees*, HC 384, para 10 and Annex; Foreign Affairs Committee, Sixth Report of Session 2007–08, *Proposed appointment of Rt Hon Jack McConnell MSP as High Commissioner to Malawi*, HC 507, paras 17–18; Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 172

505 FCO, *Second Report from the Foreign Affairs Committee Session 2008–09: Foreign and Commonwealth Office Annual Report 2007–08: Response of the Secretary of State for Foreign and Commonwealth Affairs*, Cm 7585, April 2009, para 34

506 Liaison Committee, *Pre-appointment hearings by select committees*, paras 11, 16; Public Administration Select Committee, Tenth Report of Session 2007–08, *Constitutional Renewal: Draft Bill and White Paper*, HC 499, para 35

## 5 Communications and public diplomacy

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### Communications

#### *Departmental Annual Report*

272. In 2009 the FCO for the first time published its Departmental Annual Report in conjunction with its Resource Accounts. The FCO intends to continue with this practice. The 2008–09 Annual Report was also notable for omitting the index which had featured in its predecessors; and for being divided into two volumes for the first time, enclosed in an illustrated file cover. Volume 2 contained core tables on the FCO’s finances and other indicators, detailed performance reporting on the Department’s Public Service Agreement (PSA) and Departmental Strategic Objectives (DSOs), and the Resource Accounts. Volume 1 comprised mainly narrative information on the FCO’s work, organised by DSO, and extensively illustrated with large colour photographs, including ten featuring the Foreign Secretary and/or children. Sir Peter Ricketts told us that over several years the FCO had been seeking to use the Annual Report to achieve “wider public explanation” of the Department’s work. He said that the FCO had produced several thousand hard copies of the Report, sending copies to all Posts and also seeking to use the publication in promotional work with other interested parties.<sup>507</sup>

273. In November 2009, Sir Peter wrote to us to say that the production costs of the enhanced Departmental Annual Report publication had been nearly £50,000 and that it had nevertheless not “stimulate[d] much interest in the press or wider public”. Sir Peter said that the FCO could not justify this sort of expenditure under current circumstances. He therefore informed us that for 2009–10 the FCO proposes to produce fewer copies of its Departmental Annual Report and Resource Accounts, in a single volume and with “limited design features”, and to redirect effort and resources to the FCO website instead. Sir Peter said that he expected the change to save £20,000, and that the FCO planned to use some of the resources thus freed to produce, for example, one or two short videos which could be used to complement the online version of the Annual Report and in other promotional work. Sir Peter assured us that the simpler Annual Report publication would meet all statutory requirements and provide us with all the information we need for our scrutiny of the Department.<sup>508</sup>

**274. We conclude that the Annual Report is unsuitable as a potential promotional publication, given the level of detail which it must also contain. We recommend that in future Annual Reports the emphasis should be placed on enhanced factual information (with restoration of the useful index) and sober assessment of the FCO’s work in achieving British foreign policy interests, rather than promotional photography.**

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507 Qq 2–3

508 Ev 91

## New media

275. The FCO’s embrace of new media has been one of the most notable features of its communications activities in recent years. Since the launch of a new web platform in 2008, the FCO’s web presence consists of its main website, in English, Arabic and Urdu, plus over 250 other websites for particular Posts, events and bodies such as UKvisas, in 40 languages. The FCO has 35 million web visitors a year, or around 120,000 a day, which makes it the second-busiest UK Government website and the second-busiest foreign ministry website in the world, after that of the US State Department.<sup>509</sup> The FCO has over 30 bloggers, in several languages, and the Department and its staff run a number of Twitter feeds. The FCO also has a YouTube channel and Flickr photostream. Support, hosting and development costs for the FCO’s web presence are running at around £1.45 million a year.<sup>510</sup>

276. The FCO’s enhanced new media activities are a central element in the work in non-traditional public diplomacy which the Department has been increasingly promoting since 2007, making use of the unified Communications Directorate created in that year. Chris Bryant told us that the Foreign Secretary’s approach was for an “integrated campaigning approach to communications, based upon using a full range of modern communications technologies and techniques to engage publics around the world and applying these across the FCO’s diplomatic priorities”.<sup>511</sup> For example, the 2008–09 Annual Report said that the FCO’s bloggers had been “central to public diplomacy campaigns, such as the Arms Trade Treaty”.<sup>512</sup> In his evidence to us, Sir Peter Ricketts referred, in a way which suggested that he saw nothing controversial in his comments, to “the fact that [the FCO is] now a campaigning organisation”.<sup>513</sup>

277. The FCO told us that, as of September 2008, its Communications Directorate comprised a Public Diplomacy Group (which alongside more longstanding functions will be responsible for the FCO’s role in relation to the 2012 London Olympics); a Digital Diplomacy Group, responsible for the website and other “digital engagement” activity; a Corporate Communications Group, for internal communications and “stakeholder relations”; a Strategic Campaigns Group, including research and evaluation activity; and the Press Office.<sup>514</sup> The FCO said that the new structure enabled the Department to “engage more systematically and collectively with the public at home and overseas, with Whitehall Partners, and with FCO staff in the UK and across the overseas network”.<sup>515</sup>

278. The FCO told us that it “leads Government in measuring the effectiveness of the resources devoted to its web presence”.<sup>516</sup> The Digital Diplomacy Group conducts an

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509 Ev 98–99; FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 1, HC 460-I, pp 54–57

510 HC Deb, 12 January 2010, col 952–3W

511 Ev 85

512 FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 1, HC 460-I, p 57

513 Q 115

514 Ev 68, 85

515 Ev 68

516 Ev 99

annual Web Review of all the Department’s websites. Overview results of the 2009 review are available on a public website,<sup>517</sup> as is the FCO’s evaluation of its 2009 G20 London Summit website. According to the evaluation, of 13 key performance targets set for the summit web presence, three were fully met, four were partially met, four were not met and two could not be assessed owing to a lack of data.<sup>518</sup>

279. In summer 2008, the FCO commissioned a “Stakeholder Survey” among the public, to investigate popular perceptions of the FCO and thereby inform the Department’s communications and public engagement activity in the UK, including ongoing upgrades of the website.<sup>519</sup> The FCO sent us a copy of the report.<sup>520</sup> The Survey found that levels of awareness of the FCO were low, with 49% of respondents saying that they had never heard of or knew nothing about it, 32% saying that they knew a little, and 11% saying that they knew a fair amount. Among those able to judge and with a favourable opinion of the FCO (a small sample), the largest group attributed their favourable opinion to the assistance which the FCO provides to Britons abroad. The FCO told us that 25% of its total online visitors were seeking visa content, and 10% travel advice. Around two-thirds of visitors to the main FCO website sought the “travel and living overseas” content.<sup>521</sup>

**280. We commend the FCO’s enhanced efforts to use new media to provide information to, and engage with, the public and to drive public diplomacy campaigns designed to complement its diplomatic efforts. We recommend that in its response to this Report, the FCO should provide such information as it has available so far regarding the ongoing impact of its communications and public engagement activities on the levels of public understanding of, and support for, the Department which were reported in the 2008 “Stakeholder Survey”.**

281. We discussed some of the FCO’s communications and new media activities in our Report last year. We recognised then “the valuable role that the website can play in helping to deliver the Department’s policy goals and essential services”. However we also concluded that “increased interactivity and multimedia applications should not be achieved at the expense of the unglamorous but important function of information delivery, which is of particular value to researchers and policy professionals”. We recommended that the website should include an enhanced search function and a chronological archive of press releases.<sup>522</sup> The FCO accepted our recommendation and said that it had started implementing enhanced search functionality.<sup>523</sup>

282. As of February 2010, the chronological archives of press releases, speeches and transcripts on the FCO website go back to summer 2009. Before that, items must be found

517 <http://digitaldiplomacy.fco.gov.uk/en/guidance/review/review-results/results-2009/>

518 <http://www.londonsummit.gov.uk/en/about1/evaluation-kpi>

519 Ev 63

520 Not printed

521 Ev 99

522 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 230

523 FCO, *Second Report from the Foreign Affairs Committee Session 2008–09: Foreign and Commonwealth Office Annual Report 2007–08: Response of the Secretary of State for Foreign and Commonwealth Affairs*, Cm 7585, April 2009, para 44

through the search function, which in our experience often continues to be insufficiently sophisticated to deliver required material quickly, or sometimes to locate it at all.

**283. We conclude that the FCO website continues to prioritise news and specially-created content designed to promote the Department and/or UK policy over the systematic provision of hard information and access to original texts and documents, especially those more than a few months old. Alongside its efforts with respect to travellers and those following the news, we recommend that the FCO should continue to work to enhance the usefulness of its website to researchers and policy professionals, who may primarily seek speedy access to factual background information and specific original texts relevant to UK foreign policy.**

## Public diplomacy

284. As we outlined in the Introduction, for 2008–09 we have reported separately on the FCO’s two main public diplomacy partners, the British Council and the BBC World Service.<sup>524</sup>

285. Under the structures for public diplomacy which were set up following the Carter review in 2005, the FCO’s work in the field was led through the Public Diplomacy Board, chaired by the FCO Minister responsible for public diplomacy. We discussed and largely commended the new arrangements in our Reports on *Public Diplomacy* in 2006 and the FCO’s 2006–07 Annual Report.<sup>525</sup> In October 2009, the current FCO Minister with responsibility for public diplomacy, Chris Bryant, wrote to inform us that the Public Diplomacy Board was being replaced by a new Strategic Communications and Public Diplomacy Forum, chaired by the Foreign Secretary. The new body would meet twice a year. It would be supported by a Public Diplomacy Partners Group which would meet at a lower level, under FCO chairmanship, roughly every six weeks, to focus on cross-cutting themes and events. The FCO Minister with responsibility for public diplomacy would henceforth “focus on providing specific ministerial supervision of the relationship between the FCO and its directly funded partners”, primarily the British Council and BBC World Service. Chris Bryant said that the new arrangements were “designed to capture [...] the breadth of the integrated communications work of the FCO, supervised by the new Forum, and the more specific governance of directly funded [public diplomacy] partners”.<sup>526</sup>

286. The FCO told us in January 2010 that it was too early to assess the effectiveness of the new arrangements for the management of public diplomacy. It said that it would report to us further following the second meeting of the new Strategic Communications and Public Diplomacy Forum, which is planned for July 2010.<sup>527</sup> Sir Peter Ricketts told us that he was happy with the new arrangements.<sup>528</sup>

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524 Foreign Affairs Committee, Second Report of Session 2009–10, *The Work of the British Council 2008–09*, HC 333, and Third Report of Session 2009–10, *The Work of the BBC World Service 2008–09*, HC 334

525 Foreign Affairs Committee, Third Report of Session 2005–06, *Public Diplomacy*, HC 903; Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, paras 209–218

526 Ev 86

527 Ev 98

528 Q 115

**287. We conclude that the new arrangements for the governance of the FCO's public diplomacy work, with the relevant highest-level body now chaired by the Foreign Secretary rather than a more junior Minister, appear to be in accord with the more central place that public diplomacy is taking in the FCO's work. We recommend that the FCO should provide updated information on the operation of the new structures in its response to this Report, and to our successor Committee following the planned second meeting of the new Strategic Communications and Public Diplomacy Forum in July 2010.**

## 6 Objectives, performance and role

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### Post-2007 framework and performance

288. Since the start of the 2008–09 financial year the FCO has been operating under a new Strategic Framework. The Framework comprises three elements, which generate eight Departmental Strategic Objectives (DSOs) agreed with the Treasury for the CSR 07 period. The Framework is:

- a flexible global network serving the whole of the British Government (DSO 1);
- three essential services, namely: supporting the British economy (DSO 2), supporting British nationals abroad (DSO 3) and supporting managed migration for Britain (DSO 4), and
- four policy goals, namely: countering terrorism and weapons proliferation and their causes (DSO 5), preventing and resolving conflict (DSO 6), promoting a low-carbon, high-growth global economy (DSO 7) and developing effective international institutions, above all the UN and EU (DSO 8).

In addition to its eight DSOs, the FCO is the lead Department for one of the cross-government Public Service Agreements (PSAs), namely PSA 30 on “Global Conflict”, for which the target is to “reduce the impact of conflict through enhanced UK and international efforts”. The FCO is a “delivery partner” for four further PSAs, on migration, terrorism, climate change and poverty reduction.<sup>529</sup> In its publications and correspondence with us, the FCO has provided detailed accounts of the extensive management, assessment and reporting arrangements which are associated with its PSA and DSO targets.<sup>530</sup>

289. We discussed the FCO’s new Strategic Framework in detail in our Report on the Department’s 2007–08 Annual Report.<sup>531</sup> We welcomed the Department’s decision to reduce the number of its priorities, in line with a previous recommendation of ours,<sup>532</sup> and that the fact that there was greater alignment between the Department’s DSOs and PSAs under CSR 07 than there had been in the previous spending round period.<sup>533</sup> In January 2009, Sir Peter Ricketts told us that he thought that the new framework was “bedding in well”.<sup>534</sup> In the 2009 FCO Staff Survey, 80% of respondents said that they had a clear understanding of the objectives of the FCO/their Post.

**290. We conclude that, two years after it came into operation, the FCO’s new Strategic Framework appears to have become well established internally and across Whitehall as a means of giving greater focus and clarity to the Department’s activities.**

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529 HC Deb, 23 January 2008, col 52–3WS; FCO, *Departmental Report 1 April 2007–31 March 2008*, Cm 7398, pp 15–16, 84–85; FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, pp 43–45

530 For example, Ev 46

531 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 9–40

532 Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2007–08*, paras 11

533 Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2007–08*, para 56

534 Ev 25

291. The FCO assesses its own performance against PSA and DSO targets in its Annual Report and Autumn Performance Report (APR) each year. Each target has a set of indicators, agreed with the Treasury. According to Treasury guidance, the Department is supposed to assess itself as showing “strong progress” when over half the relevant indicators improve, and “some progress” when fewer than half do so. We have previously recommended that the FCO should include a summary assessment of progress on each indicator when reporting its performance, to make it easier to track changes in its overall performance assessments over time.<sup>535</sup> We are pleased that the FCO introduced this in its 2009 *Autumn Performance Report*. Table 1 on the next page summarises the FCO’s self-assessments against its PSA and DSO targets, as reported in its 2008 APR, 2008–09 Annual Report and 2009 APR.

292. When appropriate, we take account of the FCO’s framework of priorities and objectives in our other Reports and inquiries. We shall not repeat here our past comments on the Department’s performance in relation to specific issues and regions.<sup>536</sup> Having discussed the FCO’s first DSO, relating to the global network of Posts, in paragraphs 59–97, we restrict ourselves to some comments on general developments regarding the Department’s three “service” objectives.

293. Looking at the FCO’s performance overall, as summarised in the table, what is striking is that the Department consistently scores better on its “global network” and “service” objectives than on its policy goals.

294. We have consistently questioned whether it is appropriate for the FCO to have a set of performance targets assessed in terms of detailed and sometimes quantified indicators.<sup>537</sup> Our concerns have been threefold: the difficulty of measuring performance in the foreign policy field; the fact that the FCO can at most be only partly responsible for many of the relevant outcomes, given that by definition other states are involved; and the staff and management time taken up in fulfilling the relevant assessment and reporting requirements.

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535 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 43; Ev 69–70

536 For a summary of the Committee’s recent work, see Foreign Affairs Committee, First Report of Session 2009–10, *The Work of the Committee in 2008–09*, HC 87.

537 Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, paras 64–69; Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 45–48

**Table 1: FCO performance against CSR 07 PSA and DSO targets, 2008–09**

		2008 APR	2008–09 Annual Report	2009 APR
<b>Targets</b>				
<b>PSAs</b>	PSA 30: Global conflict	Some (1/4)	Some (2/4)	Some (2/4)
<b>DSOs</b>				
Global network	DSO 1: Maintain global network	Strong (4/5)	Strong (4/5)	Strong (5/5)
Services	DSO 2: Support British economy	Strong (5/5)	Strong (3/5)	Strong (3/5)
	DSO 3: Support British nationals abroad	Strong (4/4)	Strong (4/4)	Strong (4/4)
	DSO 4: Support managed migration	Strong (5/5)	Strong (5/5)	Some (5/5)
Policy	DSO 5: Counter terrorism and weapons proliferation	Terrorism: Strong (5/5) Proliferation: Some (2/3)	Terrorism: Strong (5/5) Proliferation: Some (2/3)	Terrorism: Some (5/5) Proliferation: Some (2/3)
	DSO 6: Prevent and resolve conflict	Some (2/5)	Some (4/5)	Some (4/5)
	DSO 7: Promote low-carbon, high-growth global economy	Some (2/5)	Some (5/5)	Some (5/5)
	DSO 8: Promote effective international institutions	Some (2/4)	Some (2/4)	Some (4/4)

The table reports the FCO's self-assessments of "strong" or "some" progress towards the targets concerned, with the number of indicators for each target (in brackets) on which there has been improvement.

Source: FCO, *Autumn Performance Report, December 2008*; FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009, Volume 2, HC 460-II*; FCO, *Autumn Performance Report, December 2009*

295. As regards the difficulty of measuring foreign policy performance, on the basis of a review conducted in 2008–09 the National Audit Office (NAO) found that the data being used to assess performance on PSA 30 were "fit for purpose" in the case of only one indicator, whereas for the other three the data were "broadly appropriate but in need of strengthening". (Even so, the FCO was one of the better-performing of the eight Departments reviewed.)<sup>538</sup> One of the major difficulties, affecting even the "fit for purpose" data, was the timelag between the end of the reporting period and the availability of the

<sup>538</sup> NAO, *Measuring Up: How good are the Government's data systems for monitoring performance against Public Service Agreements?*, HC (2008–09) 465, 21 October 2009, p 14

independent external data that the FCO uses to assess its performance on conflict reduction.<sup>539</sup> The FCO has implemented the main NAO recommendations regarding its PSA data, including the introduction of an external “challenge panel” for the Department’s own assessments of progress on one of the indicators.<sup>540</sup> Nevertheless, in the context of our previous concerns, we were not heartened to hear from Sir Peter Ricketts that the FCO planned to look at ways to make its internal end-year reviews of its PSA and DSO performance “even more focussed on metrics”.<sup>541</sup>

296. As regards the difficulty of attributing international outcomes to FCO action, the Department has acknowledged this, and has pointed out that the PSA Delivery Agreement with the Treasury does likewise.<sup>542</sup> However, the FCO has indicated consistently that it accepts a need to measure its performance and to be accountable for the public resources it uses.<sup>543</sup>

297. In its 2008–09 Annual Report and again in its 2009 APR, the FCO deviated from the Treasury guidance as regards the relationship between the number of indicators showing improvement and the overall self-assessment for the relevant target. According to the Treasury guidance, in the 2008–09 Annual Report the FCO should have assessed its progress as “strong” on weapons proliferation, conflict prevention and resolution and the promotion of a low-carbon, high-growth global economy, because it reported improvement on more than half of the relevant indicators in each case. However, in each case the Department said that it did not feel that the overall “strong” performance assessment for the relevant policy target was warranted.<sup>544</sup> The FCO made the same judgement in its 2009 APR with respect to migration, counter-terrorism, weapons proliferation, conflict prevention and resolution, the promotion of a low-carbon, high-growth global economy and the development of effective international institutions.<sup>545</sup>

**298. We note that, contrary to what would have been warranted by the Treasury guidance on the use of performance indicators, the FCO felt unable to give itself a “strong” performance rating on several key policy objectives in 2009, including weapons proliferation, conflict prevention and the promotion of a low-carbon, high-growth global economy. We reiterate our conclusion that the Government’s current system for performance measurement is inappropriate for the FCO. We further conclude that, at least as regards policy objectives, the current elaborate performance reporting system absorbs large amounts of FCO staff time that might be better spent on other matters, without necessarily generating significant new information.**

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539 NAO, *Measuring Up: How good are the Government’s data systems for monitoring performance against Public Service Agreements? PSA 30: ‘Reduce the impact of conflict through enhanced UK and international efforts’: A review of the data systems underpinning the Public Service Agreement led by the Foreign and Commonwealth Office under the Comprehensive Spending Review 2007*, June 2009, at [http://www.nao.org.uk/publications/0809/measuring\\_up\\_psa\\_validation-1/findings\\_by\\_psa.aspx](http://www.nao.org.uk/publications/0809/measuring_up_psa_validation-1/findings_by_psa.aspx)

540 Ev 70; FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, pp 46–47

541 Ev 60

542 Ev 45–46

543 For example, at Ev 45

544 FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 2, HC 460-II, pp 58, 66, 70

545 FCO, *Autumn Performance Report*, December 2009, pp 13, 16, 22, 24

## UK Trade and Investment (UKTI)

299. UK Trade and Investment (UKTI) is owned jointly by the FCO and the Department for Business, Innovation and Skills, and is the main vehicle through which the FCO seeks to deliver its DSO 2, to support the British economy. It has 2,400 staff, of whom 1,300 are overseas, in 98 countries, based primarily in FCO Posts.<sup>546</sup> UKTI is operating under a five-year strategy, *Prosperity in a Changing World*, launched in July 2006.

300. Sir Andrew Cahn, UKTI's Chief Executive, wrote in the organisation's 2008–09 Annual Report that its results for the year were the best it had ever achieved. UKTI stated that it helped companies achieve an estimated £3.6 billion in extra profit, a rise of 12.5% on 2007–08, and that the number of companies it had assisted had risen by 30% to 20,700. It increased its income from chargeable services to over £4.5 million, up by 26%, and was involved in 600 inward investment projects. Among examples of recent initiatives cited by UKTI and the FCO are the launch of programmes aimed at assisting delivery of the economic benefits of the London 2012 Olympics; and the creation of the Business Ambassadors network, comprising 17 unpaid business and academic figures appointed by the Prime Minister to promote UK trade and investment opportunities, especially for small businesses.<sup>547</sup>

301. In April 2009, the National Audit Office (NAO) published a report on UKTI which was a mixed assessment. The NAO said that UKTI was making good progress against its targets, had focused resources on the areas it believed offered the greatest opportunities, and had made significant efforts to establish feedback and measurement systems. However, the report also concluded that UKTI needed improved information on the costs of its services, greater clarity on its charging policy, clearer communication about its role and services, and improved measurement of its proven impact. The NAO pointed out that there were significant caveats to UKTI's "headline" figure, namely that the £3.6 billion in extra profit which it helps to generate is equivalent to £16 for every £1 spent on trade support.<sup>548</sup>

302. UKTI has reoriented its activities somewhat to take account of the recession. For example, it has introduced a new programme to try to help UK companies capitalise on other states' fiscal stimulus packages, launched new support for manufacturing firms seeking to access new overseas opportunities, and redeployed resources towards areas with higher rates of proven potential.<sup>549</sup> However, the FCO's Autumn Performance Report stated that "given the challenging global economic climate it will need a concerted effort from the whole network to achieve all of [UKTI's] targets".<sup>550</sup>

**303. We recommend that in its response to this Report the FCO should provide updated information on UKTI's responses to the global recession and the April 2009**

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546 UKTI, *Departmental Report and Resource Accounts 2008–09*, HC 482, July 2009, p 10

547 UKTI, *Departmental Report and Resource Accounts 2008–09*, p 5; FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 1, HC 460-I, pp 8–9

548 NAO, *UK Trade and Investment: Trade Support*, HC (2008–09) 297, 2 April 2009, pp 5–6

549 UKTI, *Departmental Report and Resource Accounts 2008–09*, p 12; FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 1, HC 460-I, pp 9–10; Ev 47

550 FCO, *Autumn Performance Report*, December 2009, p 10

**National Audit Office report on the organisation, including information on the results which UKTI is achieving for UK businesses. We further recommend that the FCO should provide information on any plans to improve the measurement of UKTI's impact.**

304. The 2008–09 year was the first in which UKTI was responsible for defence exports promotion. From the start of the financial year, the former Defence Export Services Organisation—which had been under the MOD—was replaced by the Defence and Security Organisation, under UKTI. The FCO told us last year that the change would give the defence industry “access to the full network of UKTI services”.<sup>551</sup> For 2008–09, UKTI continued to measure the impact of the Defence and Security Organisation in terms of the UK's share of the global defence export market. The FCO told us that the UK took 20% of the market, worth over £4 billion, making it the second-largest defence exporter after the US.<sup>552</sup> For 2009–10 onwards, UKTI plans in addition to measure the impact of services provided by the Defence and Security Organisation through its Performance Impact and Monitoring Survey (PIMS), the same instrument that it uses to try to measure its own trade support impact. The FCO told us that the first results for the Defence and Security Organisation from PIMS would be available at the end of 2009, with quarterly updates available thereafter.<sup>553</sup>

**305. We recommend that in its response to this Report, the FCO should provide the initial information available from UKTI's Performance Impact and Monitoring Survey (PIMS) as to the effectiveness of the Defence and Security Organisation in assisting UK defence exports, compared to that of its predecessor, the Defence Export Services Organisation; and should assess the strength of the data which is provided through PIMS. We further recommend that the FCO should assess whether the handover of responsibility for UK defence exports promotion to UKTI, a body for which the FCO has joint responsibility, has given rise to any potential conflicts of interest or negative consequences for the Department's policy work.**

## Consular services

306. “Supporting British nationals abroad” is the third of the FCO's Departmental Strategic Objectives for 2008–11. The FCO's Consular Services are currently operating under a three-year strategy which comes to an end in 2010. In the “Stakeholder Survey” of public attitudes which the FCO commissioned in 2008, “assisting Britons abroad” was by far the most-frequently mentioned item when respondents were asked to name the FCO's responsibilities; and, as we noted in paragraph 279, among those with favourable views of the FCO such assistance was the most-frequently mentioned factor underlying their opinion.

307. According to the *Consular Services Annual Report* for 2008–09, during that year the Services dealt with nearly 2.1 million consular assistance inquiries and provided assistance

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<sup>551</sup> Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 123

<sup>552</sup> Ev 66

<sup>553</sup> Ev 66–67

abroad in nearly 35,000 cases, including over 3,100 hospitalisations, over 5,500 deaths and nearly 7,000 detentions. Consular Services issued over 372,000 passports overseas, including nearly 11,000 emergency or temporary ones, and deployed Rapid Deployment Teams to eleven crisis situations, including the earthquake in China, the conflict between Russia and Georgia and the terrorist attacks in Mumbai.<sup>554</sup> Consular work accounts for some of the FCO’s most high-profile activities, such as the “Know Before You Go” travel campaign, and the work of the Forced Marriage Unit, which the Department runs jointly with the Home Office and which we heard about during our visit to Pakistan in 2009. The football World Cup in South Africa will be the most prominent one-off challenge for Consular Services in 2010.

308. In January 2010, during the Spanish Presidency of the EU Council, we visited Madrid and Lisbon, which form part of the group of Iberian FCO Posts which are operating as a network on consular issues. During our visit, we heard that the Iberia consular region accounts for around 30% of the FCO’s global consular assistance cases.<sup>555</sup> Spain has the heaviest consular workload anywhere in the FCO network, with nearly 2,300 arrests and detentions, 1,800 deaths and 7,500 lost, stolen and recovered passports there in 2008–09. Our visit to Madrid brought home to us the particular challenges being faced by the FCO’s consular operations in Spain as a consequence of the country’s large (up to 1 million) and overwhelmingly elderly resident British population—among whom, we were told by Consular Regional Director Iberia Michael John Holloway, “there is an increasing expectation [...] that the British Government will help” when they face financial difficulties or problems in accessing social services and healthcare.<sup>556</sup> Mr Holloway told us that the FCO was working with the Department of Work and Pensions and Department of Health to provide “joined-up” services to the British community in Spain, and we heard how Age Concern and the Royal British Legion have staff integrated into relevant British Consulates. We also heard during our visit of plans for a regional consular Contact Centre, to which consular telephone and email contacts would be channelled from throughout Iberia. It is hoped that the Centre will take on back office functions and that the arrangement will enable “better sifting of calls, escalations, signposting to partners, and improving customer insights through trend analysis”, as well as allowing Consulates to focus on frontline casework and outreach programmes. Mr Holloway told us that in a number of respects the Contact Centre and the Iberia region generally were acting as pilots for the future of FCO consular services.<sup>557</sup>

309. Among other innovations in the FCO’s consular work in 2008–09, the year saw the deployment completed of a new online registration database for Britons abroad, LOCATE, aimed at improving the information available to the FCO on Britons abroad, with a particular view to its utility in possible consular crises.<sup>558</sup> April 2009 saw the launch of a unified global out-of-hours telephone service for those contacting overseas Posts for

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554 FCO, *Consular Services Annual Report 2008–09*, pp 4–5; FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 1, HC 460-I, p 15

555 Ev 107

556 Ev 107

557 Ev 108

558 FCO, *Departmental Report and Resource Accounts 1 April 2008–31 March 2009*, Volume 1, HC 460-I, p 18; HC Deb, 14 July 2009, col 333–4W

consular assistance. Rather than being put through to a local duty officer, who might not have had consular training, out-of-hours callers are now advised by a voicemail message to speak to the global response centre in London, which they can reach via a local number. Over 100 Posts were included when the service was launched, and others are being added over time.<sup>559</sup>

310. It has long been planned that the FCO's overseas passport-processing operation would be merged into the Home Office's Identity and Passport Service (IPS). Implementation of the change began in April 2009, with the signing of a Memorandum of Understanding between the two Departments.<sup>560</sup> It is planned that the printing of passport books will be repatriated to the UK in October 2010, and that the merger will be fully implemented by April 2011. Under the new arrangements, the IPS will have responsibility for the issuing of all UK passports, with the FCO acting as a service provider and delivery platform for the IPS for passports being issued overseas. The FCO will retain responsibility for the issuing of emergency travel documents.<sup>561</sup> The FCO is reforming its own passport-related operations—including via the introduction of a new IT system—to make them compatible with IPS systems.<sup>562</sup> The shift to IPS responsibility for passports will coincide with the introduction of finger scans and—for some first-time applicants—interviews as part of the passport application process.

311. The FCO told us that, as part of the merger process with IPS, it had begun to “streamline the consular passport network”.<sup>563</sup> It is introducing a “hub-and-spoke” model, whereby passport applications received at several Posts are transferred to a single “hub” Post for processing, and then returned. “Hubbing” has been implemented or is planned in parts of Africa, Australasia, Central and South America, Asia, Europe, the Middle East/Gulf and the US;<sup>564</sup> in 2008–2010 we have visited, and received briefing on consular operations in, several of the Posts that are now operating as hubs (Paris, Madrid and Washington). We have also visited several smaller posts, including Lisbon, Valetta and Nicosia, which may be affected adversely by the “hubbing” process.

312. The FCO told us that it anticipates “substantial long-term savings as a result of rationalisation, as well as improved customer service and greater consistency across the network”.<sup>565</sup> However, we have consistently expressed concern about the potential risks which may arise from the changes to the level of service received by British passport applicants—and, inasmuch as FCO Posts will continue to be dealing with applicants at the frontline, also to the FCO's reputation. In doing so, we have largely been reflecting concerns also being raised by FCO management.<sup>566</sup>

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559 “While you were sleeping”, *News + Views* [the FCO staff magazine], October 2009, p 10

560 Ev 55

561 Ev 24; Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 106

562 Ev 24

563 Ev 25

564 Ev 25, 60, 106

565 Ev 60

566 Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, paras 179–183

313. We recognise the importance of the FCO’s consular work to the Department’s public profile and the challenges that are arising from changing patterns of British travel and residence abroad. We therefore commend the improvements that the FCO is making to its consular services. We conclude that the FCO is handing responsibility for overseas passport issuance to the Home Office’s Identity and Passport Service at a time when it may become slower and more difficult to receive a British passport—owing to the introduction of stricter requirements for first applicants and the rationalisation of passport processing in fewer centres—and that the process therefore raises some reputational risks for the Department which will require careful management with the Home Office and the provision of clear explanation to the public. We urge our successor Committee in the new Parliament to maintain a close interest in the FCO’s consular work. We further recommend that, as it develops its new consular strategy for 2010–13, the FCO should provide updated information in its response to this Report and subsequently to our successor Committee.

### Migration services and UK Border Agency (UKBA)

314. “Supporting managed migration” is the fourth of the FCO’s Departmental Strategic Objectives for 2008–11. The FCO is also a delivery partner for PSA 3, on migration, on which the Home Office is the lead Department. Although the numbers of respondents involved were small, the view that the FCO operates poor immigration controls was one of the main factors behind unfavourable opinions of the Department reported in the 2008 “Stakeholder Survey”.

315. The year 2008–09 was the first in which the agency responsible for UK visas fell wholly under the Home Office. As of 1 April 2008, the former UKvisas, which had been a joint Home Office-FCO agency, was merged into the new UK Border Agency (UKBA), which is an agency of the Home Office alone. UKBA continues to use FCO Posts overseas, with the FCO charging it accordingly under a set of Service Level Agreements; and it was agreed under a January 2008 Memorandum of Understanding (MoU) between the two Departments that FCO staff would continue to fill at least 40% of jobs in UKBA’s International Group. The FCO has provided the head of UKBA International Group from the outset, and around 250 FCO staff moved out of the main FCO building into UKBA offices over summer 2009. The FCO’s Migration Directorate is the Department’s main channel for co-operation with UKBA and the body responsible for delivery of the FCO’s DSO 4; the Migration Directorate itself includes staff from UKBA and DFID, as well as the FCO.

316. The 2008 FCO-Home Office MoU recognised that the FCO had a continuing policy interest in migration issues. We have similarly asserted our right to continue to scrutinise the FCO’s work in relation to UKBA.<sup>567</sup>

317. The FCO has emphasised the degree to which there is co-operation between itself and UKBA on inward migration.<sup>568</sup> For example, it told us that its “geographical directorates

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<sup>567</sup> Ev 29–30; Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 116–118

<sup>568</sup> Ev 71

and the overseas network of Posts are consulted on major policy/operational developments within [UKBA] which may have an impact overseas”.<sup>569</sup> James Bevan, the FCO’s Director General Change and Delivery, described the relationship to us as a “very effective partnership”. He nevertheless acknowledged that “there are [...] sometimes different perspectives”.<sup>570</sup> We have encountered several instances in which the UK’s visa policies and practices have become significant irritants in bilateral relations, such as problems with the visa operation in Pakistan, or the need to travel to another country in order to provide biometric data in the Western Balkans. In his evidence to the Public Accounts Committee in October 2009, Sir Peter Ricketts acknowledged that the “hubbing and spoking” of the UK’s visa operations was causing some disruption and said that the process was “really an effort by UKBA to drive down the cost of the operation”, especially because income from visa fees had fallen as a result of the recession.<sup>571</sup>

**318. We conclude that the FCO should convey a clear message to the Home Office and the UK Border Agency that immigration policies and practices have significant implications for the UK’s foreign relations, as well as for domestic security, economic and community policies.**

319. In recent years, discussion of the FCO’s co-operation with other government departments has tended to focus on its links with the MOD and DFID, owing to the overwhelming importance of the conflicts in Iraq and Afghanistan. The Cabinet Office’s Capability Review of the FCO in early 2009 found that the FCO’s relationships with these two Departments had “improved noticeably”.<sup>572</sup> We note that in two of the other most high-profile areas in which the FCO is engaged, namely visas and overseas passport issuance, the Home Office now has the lead responsibility; and that a third such area, the Forced Marriages Unit, is also a joint FCO-Home Office operation. The FCO also told us that in the next spending round it and the Home Office would bid jointly for a pooled programme budget for capacity building against organised crime.<sup>573</sup> In paragraphs 47–48 we discussed possible co-operation between the Home Office and the FCO in relation to overseas civilian post-conflict missions.

320. The FCO’s 2009 Survey of Whitehall Partners indicated that organisations which focused on domestic issues were less satisfied with the FCO than those focusing on international issues; and that partners working on issues of crime and security, in particular, felt marginalised by the FCO. In its response to the Cabinet Office’s 2009 Capability Review, the FCO mentioned economic departments, such as the Treasury and the then Department for Business, Enterprise and Regulatory Reform, as those with which the Permanent Under-Secretary would be aiming to achieve levels of co-operation similar to those seen with DFID and the MOD.<sup>574</sup>

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569 Ev 30

570 Q 113

571 Public Accounts Committee, Third Report of Session 2009–10, *Financial Management in the FCO*, HC 164, Q 76

572 Cabinet Office, *Foreign and Commonwealth Office: Progress and next steps*, Civil Service Capability Review, March 2009, p 10

573 Ev 64

574 Cabinet Office, *Foreign and Commonwealth Office: Progress and next steps*, p 14

321. We recommend that our successor Committee in the next Parliament should pay particular attention to the growing importance of the FCO's relationship with the Home Office, in areas of key importance to the UK public and the FCO's reputation and policy objectives.

## Overseas Territories

322. In contrast to the FCO's previous set of Strategic Priorities, its post-2007 Strategic Framework does not refer to the UK's 14 Overseas Territories (OTs), for which the FCO exercises the UK's continuing responsibility. In our discussion of the new framework in our last Report, we welcomed the assurance that the FCO had given us, that the omission of the OTs from the Framework "in no way diminish[ed] the importance" attached to them by the Department, which regarded them as a "core responsibility" and remained "committed to fulfilling [its] obligations" towards them.<sup>575</sup> We also reiterated the conclusion which we had reached in our major Report on the *Overseas Territories* in 2008, namely that the Government "must take its oversight responsibility for the Overseas Territories more seriously".<sup>576</sup> We had expressed concerns that Governors were sometimes not being appointed at a sufficiently senior level, or with sufficient OTs experience or training or support from the FCO; and that staff dealing with the OTs in London might also not be of sufficient seniority.<sup>577</sup>

323. Since publication of our *Overseas Territories* Report, there has been a series of developments which suggest to us that there continue to be deficiencies in the FCO's oversight of OTs matters:

- In December 2008, acting under the Habitats Directive, the European Commission included as a Site of Community Interest an area proposed by Spain which covers a share of British Gibraltar Territorial Waters. The Government of Gibraltar is taking a legal case against the Commission seeking annulment of the listing. The UK Government has secured the right to intervene in support of the Government of Gibraltar's case, but missed the deadline to take a case itself. The UK Government is considering launching a case against a subsequent Commission Decision which re-listed the disputed Spanish site; the deadline for lodging such a challenge would be 5 March 2010.<sup>578</sup>
- In June 2009, the Government of Bermuda negotiated with the US the transfer to Bermuda of four Uighur detainees from Guantanamo Bay. In doing so, it acted outside its competence and without the knowledge of the FCO.<sup>579</sup>

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575 Foreign Affairs Committee, Second Report of Session 2008–09, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, paras 38–40 and Ev 161

576 Foreign Affairs Committee, Seventh Report of Session 2007–08, *Overseas Territories*, HC 147-I, para 437

577 Foreign Affairs Committee, *Overseas Territories*, paras 428–438

578 Letter to the Chairman from Chris Bryant MP (OT 410, 30 November 2009), Annex A, paras 30–31, published by the Committee at <http://www.publications.parliament.uk/pa/cm200910/cmselect/cmffaff/memo/overseas/contents.htm>

579 Q 95

- The Ascension Island Government faces possible insolvency as a result of a dispute with the Ministry of Defence over the payment of property tax which, as of early February 2010, the FCO had been unable to resolve.<sup>580</sup>

324. The most notable development since publication of our 2008 *Overseas Territories* Report was the suspension of the Constitution and re-imposition of direct rule in the Turks and Caicos Islands (TCI) in August 2009, owing to a “high probability of systemic corruption”.<sup>581</sup> The move was in line with the recommendation of a Commission of Inquiry, the establishment of which had been the central recommendation of our 2008 Report with respect to the Islands.<sup>582</sup> The final findings of the Commission of Inquiry were essentially unchanged from those contained in its Interim Report of March 2009, and we note that, since the end of that month, and as of February 2010, the FCO has included the Overseas Territories as a strategic risk on its Top Risks Register.<sup>583</sup> The FCO has sent a team of staff to support the Governor while he rules TCI directly and seeks to implement institutional and other reforms aimed at preventing a recurrence of the problems.<sup>584</sup> However, Islanders have expressed to us a number of concerns about the way in which the Governor and his staff—and behind them, the FCO—are managing direct rule. We were especially dismayed to hear from Special Prosecutor Helen Garlick in January 2010—not from the FCO—that she had been unable to start meaningful work, owing to a lack of assured funding from the FCO. Given the delay, there are fears that those suspected of corruption in TCI might in the meantime be concealing or destroying evidence, and that the Special Prosecutor might be unable to make significant progress with her work before the planned restoration of devolved government in July 2011. We were sufficiently alarmed to decide to produce a short Report to register our concerns before the dissolution of this Parliament. Our Report will be published shortly.

325. In addition to the ongoing submissions which we are receiving from TCI, since publication of our 2008 Report we have continued to receive a large amount of correspondence in connection with the OTs. Many of those who contact us have serious concerns about standards of governance and other issues in other Overseas Territories. From time to time we have transmitted particular concerns from the OTs to the FCO. Our experience suggests that in so doing we have been fulfilling a role for which there is a genuine demand. In our 2008 Report, we expressed the hope that our successor Committee would wish to take seriously its obligation to scrutinise the FCO’s work in relation to the OTs.<sup>585</sup>

**326. We conclude that, although the Overseas Territories do not have large populations or take up a large proportion of the FCO budget, they present particular challenges and responsibilities to the FCO concerning their governance. Notwithstanding the Overseas Territories’ inclusion on the FCO’s Top Risks Register in 2009, we remain unconvinced**

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580 Letter to the Chairman from Chris Bryant MP (OT 410, 30 November 2009), Annex A, para 55, published by the Committee at <http://www.publications.parliament.uk/pa/cm200910/cmselect/cmfaff/memo/overseas/contents.htm>

581 HC Deb, 2 July 2009, col 25–6WS

582 Foreign Affairs Committee, Seventh Report of Session 2007–08, *Overseas Territories*, HC 147-I, para 196

583 Compare Ev 25 with Ev 53, 60, 105.

584 Q 94

585 Foreign Affairs Committee, *Overseas Territories*, para 434

that the Department is exercising its responsibilities for them with sufficient diligence. We recommend that, in light of the problems which have arisen in connection with a number of the Territories, in its response to this Report the FCO should set out any plans it has to review or strengthen its handling of Overseas Territories matters.

327. We recommend that our successor Committee in the next Parliament should consider making the close scrutiny of the FCO's handling of its responsibilities for the Overseas Territories an ongoing part of its work.

### The FCO's policy role

328. The intensified financial pressure facing the FCO has helped to prompt renewed discussion of the Department's overall purpose and function. This ongoing debate has been reflected in our inquiries periodically during the 2005–10 Parliament, for example when we took evidence from Lord Ashdown and former Ambassador Sir Ivor Roberts as part of our inquiry into the FCO's Annual Report two years ago.<sup>586</sup> The development of the FCO's new Strategic Framework under the present Foreign Secretary after 2007 was itself a response to a perceived need to rethink the Department's role.<sup>587</sup> In its March 2009 Capability Review of the Department, the Cabinet Office said that the FCO "needs to continue to think radically about its place in a changing world".<sup>588</sup>

329. The FCO's traditional role has been seen as that of being the Government's pre-eminent foreign policy-making body, with privileged access to information and contacts abroad. That role is now argued by some to be under challenge from three developments:<sup>589</sup>

- i. The spread of new forms of global communication, which allow other parts of Government to acquire information about overseas developments and do business with foreign partners without having to rely on the FCO, thereby arguably undermining the traditional role of Ambassadors and overseas Posts as sources of information and channels of communication. The ease of international travel is also seen as contributing to the trend, facilitating the increase in international meetings between non-FCO personnel, and especially international summitry.
- ii. Partly as a consequence of (i) above, the increasing tendency for other parts of Government to establish their own direct relationships with other states and to pursue work with or in them, arguably undermining the FCO's monopoly of foreign policy-making. It is frequently argued that the Prime Minister in particular has taken over important elements of foreign policy, leaving the FCO marginalised. This argument may receive a further boost from some of the evidence presented to

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586 Foreign Affairs Committee, First Report of Session 2007–08, *Foreign and Commonwealth Office Annual Report 2006–07*, HC 50, paras 70–76

587 David Miliband, "New Diplomacy: Challenges for Foreign Policy", Chatham House, 16 July 2007; HC Deb, 23 January 2008, col 52–3WS

588 Cabinet Office, *Foreign and Commonwealth Office: Progress and next steps*, Civil Service Capability Review, March 2009, p 7

589 Sir Peter Marshall, KCMG CVO, former British Ambassador to the UN in Geneva, discussed some of these issues in his submission to our inquiry, at Ev 125; for other recent overviews, see, for example, Lord Wallace of Saltaire, "Does the Foreign Office have a future?", Chatham House, 7 December 2007; Sir Ivor Roberts, "The Development of Modern Diplomacy", Chatham House, 23 October 2009

the Chilcott Inquiry into the war in Iraq.<sup>590</sup> Other institutions which are claimed to have siphoned some degree of responsibility for the formation of foreign policy from the FCO include DFID, the intelligence and security agencies and the Department of Energy and Climate Change (DECC).<sup>591</sup>

- iii. Developments inside the FCO, which are often seen to involve an ever-greater stress on the provision of services to the public and the introduction, largely at the behest of the Treasury, of management practices—such as the system of performance targets and reporting considered above—which divert time and resources from traditional political reporting, analysis and policy-making.

330. Some dispute whether these trends are all as new as might be thought. For example, Sir Peter Ricketts argued that “the Prime Minister has had a leading role in foreign policy for generations”.<sup>592</sup> The perception that the foreign ministry is losing its traditional role is also far from unique to the UK: in a chapter entitled “The Foreign Ministry: Relic or Renaissance?” in his 2009 book *Guerrilla Diplomacy*, the Canadian diplomat and author Daryl Copeland describes foreign ministries as facing a “cascade of adversity”.<sup>593</sup> Particular questions are seen as being raised about the role of foreign ministries within the EU, given the range and intensity of contacts among its Member States, and the plans which we discussed in paragraphs 92–97 for the development of the European External Action Service with respect to third countries.<sup>594</sup> One way in which the UK’s structuring of its foreign relations activities differs from that of most comparable states is in the role played by DFID: among the 30 Member States of the Organisation for Economic Co-operation and Development, only one other—Germany—has a separate fully-fledged ministry for international development, with all the others maintaining agencies or departments that in one way or another fall under the overall authority of the foreign ministry.<sup>595</sup>

331. Since we published our last Report, several distinguished former ministers and diplomats have expressed anxiety about the direction in which the FCO is heading. In February 2009 former Foreign Secretary Lord Hurd told the House of Lords of:

a malaise becoming increasingly apparent in [the FCO’s] working. [...] the Foreign Office in London [...] is ceasing to be a storehouse of knowledge providing valued advice to Ministers and is increasingly an office of management, management of a steadily shrinking overseas service. [...] [It] may be reverting, despite the talent

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590 <http://www.iraqinquiry.org.uk/transcripts.aspx>

591 In December 2009, at the time of the UN climate change summit in Copenhagen on which DECC led for the UK, *The Spectator* said that DECC “appears to be succeeding in a remarkable takeover of the Foreign Office”, which the paper described as “a frail and damaged place, bleeding power and purpose from multiple wounds”; “The Foreign Office’s new green orders”, *The Spectator*, 5 December 2009

592 Q 109

593 Daryl Copeland, *Guerrilla Diplomacy: Rethinking International Relations* (Boulder and London, Lynne Rienner Publishers, 2009), p 143

594 Jozef Batora and Brian Hocking, “EU-oriented bilateralism: evaluating the role of member state embassies in the European Union”, *Cambridge Review of International Affairs*, vol 22 no1 (2009), pp 163–182; “The Changing Role of Embassies in EU Member States”, blog posting by Michael Siebert, then of the German Embassy in London, 10 August 2009, and the following online discussion, <http://uaces.ideasoneurope.eu/2009/08/10/the-changing-role-of-embassies-in-eu-member-states>. In January 2010, Sweden announced that it was closing its Embassies in five EU capitals (Bratislava, Dublin, Ljubljana, Luxembourg and Sofia), while opening or upgrading a number of Posts elsewhere; “Sweden to open ten embassies and close six”, Ministry of Foreign Affairs press release, 21 January 2010

595 Information provided by the House of Commons Library.

deployed there, to an age of super-clerks, rather than policy advisors who have time to think and to bring weight to bear through their advice to Ministers. [...] the Foreign Office in London has been hollowed out.<sup>596</sup>

Sir Peter Marshall, former British Ambassador to the UN in Geneva, questioned in a submission to us in September 2009 whether the FCO's post-2007 Strategic Framework:

imply[ed] a relatively greater emphasis on the executive function of the Diplomatic Service, as compared with its advisory function [...] and whether there is in consequence a possible loss of FCO Departmental clout.<sup>597</sup>

In November 2009, Sir Christopher Meyer, former British Ambassador to Washington, wrote that the FCO “has, according to numerous witnesses, fallen again on hard times, surrendering swathes of responsibility for foreign policy to other players in the Whitehall community”, which he said was marked by “the activism abroad of the Prime Minister’s office and the autonomy and funding given to the Department for International Development, which, with a budget at least three times that of the Foreign Office, pursues its own agenda abroad”. Sir Christopher reported the fears of one diplomat that the FCO “will just end up a Ministry for Consular Affairs, rescuing distressed travellers and tourists”.<sup>598</sup>

332. In January 2010, Lord Malloch-Brown, FCO Minister of State until July 2009, wrote that:

the real crisis for the Foreign Office is whether it will be allowed to lead in its embassies and Whitehall, or will it be reduced to landlord and events organiser for other parts of Government. Abroad, diplomats are usually outnumbered by trade, immigration and development officials with their own priorities. In Whitehall, impatient Prime Ministers often elbow the Foreign Office aside to run foreign policy. Whether from sofa or bunker, Prime Ministers have over-ruled the Foreign Office to play to the news cycle.<sup>599</sup>

333. Sir Peter Ricketts rejected Lord Hurd’s view of the FCO when we put it to him. Sir Peter told us that he saw “every day the FCO at the heart of policy-making on a whole range of difficult, important, fast-moving and complex issues, and leading Whitehall work on it”. Sir Peter suggested that the advent of enhanced international communications meant that “the Ambassador’s capacity to be part of policy-making is greater than it was”, as he or she participated via secure video link in policy discussions in London. “The reality”, said Sir Peter, “is that the FCO in London, working with our Ambassadors, is still a real storehouse of knowledge and experience of abroad”.<sup>600</sup>

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596 HL Deb, 26 February 2009, cols 336–9

597 Ev 127

598 Sir Christopher Meyer, “Lights are going out at the Foreign Office”, *Daily Telegraph*, 2 November 2009, excerpted from Sir Christopher Meyer, *Getting Our Way. 500 Years of Adventure and Intrigue: the Inside Story of British Diplomacy* (London, Weidenfeld and Nicolson, 2009)

599 Lord Malloch-Brown, “How to reform the British Foreign Office”, *Financial Times*, 14 January 2010

600 Q 108

334. As regards DFID’s role in relation to the FCO, the Foreign Secretary told us that “DFID does not run an alternative foreign policy”. He drew our attention to the way in which DFID, for example in its 2009 White Paper, was increasingly linking its core task of poverty reduction to traditional FCO areas of work such as conflict prevention, good governance and trade.<sup>601</sup> The Foreign Secretary also said that “by definition, DFID is not in every country in the world” and that “therefore, by definition, it is not universal” in the way that the FCO is, via its global network of Posts.<sup>602</sup>

335. In 2008–09, the FCO re-established its Strategy Unit, on the basis of its existing Policy Planning Staff, and brought the Unit together with the FCO Research Analysts in a single Directorate for Strategy, Policy Planning and Analysis. Sir Peter Ricketts told us that the change was part of the effort to make sure that the FCO had “enough intellectual capacity at the centre of the organisation to be sure that [it is] covering all the major issues”.<sup>603</sup> The Cabinet Office’s Capability Review of the FCO in March 2009 stated that “the re-establishment of the Strategy Unit [...] shows a clear intention to foster and value the strategic use of evidence throughout the Department”, and that the re-creation of the Unit “should improve the FCO’s long-term capability”.<sup>604</sup> In his evidence in December 2009, Sir Peter said that it was too early to assess the impact of the change.

336. Daryl Copeland has written that “the clear trend has been to make the foreign ministry more like any other government department. But in almost every respect, foreign ministries are *not* like other government departments”.<sup>605</sup>

**337. We conclude that, with regard to funding arrangements and performance management, the Treasury has too often treated the FCO as “just another Department”, when it is clear from international experience that foreign ministries are not like other departments. We further conclude that it is incongruous that the position of the only government department with a global reach is threatened with erosion at a time when globalisation is acknowledged as the key phenomenon of our times. We conclude that there continues to be a vital need for the FCO to have sufficient resources to enable it to carry out its traditional functions, of the interpretation of developments overseas and the formulation of policy.**

**338. We recommend that the new Government should carry out a comprehensive foreign policy-led review of the structures, functions and priorities of the FCO, MOD and DFID.**

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601 DFID, *Eliminating World Poverty: Building our Common Future*, Cm 7656, July 2009

602 Q 6

603 Q 111

604 Cabinet Office, *Foreign and Commonwealth Office: Progress and next steps*, Civil Service Capability Review, March 2009, p 10

605 Daryl Copeland, *Guerrilla Diplomacy: Rethinking International Relations* (Boulder and London, Lynne Rienner Publishers, 2009), p 153

# Annex

## Size and make-up of the FCO Ministerial team, 1979–2010

Date	Secretary of State	FCO Ministerial Team						
		Ministers of State	Minister of State for Europe with no other responsibilities	Minister of State for Europe with other responsibilities	Parliamentary Under-Secretaries of State	Parliamentary Under-Secretary of State for Europe with no other responsibilities	Parliamentary Under-Secretary of State for Europe with other responsibilities	
May 1979	Lord Carrington	4	Minister of State for Europe with no other responsibilities	Minister of State for Europe with other responsibilities	Of whom	1	Parliamentary Under-Secretary of State for Europe with no other responsibilities	Parliamentary Under-Secretary of State for Europe with other responsibilities
April 1982	Francis Pym	4		1 (Douglas Hurd)	1	1		
June 1983	Geoffrey Howe	4		1 (Douglas Hurd)	1	1		
Mar 1986	Geoffrey Howe	4		1 (Malcolm Rifkind)	1	1		
Aug 1989	John Major	4		1 (Lynda Chalker)	1	1		
Nov 1989	Douglas Hurd	4		1 (Francis Maude)	1	1		

Aug 1990	Douglas Hurd	4		1 (Tristan Garel-Jones)	1		
June 1993	Douglas Hurd	4		1 (David Heathcoat-Amory)	1		
Sep 1994	Douglas Hurd	4		1 (David Davis)	1		
Aug 1995	Malcolm Rifkind	4		1 (David Davis)	0		
Oct 1996	Malcolm Rifkind	4		1 (David Davis)	1		
June 1997	Robin Cook	3		1 (Doug Henderson)	1		
Oct 1998	Robin Cook	3	1 (Joyce Quin)		1		
Nov 1999	Robin Cook	3		1 (Keith Vaz)	1		
July 2001	Jack Straw	1		1 (Peter Hain)	3*		
Oct 2002	Jack Straw	1		1 (Denis MacShane)	3		
July 2003	Jack Straw	2		1 (Denis MacShane)	2*		
Oct 2004	Jack Straw	2		1 (Denis MacShane)	2*		

June 2005	Jack Straw	2	1 (Douglas Alexander)		1	
Nov 2006	Margaret Beckett	2	1 (Geoff Hoon)		1	
Oct 2007	David Miliband	3		1 (Jim Murphy)	1	
Nov 2008	David Miliband	3		1 (Caroline Flint)	1	
June 2009	David Miliband	3	1 (Baroness Kinnock)		1	
July 2009	David Miliband	2	1 (Baroness Kinnock)		1	
Oct 2009	David Miliband	2			1	1 (Chris Bryant)

The table includes only Ministers associated exclusively with the FCO, not Ministers shared between two or more departments.

\*Under these Ministerial line-ups, one or two of the relevant Parliamentary Under-Secretaries were responsible for some European issues which at other times have been part of the portfolio of the main Minister for Europe.

The scope of the "other responsibilities" held by some Europe Ministers has varied widely and was typically significantly greater before 1997 than in the period 1997–2009. Before DFID's creation in 1997, one of the FCO's Ministers of State had overseas development as his or her primary responsibility.

Source: Compiled by the House of Commons Library from successive editions of Cabinet Office, *List of Ministerial Responsibilities*

# Formal Minutes

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## Wednesday 10 March 2010

Members present:

Mike Gapes, in the Chair

Sir Menzies Campbell	Andrew Mackinlay
Mr Fabian Hamilton	Mr Malcolm Moss
Mr David Heathcoat-Amory	Mr Greg Pope
Mr John Horam	Mr Ken Purchase
Mr Eric Illsley	Sir John Stanley
Mr Paul Keetch	Ms Gisela Stuart

Draft Report (*Foreign and Commonwealth Office Annual Report 2008–09*), proposed by the Chair, brought up and read.

*Ordered*, That the Chair's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 17 read and agreed to.

Paragraph 18 read, amended and agreed to.

Paragraphs 19 to 29 read and agreed to.

Paragraph 30 read, amended and agreed to.

Paragraphs 31 to 64 read and agreed to.

Paragraph 65 read, amended and agreed to.

Paragraphs 66 to 91 read and agreed to.

Paragraphs 92 and 93 read, amended and agreed to.

Paragraph 94 read and agreed to.

Paragraphs 95 and 96 read, amended and agreed to.

Paragraphs 97 to 108 read and agreed to.

Paragraph 109 read, amended and agreed to.

Paragraphs 110 to 134 read and agreed to.

Paragraph 135 read, amended and agreed to.

Paragraphs 136 to 142 read and agreed to.

Paragraph 143 read, amended and agreed to.

Paragraphs 144 to 213 read and agreed to.

Paragraph 214 read, amended and agreed to.

Paragraphs 215 to 240 read and agreed to.

A Paragraph—(*Sir John Stanley*)—brought up, read the first and second time, amended and inserted (now paragraph 241).

Paragraphs 241 to 337 read and agreed to (now paragraphs 242 to 338).

Annex agreed to.

*Resolved*, That the Report be the Fifth Report of the Committee to the House.

*Ordered*, That the Chair 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.

Written evidence was ordered to be reported to the House for printing with the Report, together with written evidence reported and ordered to be published on 1 March and 4 November, in the last session of Parliament, and 2 and 16 December and 3 March.

[Adjourned till Wednesday 17 March at 2 pm.]

# Witnesses

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## Wednesday 9 December 2009

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# Oral evidence

## Taken before the Foreign Affairs Committee on Wednesday 9 December 2009

Members present:

Mike Gapes (Chairman)

Sir Menzies Campbell  
Mr Fabian Hamilton  
Mr David Heathcoat-Amory  
Mr John Horam  
Mr Eric Illsley  
Mr Paul Keetch

Andrew Mackinlay  
Mr Malcolm Moss  
Sandra Osborne  
Mr Ken Purchase  
Sir John Stanley  
Ms Gisela Stuart

*Witnesses:* **Sir Peter Ricketts** KCMG, Permanent Under-Secretary, **James Bevan**, Director General Change and Delivery, and **Keith Luck**, Director General Finance, FCO, gave evidence.

**Chairman:** Gentlemen, welcome. Peter, you have been before us many times. We have also known your colleagues, Mr. Luck and Mr. Bevan, in different incarnations. This is obviously the last time in this Parliament that we will have you before us to talk about the annual report, so we may ask you some questions to get an overview of how things are, as well as specific questions.

**Sir Peter Ricketts:** May I thank the Committee for being willing to delay my appearance here to allow me fulfil my Chilcot inquiry obligations over the last couple of weeks?

**Q1 Chairman:** We understood why you had to do that. It is not a problem. I shall begin by asking you about the main purpose of having an FCO annual report. We noticed that there is quite a large number of glossy photos in this year's volume one, and that there isn't an index. We wondered why that is the case. Is it because this is much more orientated to presentational public relations than policy?

**Sir Peter Ricketts:** The primary purpose of the report is to enable Parliament to hold us to account for our stewardship of the Department over the year. That is why we have striven now to publish the report with the accounts together, so that there is a complete report on the work of the Department for the year. It has a secondary purpose, which we have also tried to achieve, which is a wider public explanation of the work of the FCO. Over the years, as you say, it has become a bit more glossy, with the intention of being a bit more accessible. I wrote to you, Mr. Chairman, a few weeks ago, to suggest that in the current economic climate and with pressure on budgets on all sides, it was perhaps time to think again about that and to go back to a rather simpler document that would have the same content to the same standard, and would be serving Parliament's requirement to have the report hold us to account. We could perhaps divert some of the money that goes into this into a better web presentation of the FCO. We print quite a lot of copies of this. I don't get much impression that it makes the impact that we hoped outside Parliament and the FCO.

**Q2 Chairman:** How many hard copies do you produce?

**Sir Peter Ricketts:** I know we spent £50,000 on it, so I think we probably produced several thousand copies.

**Q3 Chairman:** Who is the audience for the hard copies?

**Sir Peter Ricketts:** We have sent copies to all our posts in the world for use in promoting the FCO around the world, and we have used it with other stakeholders in the UK who are interested in the FCO. I am not sure how much impact it has, to be honest, which is why we were proposing to move next year to a simpler version and to put more effort into our website, which does attract a lot of attention.

**Chairman:** Thank you for that. I will bring in Gisela Stuart.

**Q4 Ms Stuart:** Money. The 2007 comprehensive spending review sets out the budgets. In 2007-08, the Government spent £586 billion; the FCO received £2.1 billion of that, and DFID received £5.4 billion. The following year, 2008-09, Government overall expenditure went up by 7% to £620 billion. However, what happens to DFID? It manages to spend £5.2 billion, and the Foreign Office has a cut of 8% down to £1.9 billion. To begin with, would you like to comment on what seems quite a disparity between the spending of DFID and the Foreign Office?

**Sir Peter Ricketts:** I don't recognise the sharpness of the cut in the FCO budget in those figures, and I would need to do some research on that. Essentially, over the past two spending rounds, it has been flat or less than flat in real terms. Our budget, if anything, has been slightly declining in real terms. The Government have a commitment to increase the budget for DFID to 0.7% of GDP, which means that each year it goes up significantly towards 0.7% and there is still some way to go. It is Government policy that DFID's budget should rise pretty sharply, and in the past two spending rounds it has been Government policy that the FCO budget should be slightly below real terms, in cash. That is what we have had to manage with.

**Q5 Ms Stuart:** Can you think of another European country that spends more on its international development than its Foreign Office representation?

**Sir Peter Ricketts:** I can't produce you a country immediately. Each country does it differently. Some countries combine it in one department, some have one department with two separate parts and others, like us, have a separate department. I would need to research exactly how it compares, but I know that this Government have a very clear commitment to the 0.7% target, and you can see that in the DFID figures.

**Q6 Ms Stuart:** This Government also have a clear commitment that international development is not meant to be a tool of foreign policy. Can you think of another country that is prepared to make such a huge financial commitment abroad while avowedly saying that that has nothing to do with foreign policy?

**Sir Peter Ricketts:** I haven't looked at how other countries explain their development policy. I am very familiar, however, with this Government's development policy, which is, as you say, that it should be in a clearly separate Department with a separate Cabinet seat. But the Departments are linked together; I would not want to leave the impression that DFID and the FCO operate in completely separate universes. We are co-operating very closely, although we are separate Departments.

**Q7 Ms Stuart:** But would you say that DFID's rather narrow definition of poverty relief has never caused you any problems?

**Sir Peter Ricketts:** No, I wouldn't, but I would say that, over the past five years, DFID has put a lot more effort and time into the link between development and security, and is working very closely with us, first in Iraq and now in Afghanistan, on that spectrum between development and security.

**Q8 Ms Stuart:** So would I be wrong in saying that, if we were to take another look at the definition of DFID's primary purpose and widen it, that may actually help the Foreign Office in doing its job properly abroad?

**Sir Peter Ricketts:** I don't think it's for me to comment on DFID's purposes. I think that anything that lets DFID and the FCO co-operate more successfully on that spectrum between conflict, security and development is good.

**Q9 Ms Stuart:** Just one more question, which relates to exchange rates. The National Audit Office states that "the Treasury looks to [the] FCO to factor in exchange rate changes as a part of resource allocation decisions." There seems to be a clear assumption that that is something you should do. I wonder, however, given the recent changes, or the recent quite dramatic fall in the value of sterling, whether that assumption is still justified. Also, can you tell us a bit more about what kinds of problems that is causing you practically on the ground?

**Sir Peter Ricketts:** I can certainly tell you the sorts of problems it is causing us. That statement by the Treasury is not one that I feel comfortable with, given the volatility of sterling since the spending-round settlement, which has seen it fall by 25% against many of the major currencies. I think that is a very difficult degree of volatility to handle in a budget such as that of the FCO; it spends more than 50% in foreign currency, and it has one of the smallest budgets in Whitehall. We have, as the NAO report describes, had a significant hit on our capacity to operate abroad. In the first year of the spending round, it was about £60 million; this year it will be around £100 million; and in the next year, we forecast that it will be something like £120 million out of a budget, to run our posts overseas, of £830 million. That is a very significant hit. We have had some partial help from forward purchasing of currency, but, as we have discovered, that is not by any means a panacea.

**Q10 Ms Stuart:** But you've stopped doing that, haven't you?

**Sir Peter Ricketts:** No, we are continuing to do it. The problem is that, if you buy for one year in advance and sterling falls, the purchases you made a year ago are now at a very low level. That is having an impact on our budget. We have to stop a lot of activity this year in order to come within our parliamentary control totals. I think the NAO report describes some of the things we have done. We have stopped whatever programme activity was not committed, stopped most of our training and cut into our travel and our hospitality for posts overseas. Moreover, local staff have not had overtime payments or, in some cases, pay rises, and some are on involuntary unpaid leave or four-day weeks. We have a real problem within the budget at the current levels of sterling.

**Q11 Chairman:** Sir Peter, isn't this absolutely deplorable? Do you expect any amelioration of the situation from the Chancellor later today?

**Sir Peter Ricketts:** I don't know what the Chancellor will announce later today. We are finding it difficult. My obligation, as an accounting officer, is to run the FCO with the money that Parliament gives me. We are having to do what is necessary to do that. We are certainly in discussion with the Treasury about the position in which we find ourselves, and the Foreign Secretary has been in detailed discussion with Treasury Ministers about that. I am not conscious of what will be in the announcement to Parliament later today.

**Chairman:** We'll come on to some of the specifics of this later on.

**Q12 Mr. Purchase:** I'll not be specific, then, but clearly this is a time when Departments really do have to live within their budgets. As the exchange rate phenomenon is making life particularly difficult, can you assure us that you have in place, or are beginning to put in place, plans that would allow you

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to keep the front-line services moving while at the same time achieving those reductions that are necessary to stay within the budget?

**Sir Peter Ricketts:** Yes, I can assure you that we are focusing very hard on that. Because we have had the past two spending round settlements, which require us to reduce our overall administration costs and spending, we are already in the habit of looking very hard at every pound we spend, and doing it as efficiently as possible. We absolutely accept that there is pressure across public spending and that we must be part of that, and we have done a lot in the past few years, as the Committee will have seen from its travels, to make posts more effective, find ways of saving money, sharing services and reducing unnecessary spending. These additional pressures are coming on top of a period of several years during which we have already been making significant efficiency savings, and the scope, therefore, to save the necessary money through efficiency savings is limited. However, it is absolutely the case, Mr. Purchase, that we are seeking to live within our budget, while preserving what the Foreign Office does that is most important.

**Q13 Mr. Purchase:** Is it possible at this stage to tell us whether your preferred philosophy is to take out complete parts that you feel do not offer the best return for our endeavours, or to make salami slices across the service, bit by bit? Do you have a preferred approach to this yet?

**Sir Peter Ricketts:** No, we don't have a clear plan for this, partly because we are still in discussion with the Treasury about the budget for next year, but I think the board and Ministers would be absolutely clear that our primary asset is our global network of embassies and consulates—our capacity to reach every country in the world, either for foreign policy or to help British citizens in terms of consular assistance. That is what we will seek to preserve. That is, I think, our particular asset, and I know that the Foreign Secretary would agree with me that we should seek as far as possible to preserve that global network. We therefore first have to look at our so-called back office—our support functions—for savings, while trying to preserve the embassy network.

**Q14 Sir Menzies Campbell:** Sir Peter, you are not just cutting fat or muscle, you are cutting bone, isn't that right?

**Sir Peter Ricketts:** I think we've got rid of the fat, quite honestly.

**Q15 Sir Menzies Campbell:** In the previous period of austerity to which you referred us a moment or two ago?

**Sir Peter Ricketts:** We have been living on pretty thin rations for at least a couple of spending rounds, and we have, therefore, cut fat and are having to prioritise our activities.

**Q16 Sir Menzies Campbell:** Does that prioritisation take the form of identifying those countries, and perhaps those allies, with whom we wish to be

particularly closely connected, compared to others whose relative importance may be less now than it was, say, five or 10 years ago? Are you having to make decisions about the importance of effort in a particular part of the world, or indeed a particular country?

**Sir Peter Ricketts:** We have indeed been doing that already. As part of the exercise we did a couple of years ago, we have, for example, thinned out diplomats from our embassies in Europe, not because Europe isn't important but because there are other ways of doing the business in Europe, and we have been expanding our embassies in China, India, South Africa, Brazil and in countries such as Afghanistan. So, there is already a shift in that direction. We haven't taken final decisions about next year yet, but I think we will have to continue to take those sorts of considerations into account.

**Q17 Sir Menzies Campbell:** We may go into some more detail about this, but the Committee, as you know, visited the United Nations and then Washington just a few weeks ago, and I think that we were all rather taken aback by the extent to which effort in the Washington embassy was being directly affected by the sorts of considerations that you have just described. How do you make an assessment of the point at which that front-of-house effort is prejudiced, and what flexibility have you to try to retrieve a situation? Let's take the United States as a general illustration. Do you have any flexibility at all to enable you to try to change the conduct of our efforts in the United States?

**Sir Peter Ricketts:** We have a degree of flexibility about the priority that we can give the US network over other parts of FCO work. For example, Ministers could decide that they wanted to devote more of the available money to the US and that money would have to come from somewhere else, which would imply that there would be less money for somewhere else. Therefore, we would have to do that as part of setting the budget for the next year. Those are very difficult choices because, as I said, I think that we have already removed the excess. Therefore a decision to give more money to one part of the overseas network means a decision to take money away from somewhere else. There are no obvious candidates for that. So our flexibility is limited, Sir Menzies, if we are going to accept the current range of responsibilities that the FCO has.

**Q18 Sir Menzies Campbell:** And the final responsibility for that allocation of money and responsibilities presumably rests with Ministers?

**Sir Peter Ricketts:** It rests with the Foreign Secretary, yes.

**Q19 Chairman:** Peter, you referred to discussions with the Treasury about the financial position of the FCO. Do you think that the conclusions will be reached in time for the start of the next financial year, or is it likely that your discussions with the Treasury will take longer than that?

**Sir Peter Ricketts:** I can't answer that, Mr. Chairman. I think that it is possible that the discussions will continue for some time yet.

**Q20 Chairman:** Potentially beyond the next general election?

**Sir Peter Ricketts:** I think we will keep raising the problems that we have; if necessary, we will do so beyond the next general election and into the next spending round.

**Chairman:** Okay. Thank you. Paul Keetch.

**Q21 Mr. Keetch:** My question is on a related subject, which is the financing of the UK's support for international civilian missions. As you know, it is the Foreign Office that is the lead Government Department for this part of our activity overseas. I understand that it is covered by public service agreement 30. Some £556 million is allocated for that work. We hear all the time from the Prime Minister, the Foreign Secretary and the Defence Secretary, and rightly so, that once the war fighting is over, the peacekeeping side—building up the police force and the judiciary—is vital to nation-building. It is clear that that peacekeeping work is something that we need to maintain, in places like the Balkans. If we get it wrong, we see on the streets of our constituencies the results of that failure. In March, the *Financial Times* said that, as a result of cutbacks in international missions, there was “the first sign of the economic crisis eroding the UK's foreign policy clout.” Indeed, the Foreign Secretary also said in March in a written statement that, because of the huge increase in peacekeeping costs and the exchange rate issues that we have already discussed, costs had risen by about 50% in this budget compared to the 2008–09 budget. The Committee saw for itself, when some of us were recently in the Balkans, that we have now withdrawn virtually all of our personnel from Kosovo and from Bosnia and Herzegovina. My question to you is this. I know that there is some support from other UK Government Departments for this civilian mission work—from the Ministry of Defence and, to a degree, from DFID—but the bulk of the cost of providing these police officers and this judicial support comes from your budget. Is it not time that the Home Office and perhaps even the Ministry of Justice also supported our efforts overseas, because if our efforts out there work, and very often they do work, there is a direct decline in the problems that we may face at home as a result of the efforts overseas?

**Sir Peter Ricketts:** Thank you very much, Mr. Keetch. Your factual analysis is absolutely right. We still spend a lot of money—£550 million—on peacekeeping and post-conflict work. A very large amount of that money goes into assessed contributions. We are the fourth largest payer for UN peacekeeping around the world and of course a large amount of our discretionary effort now goes into Afghanistan, where we have 80 civilians in the provincial reconstruction team in Lashkar Gah, which is a very expensive place to have civilians. So we are still spending a lot of money, but it is focused on the UN peacekeeping contributions and our

contributions to Afghanistan. That has meant a lot less money for discretionary spending in other parts of the world, including the Balkans, as you said. The number of British police personnel seconded to UN missions, for example, has gone down quite significantly. The conflict money is a pool provided by the three Departments—FCO, MOD and DFID. I will certainly take away your idea of appealing to the home Departments to consider contributing, given the implications for law and order here.

**Mr. Keetch:** Good luck.

**Sir Peter Ricketts:** I don't guarantee that that will be successful, but I think it's a very fair point.

**Q22 Mr. Keetch:** The point needs to be made that if these missions are successful, and they have been in many places, there is a direct benefit to the home Departments as a result of reduced crime, and I am sure that you will make that point. You mentioned UN peacekeeping operations. As my colleague, Sir Menzies, said, we were in the UN just the other week, and this issue about the UK's contribution to UN missions overseas was made: as you have said, we are the fourth largest contributor. What efforts are we making with other countries in the world that perhaps have slightly better economic situations than our own, and who have aspirations to play a greater role in the UN, to try to persuade them to make a slightly higher financial contribution? We have certainly been given evidence in the past suggesting that some countries almost earn money out of UN peacekeeping operations and that it is part of their national income, whereas we in the UK do our bit on the war-fighting side and the peacekeeping side as well as in the financing. We should do that, because we are a member of the P5, but I would also hope that we are trying to encourage other countries to play a greater role as well.

**Sir Peter Ricketts:** I can assure you we are. We negotiate hard every year over both the levels of the budgets, to make sure they are not unnecessarily high, and the shares between member states, to try to take account of the fact that there are fast-growing economies in the world that could bear some more of the burden than they do. I think that you are right that the growth of UN peacekeeping is not in itself a bad thing. Often, UN peacekeeping forces can do a very good job, but their financial burden on our available money is becoming very serious.

**Q23 Mr. Heathcoat-Amory:** Sir Peter, this country has always run a global foreign policy with a corresponding spread of posts throughout the world. We have heard that your budget is being reduced, even though the aid budget is being increased, and you have outlined some of the staff economies you are having to make. Do you anticipate having to close any posts in the foreseeable future and, if so, how many?

**Sir Peter Ricketts:** As I have said, Mr. Heathcoat-Amory, we regard our global network of posts as the Crown jewels of the FCO. It is what we offer to Government that is unique, as no other Government Department has a global network of missions

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around the world, so we will do everything we can to protect our capacity to operate globally. We have not taken any decisions on post closures. I wouldn't rule it out, because the tightness of the budget we have at the moment means we have to look at every option, but those would need to be discussed with Ministers and then Ministers would have to present those to Parliament. We have not taken any decisions on that up to now.

**Q24 Mr. Heathcoat-Amory:** But a responsible organisation must be planning. You know the budgetary pressures and have described them. Do you not know the posts that you might be shutting, or do you know them and are not telling us?

**Sir Peter Ricketts:** We don't know them. We have not done an exercise on which posts we might need to close. The board is still in the middle of preparing budgets for next year and we do not have a list of posts. I am very conscious, of course, that staff in posts would be the first to be affected by any such decisions, so we would want to be very sure that we had developed the right list and communicated it to staff. There is no secret list of posts to close. We will look at that, among other ways of saving money, over the next month or two.

**Q25 Mr. Heathcoat-Amory:** Another pressure you are now under is the establishment of the external action service under the Lisbon treaty. Planning on that has been going on for many months and it is now in place. That, we know, will include secondments from national diplomatic services. Do you know the number of staff that you will be transferring to the new European foreign policy body and, if so, how will this impact on your diplomatic staffing overseas representing this country?

**Sir Peter Ricketts:** I do not think it will have an immediate or particularly heavy impact on that. My own view of the external action service is that it will be fairly gradual in its implementation, in the sense that from the start, when Baroness Ashton presents her proposal and it is decided, what will exist will be the existing network of Commission delegations around the world, which is there anyway—130 countries have Commission delegations. They will change their name and some of their functions to be responsible to Baroness Ashton and the new external action service. That will not immediately create a whole lot of openings for member state diplomats. I think the posting of member state diplomats will be a gradual process. To answer your question, I think by the time the external action service is fully up and running in a couple of years, we would expect to have something in the order of 25 British diplomats as part of it—not all necessarily diplomats, but British officials, some from the Foreign Office and some perhaps from other Departments. Against the scale of the Department and other Departments in Whitehall with international interests, I do not think it will be a major diversion. Indeed, it will be a good and interesting secondment opportunity for a small number of our staff.

**Q26 Mr. Heathcoat-Amory:** I remember when the Committee went to South Korea, we met a clearly able British ambassador, but we were told out there that there was a noticeable lack of diplomatic thrust. That was exemplified, for instance, by the call from the United States President to congratulate the newly elected South Korean President, but there was complete silence from the Foreign Office. Are you confident that we will be able to maintain our global reach in quality and quantity and number of posts, with the combination of the external action service and the budgetary pressures that you are now under?

**Sir Peter Ricketts:** I think the budgetary pressures are far more serious in that than the external action service. I think they put a question mark over whether we can maintain the number of people we have abroad. Irrespective of the number of posts, there will be an issue about the size of posts, and there will have to be further reductions in the size of posts. I do not see the external action service as adding greatly to that pressure. I think it is doing a complementary job, and the number of people from the UK who will need to be involved in the first two or three years is not that great.

**Q27 Mr. Horam:** Sir Peter, you said in response to a question from Sir Menzies that you are switching resources from Europe to other parts of the world. I obviously understand the reasons for that—other parts of the world are becoming more important, and you have this resources problem. When we were in Stockholm and Tallinn earlier this year, they explained the new Nordic-Baltic network. Is that done for financial reasons, and how does that save money?

**Sir Peter Ricketts:** Perhaps I will ask Mr. Bevan to respond. My immediate answer is that it was done, as much as anything else, to look for efficient ways of operating in the world with a smaller number of people, so saving money is part of it, but it is not the only answer.

**James Bevan:** That's right, and that model of what they call a distributed network, where all the ambassadors in a particular region collectively agree on policies and collectively seek to implement them, is being mirrored in other parts of world now.

**Q28 Mr. Horam:** Where else are you doing it?

**James Bevan:** We are encouraging individual regions to decide for themselves whether it works. In the Middle East, for example, we are seeing take-up equally—

**Q29 Mr. Horam:** Where in the Middle East?

**James Bevan:** I can't give you the particular countries right now, but I shall be happy to supply that to the Committee later.<sup>1</sup>

**Q30 Mr. Horam:** I should be interested to know that, and just where you are, because it fits in with what David Heathcoat-Amory was saying about where exactly the pinch is coming.

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<sup>1</sup> Ev 95

**James Bevan:** In addition to that, we are rolling out and experimenting with other, alternative ways of being effectively represented—laptop diplomats, one man in an hotel room with a mobile. Some of our smaller missions that are not in capital cities are headed now by locally engaged staff rather than British diplomats, and there are roving ambassadors who move out from London.

**Q31 Mr. Horam:** What is a roving ambassador?

**James Bevan:** Someone—for example, a special envoy—who would be sent from the UK to deal with a particular country or a particular issue, but who would not be permanently based in the country concerned. As the Permanent Secretary says, much of that is driven by a wish to do better, but increasingly it is also being driven by a wish to cost less.

**Q32 Mr. Horam:** A point on this—they would say this, wouldn't they?—is that some European staff in various capitals say that it is all very well to cut back on Europe because you want to expand elsewhere and because of resource restraints, but the truth is that with a European Union of 27, it is that much more difficult because you must do more networking to get agreement among 27 than with, say, eight or nine 15 or 20 years ago. Actually, there is more work involved of the ambassadorial networking kind than before, and it is argued that we should make do with less. Do you take that point?

**Sir Peter Ricketts:** Mr. Horam, you are describing the problem of trying to prioritise the work of the Foreign Office against the demands and the opportunities that are there throughout the world. Yes, if resources were less of a constraint I would want to have larger embassies in Europe because a lot of important work can be done there. If we have to go for reductions in the resources in Europe I would make sure we had an ambassador in each place so that we could do the networking, and I would look at reducing the support services to them by finding ways of doing that on a regional basis or by reducing other things. But to keep an ambassador there who can go and lobby for Britain—absolutely.

**Q33 Mr. Horam:** A final question on this resources issue. You have the overseas price mechanism which was set in place by the Treasury to deal with the exchange rate fluctuations.

**Sir Peter Ricketts:** Indeed.

**Q34 Mr. Horam:** You suffered from this because sterling was high until 2007 so you paid the money back to the Treasury. At the point when you began to lose out, the Treasury cancelled the overseas price mechanism. Don't you think that was extraordinarily brutal, even by Treasury standards?

**Sir Peter Ricketts:** To be fair to my Treasury colleagues, it happened before sterling fell.

**Q35 Mr. Horam:** So they did not know.

**Sir Peter Ricketts:** I think, probably, it was not done knowing that sterling was going to fall six months later.

**Q36 Mr. Horam:** An educated guess would be that if it rises it tends to fall afterwards.

**Sir Peter Ricketts:** It was certainly removed at the end of a long period where sterling had been strong and six months later sterling fell sharply.

**Q37 Mr. Horam:** But you have lost out both ways?

**Sir Peter Ricketts:** We have lost out both ways.

**Q38 Sir Menzies Campbell:** You are describing a period of great uncertainty, Sir Peter. We know that the people you employ are smart people. They will have made certain judgments themselves about the possible consequences. I understand the sensitivity of discussing some of these issues, but is there any evidence of an impact on the performance or morale of Foreign Office staff as a result of the uncertainty you have described?

**Sir Peter Ricketts:** First of all, Sir Ming, maybe I can take the opportunity to pay tribute to our staff. We are operating in a time of real uncertainty, as well as a time of enormous foreign policy pressure. We now have the Afghanistan conference to organise in London in six weeks' time and many, many other foreign policy priorities. I think the organisation has responded extremely well to the sort of pressures it is under. The Committee travels and you meet the staff and you will have your own impression. My impression is that people understand that we have to make our contribution to the need to reduce public spending. I think people are worried about the uncertainties. We have just completed a staff survey this year and Mr. Bevan can perhaps give you a couple of the headlines from that. I'm very proud of the way that the organisation is responding to these really difficult pressures.

**Q39 Sir Menzies Campbell:** For my own part and, I am sure, on behalf of the Committee, I would echo your judgment about the quality of people and their dedication. If one's future appears to be the subject of some general speculation, it takes a very remarkable person not to be affected in some measure. I should be very interested to hear what Mr. Bevan has to say.

**James Bevan:** We have just done a staff survey of all our staff, both at home and abroad, and we do it every year. It shows that morale has taken a dip. We discussed the reasons for that but the key indicators are what are called the engagement scores, which define how proud or committed people are to work for an organisation. Our engagement scores went down compared with last year. So, asked, "Are you proud to work for the Foreign Office?", 79% of our staff still say they are, which is good, but it went down 5% compared with what it was last year. Asked whether they would recommend the Foreign Office as a great place to work, it went down 7%, compared with last year, to 63%. So there are metrics that show there is a dip in morale. That said, I think it was a lower drop than many of us expected, given the stresses on the organisation, but the numbers are still very high in terms of commitment. So the score for pride in working for the organisation, which is 79%,

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is more than double what you get in some other Government Departments. So that tells me that we have an organisation that is experiencing pain; it is stressed, but it is still very resilient and very committed to doing the job.

**Q40 Sir Menzies Campbell:** And recruitment, just to finish?

**James Bevan:** Recruitment remains good. We have no problem attracting people. The survey also showed that despite these difficulties, the vast majority of our staff want to carry on working for us.

**Chairman:** We do have some questions that we would like to put on the staffing issue, but rather than jumping in now I would rather we carried on where we were.

**Q41 Sandra Osborne:** Apart of the effect on staff morale of all these cutbacks and efficiencies, there must be an impact on the actual service and our standing as a country in terms of our foreign policy. How would you say that has been affected?

**Sir Peter Ricketts:** I do not think that there has been that impact. I think the reductions and cutbacks this year have not stopped our diplomats around the world doing the key jobs that they should be doing. It has not stopped our consular people being able to offer their support to British citizens, so I do not think, as yet, it has had an impact on our effectiveness as an organisation. If they continue, I am sure that it will.

**Q42 Sandra Osborne:** There is a current inquiry into US-UK relations. It has been clear from several witnesses that they would regard any further cutbacks—for example, in the US—as having a major impact on relations in that regard. Would you agree with that?

**Sir Peter Ricketts:** I think the more we cut back, the more there will be an impact. Yes, I accept that. But I do not believe there is evidence that what we have had to do so far this year has had a significant impact, and I think that is again a tribute to the way staff have responded to these pressures and kept up the key work, and made sure that has not fallen off.

**Q43 Mr. Illsley:** Just coming back to your Treasury colleagues' priorities, as you mentioned to my colleague, John Horam, the implication of the paper that the Committee has received from the National Audit Office is that the Treasury thinks that the Foreign Office should decide where to allocate its resources partly by assessing where the exchange rate risk may be lower. Would you say that that is the case?

**Sir Peter Ricketts:** That may be their view. I find that quite hard to turn into operational effect.

**Q44 Mr. Illsley:** Are you of the opinion that you are going to have to look at areas where the risk is low rather than where your priorities lie, or are you still going to try and attempt to meet the priorities?

**Sir Peter Ricketts:** The second of those. I am quite sure the Foreign Secretary, with our advice, will want to put his resources where he thinks the priorities are. The exchange rate movements are something we have to take into account. I do not think you can allow foreign exchange to drive foreign policy.

**Q45 Mr. Illsley:** You have mentioned already that you are in negotiations with the Treasury, and I think you hinted that those negotiations could go on for some considerable time. Are you alone in this or are you in negotiations with the Treasury and other Departments that have a non-sterling spend? Is there a group discussion on this, or is each Department being treated individually?

**Sir Peter Ricketts:** There is a group discussion on some aspects. I think the Foreign and Commonwealth Office budget is probably particularly badly hit by the fall in sterling because we have got the largest exposure. We have more than 50% of our budget in foreign currency. Other Departments—DFID—tend to make their programme allocations in sterling, so they are less affected. The Ministry of Defence is affected, but it obviously has a much bigger budget and its exposure is mainly to dollars. So I think we are particularly affected by the overseas price movement issue, but we are working together with DFID and the MOD, for example, to be as effective as we can in our support services abroad. We are also working with the British Council on that. The international Departments are working together to try to be as efficient as possible abroad. I think the particular sterling weakness issue impacts us more.

**Q46 Mr. Illsley:** Is there any scope for involvement of the Departments in the charges that you allow before the use of overseas posts by perhaps passing some of the increased cost on to those Departments?

**Sir Peter Ricketts:** That is also an area we have been doing a lot of work on. Mr. Luck might want to comment on that.

**Keith Luck:** Indeed, we do try to pass some of these costs on to other Departments. Excluding the UK Border Agency, we have recovered some £37 million from other Government Departments that sit on our platform. But actually they are under the same sort of financial pressures and are finding it difficult to find additional resources to cover the exchange rate losses and the impact of the loss of the OPM that we are suffering as well.

**Sir Peter Ricketts:** Other Departments find us expensive as a place to operate from, because they have to pay their share of security costs and other costs. Equally, we believe that the embassy is the best place normally to have all the different parts of HMG's operations overseas, and so we have a lively discussion with Departments about sharing the costs. We are expected to apply the Treasury's full economic cost formula, which other Departments tend to find is very expensive, although it does reflect the genuine costs that we have. It is an ongoing debate.

**Q47 Mr. Illsley:** One of the suggestions from the NAO paper is that security costs could be one of the areas that are a risk, so the idea that other Departments should pay extra in that respect is not unreasonable.

**Sir Peter Ricketts:** Well, no, exactly. The security of our staff has to come first, and that is expensive. Threats in many countries have risen, so that has to be factored in.

**Q48 Chairman:** May I ask about your financial management? The proportion of your finance staff with professional qualifications is expected to increase, but it is going up to only 17% by the end of this year, against a Whitehall average of 14%. You contracted an outside company to provide advice on exchange rate management options. Why did you do that? Was it because you felt that you lacked the necessary expertise or was it for other reasons?

**Sir Peter Ricketts:** I will ask Mr. Luck to comment on our financial management issues more generally, on which we've recently been examined by the Public Accounts Committee as well. The reason for taking professional advice on foreign exchange is that we want to be very, very careful in using public money and making forward purchases of foreign currency. We have all along approached this in a very cautious way. We do not want to find ourselves in front of the Committee being asked about speculation or having made poor decisions on these very important things. We actually pay a relatively small amount to a professional company to make absolutely sure that we have professional advice on forward purchasing, which involves big sums. I don't know whether Mr. Luck wants to add anything.

**Keith Luck:** To add to that, I'm pleased that you've noticed the increase in the number of people training as accountants in the organisation and in broader financial management. But Treasury Management skills are a particular specialism, and we didn't have that in the organisation, so we have asked an external organisation to work with us. The NAO report described the various proposals that we put to the Treasury and the mechanism for mitigating the loss of the overseas price movements mechanism. Actually, that organisation's contract with us is now tiny. It consists of making sure that our Treasury Management policy documents are up to date, that we are complying and that our people have somebody they can go to—the two or three individuals who work on this area—if they need particular advice at a particular time. But the contract is quite tiny now.

**Q49 Chairman:** In previous years, there was a tendency sometimes to underspend at the end of the financial year. Recently, however, you seem to have dealt with that problem. Is that because of the major financial pressures that you are under, which mean that you can't underspend because you can't even provide enough resources for what you've got to do?

**Sir Peter Ricketts:** I think there are two things at work, Mr. Chairman. One is that we have better financial management information—definitely. One of the reasons why we were traditionally an

underspending Department was that we didn't have good, effective financial management numbers, so everyone tended to play safe and underspend a bit to avoid the worse crime of overspending. The culmination of that was that we underspent every year. A combination of improved financial data, which allow us to take decisions in year—if one part of the organisation is underspending, we can see that and move money to another part—and, on top of that, the huge pressures that we have talked about has cured the problem of our being an underspending Department. Last year, we just came in more or less on a full spend. This year, we are struggling.

**Q50 Chairman:** The House of Commons scrutiny unit suggests that your underspend in 2008-09 will be about £69 million or just over 3%, compared with 6% the previous year. Does that mean that you might run out of money in February next year?

**Sir Peter Ricketts:** Of that 3%, a very large part is annually managed expenditure, which Mr. Luck can explain better than me. It relates to things such as dilapidations on our buildings—it is not our cash, core budget. On our core budget, we came within a whisker of a full spend, so that shows, partly, the pressure that the organisation is under. We will do our level best to come up with a full spend this year as well. However, that 3% underspend was largely money that we were not able to control, I think it's fair to say.

**Keith Luck:** It is. I've very little to add to that, Mr. Chairman. In fact, that 3% includes things like the revaluation of some of our assets and losses or gains on the disposal of those assets. It is not really items within the budget that the board, management and Ministers can control. It is Annually Managed.

**Q51 Andrew Mackinlay:** It seems to me that there are others who will perhaps listen to our deliberations this morning. I do not think that you and your colleagues have amplified the problem you have with subscriptions to big organisations such as the United Nations. You are simply not the masters of those and they are not even in line with inflation, regardless of moves on sterling. There are simply higher subs that you have to meet. Can I invite you to place on the record your position on that?

**Sir Peter Ricketts:** Thank you, Mr. Mackinlay. We do face upward pressures, particularly on our UN and NATO budget subscriptions, which go up by more than inflation. The UN subscription is payable in dollars, so that brings a heavier load on us. We have an agreement with the Treasury to share the cost, with 60% from the Treasury and 40% from the FCO above a certain baseline. There is therefore cost-sharing with the Treasury. None the less, the inexorable rise of UN subscriptions puts further pressure on our budget. There is little we can do about it. We participate as one of around 191 countries in the annual UN budget negotiations. I am sure that we weigh heavily in those discussions, but in the end it is a consensus decision.

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**Q52 Andrew Mackinlay:** It wouldn't just be the UN. You do not have to list them, but it includes the Organisation for Security and Co-operation in Europe and presumably NATO.

**Sir Peter Ricketts:** There is a NATO budget element.  
**Andrew Mackinlay:** There are probably things I have never heard of.

**Sir Peter Ricketts:** The Commonwealth.

**Andrew Mackinlay:** The Council of Europe. It goes on. In a sense, we need to understand that and the public need to understand it.

**Q53 Ms Stuart:** Buildings. In 2008-09, the FCO generated £61.5 million by selling land and buildings. Almost £40 million came from the sale of the embassy in Madrid. Given that times are hard and, as Ming Campbell said, we are cutting into the bone rather than just dealing with the fat, can this Committee have the same assurance that you gave the National Audit Office that you will not contemplate the sale of any premises in order to save money, but that such decisions will be based on the needs of our foreign representation?

**Sir Peter Ricketts:** I can certainly give you the assurance that anything we do will be justified and make sense on its merits. I certainly don't foresee us selling major iconic British buildings in major capitals, which are so useful to us in projecting Britain. However, there will always be opportunities to sell buildings that are underused, obsolete or extremely valuable when compared with the benefit they bring us. We will look to sell more of those in line with the Government's policy on greater asset disposals. That will help give us money to put into, for example, health and safety works, security works and modernising our buildings around the world. As far as possible, we would like to move towards buildings that are more flexible, that can be adapted more easily to changing needs and the changing requirements of other Departments, and that move away from the rather inflexible buildings we have. You mentioned Madrid. I happened to be there last Friday. We sold a rather old and tired building in the centre of town just before property prices declined sharply. We have provided the embassy now in the top floors of a fantastic, modern office tower in a wonderful position. The lift in staff morale and effectiveness is tangible. People are really happy to be in open-plan, modern office accommodation. That shows what can be done by careful asset disposal and re-providing.

**Q54 Ms Stuart:** But in terms of the overall strategy, can you say a little bit more? I fully accept that some buildings become inappropriate to use and incredibly expensive. The Public Accounts Committee commended you for a policy of hiring out premises in Italy for functions and so on. How much are you thinking about using embassy buildings for non-embassy purposes in order to raise revenue?

**Sir Peter Ricketts:** We do that a lot. A lot of ambassadors hire out their residences or the entertaining space in their embassies for British companies doing product launches or promotions.

We charge them for it, so we do get some revenue. It will never be more than quite a small proportion of what it cost to run these buildings, but we will maximise our revenues from that. We will certainly make sure that the buildings are used to full extent for promoting Britain. Where we identify the buildings that we have been talking about, where we can make a sale and use money for higher priorities, we will do so. In the current climate and in line with the Government's policy on asset disposal, we will be doing more of that, but we shall obviously keep the Committee closely informed.

**Q55 Ms Stuart:** I have a very specific question on Moscow. If you want to give a written answer, that is fine. I gather that the work has been completed, but that the main contractor is now fighting bankruptcy. What is the final position on how much that is costing us?

**Sir Peter Ricketts:** That is roughly the position. This is the renovation of the residence in Moscow. An historic 19th-century building is being completely renovated. I think that the ambassador is moving back in shortly. A Turkish company has been doing the works on it. It has now completed but, as you say, it has gone into liquidation since then.

**Q56 Ms Stuart:** What is the final bill for that work?  
**James Bevan:** It is about £13 million, but we can write to the Committee as soon as we can provide the figures.

**Q57 Ms Stuart:** About £13 million—against a £10.6 million estimate?

**Sir Peter Ricketts:** There has been an increase in the cost and that is partly because when we began to restore the old building, we found that more work was needed than was originally anticipated. But let us send the Committee a note on that.<sup>2</sup>

**Q58 Mr. Purchase:** On the question of the sale of property to bring you new resources, what arrangements are there with the Treasury for the use of those funds that come from a sale producing capital? Are you just allowed to use the capital without further reference to the Treasury, or is there some arrangement whereby you have to get agreement for how you might use that funding? Is there any pressure now to pay the whole of the sale proceeds into the Treasury?

**Sir Peter Ricketts:** No, there is not. The Treasury accepts that, when we sell assets, we can recycle the money for our own uses—up to a certain ceiling, which is a relatively high ceiling.

**Q59 Mr. Purchase:** Can you recall what it is?

**Sir Peter Ricketts:** It has recently increased, I think.  
**Keith Luck:** The target set for the current spending review period is £50 million. We have actually exceeded that already. The idea is that, every time it is more than 20% of the original target, we go back

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to the Treasury. As Sir Peter has said, there has been no problem in being allowed to recycle those extra proceeds, but it goes up by 20%, in effect.

**Q60 Mr. Purchase:** From time to time, the Government arrange for the sale of unwanted and unused assets to assist the national picture. Are you in some way, other than for this cap, exempt from that?

**Sir Peter Ricketts:** I think that the Treasury recognises that, given our budget pressures, if we can help to meet some of them by selling some assets, it will allow us to do that. If we sold an enormously valuable asset, I am sure that we would then have to have a discussion with it about what proportion we kept and what proportion went back to the Exchequer. At the sort of levels we are talking about, it accepts that it recycles to us.

**Chairman:** We now move to some staffing questions.

**Q61 Andrew Mackinlay:** We have all been slightly embarrassed. We are politicians who vote this money and expect it to work the diplomatic equivalent of the miracle of the loaves and the fishes. That is what is happening. We should acknowledge that we MPs vote for this money or the type of resources. Earlier this morning, we touched on the locally engaged staff and you indicated to us—we were aware of it; it is really embarrassing—that we have even had to ask some staff to take unpaid leave to square the books. That is a real embarrassment to us. Flowing from that, it begs the question whether it would be tolerable in any comparable situation in the United Kingdom. I put it to you in the sense that it would not. At the very least, there would be one hell of a row with the trade unions, and possibly industrial action. Yet local staff are, if you like, taking the burden of our foreign policy, our desire to project. Putting it simply, it seems unfair. The question that flows from that is about rights. I do not mean only the rights of those the people who are hit by the need to take unpaid leave and so on, but rights generally. The domestic industrial relations law would obviously apply, but presumably we have our UK standards. There are two questions. The first is the economic one. The second is about rights, and about representation and protection for staff around the world. They should be entitled to UK industrial relations norms, grievance procedures, rights of appeal, representation and so on. Discuss.

**Sir Peter Ricketts:** First, I share your uncomfortable feeling at some of the measures that have had to be taken. I accept that absolutely. The factual position is that when we employ local staff, we employ them under the local labour law of the different countries of the world. That varies, of course. What would be possible and perhaps appropriate in one country would not be the same in other countries. For instance, the four-day working week in the US network is under US labour law. I gather it is something that has happened quite widely in the US economy over the last year or two. In other parts of the world, people are taking other steps. I do not think that we can operate on the principle that our staff around the world are all employed under British

labour law. What we must provide is appropriate protection for staff in each of the countries where they are employed. For example, in the US and I think in most other countries, there is an active local staff association in the embassy, which provides representation for the local staff, has full access to the ambassador and the management team in the embassy, and which works with the embassy management board. They are part of the running of the embassy, and involved in decisions on resource allocation around the US network. That is the norm now around the world, and we would certainly want to fully involve our local staff in decisions about allocation of resources. There are different ways in which we can provide for proper staff representation, but it is important that we do so. Again, I admire the loyalty and commitment shown by our local staff through these very difficult times. I want to get to a position as soon as I can where posts have certainty about their budgets in local currency for the year ahead, so that they are in a sense protected from movements of sterling during that year. Then post management, in consultation with local staff, can plan the year.

**Q62 Andrew Mackinlay:** Thank you for that. I understand that the United States has good industrial relations law, although it may be different from ours; our colleagues there also have critical mass. In some of the more obscure parts of the world we have fewer locally engaged staff because they are smaller missions. Will you consider finding ways, at minimal cost but nevertheless maximum effectiveness, of giving those people some protection? I am not talking about cutbacks but simply good grievance procedures, discipline and so on. It seems to me that it is very difficult to give them what they are entitled to in terms of natural justice. How is it done? Can it be improved?

**Sir Peter Ricketts:** Mr. Bevan, will you answer this very important point?

**James Bevan:** In addition to the basic provisions that we are obliged to provide under domestic legislation where we are, we also try, as the permanent secretary says, to ensure that local staff associations are encouraged and supported; that they flourish and are given time and support to form and operate. We make sure that our ambassadors and senior UK management know that it is part of their job to consult the local staff on any issues, including those that affect their terms and conditions. Beyond that, in addition to the monetary offer, we try to offer a better package than some local employers. As for the job itself—the challenge and the reward—we have been much more innovative in the last few years. We are now promoting people from local staff into some really challenging senior jobs. On investment in learning and development for local staff, we invest far more in our staff generally than a private sector company does. We have increased the amount of investment in training and development for local staff, including bringing some of them back if necessary. At its most basic level, we are creating an environment in which local staff are treated with dignity and respect and get the recognition and

reward. Many local staff say to me when I travel around the world, “I am not working for you for the money, but because it is a great job, I am treated well, and I feel that the overall package is a good one.”

**Sir Peter Ricketts:** If things go wrong, we would certainly want our local staff to have access to all the opportunities of whistleblowing and raising complaints at any level necessary.

**Q63 Sir John Stanley:** Sir Peter, it is clear that the Foreign Office is now hugely dependent on its locally engaged staff. An answer that the Foreign Secretary gave our Chairman showed that over half of the Foreign Office staff—10,000 out of some 16,000—are locally engaged. It is also becoming clear that in some countries, the governing regime is using bullying, intimidation, threats and worse against our locally engaged staff as a means of exerting pressure—coercion—on the British Government. Having seen this tactic being used blatantly in Russia, why, when the same tactic was employed by the Iranian regime, were no steps taken by the Foreign Office to confer diplomatic immunity under article 38(1) of the convention on our locally engaged staff in Tehran?

**Sir Peter Ricketts:** I would need to respond in writing to the detail of that. Our local staff in Tehran have behaved magnificently under the unacceptable pressure that they have been put under. As you know, one member of staff has been sentenced to four years in jail for doing what we regard as normal activities. Others have been prevented from returning to work and have been subject to what you rightly described as bullying and harassment. May I write to you on the specific issue of the application of the Vienna convention, because I am not informed about that? But I think that it has shown that in one or two countries, there is a particular problem. I don't think that that invalidates our approach of relying significantly on local staff in many countries around the world. I mentioned my visit to Madrid last week. Some 80% of the staff working for us in Spain are local staff. There are some British staff of course, as well as many Spanish staff, and they do a fantastic job. In many countries of the world, that model works well. But problems that we have had in the two countries you referred to show that there are limitations.

**Q64 Sir John Stanley:** Whilst we will of course be very glad to have your response to my question in writing, I am, if I may say so, somewhat disappointed that you cannot respond to my question, given the fact that I posed that very question in the debate we had in the House of Commons on Iran on 9 July, and given that the issue was followed up in the letter on 22 July that I received from the Minister of State. I am disappointed that you cannot offer the Committee any response as to why, given the experience the Foreign Office has had in Russia, no steps were taken, as is permissible under Foreign Office rules—it is a power given to the head of post—to try to provide protection through diplomatic immunity to our staff in Tehran. I also want to say that I am

disappointed that you cannot respond to the Committee, given the very clear statement made by the Minister of State in his letter to me, in which he said: “I must emphasise that I am confident that none of the locally engaged members of staff who were recently detained in Iran have engaged in any illegal or improper behaviour.” So here we have a case where our locally engaged staff, in Foreign Office Ministers' views—those words would not have been written lightly—are 100% innocent of any impropriety or illegal behaviour. Yet you cannot give an answer to my question as to why steps were not taken in the light of what happened in Russia to give some of our locally engaged staff the diplomatic immunity that could have been sought for them under article 38.1 of the convention.

**Sir Peter Ricketts:** I apologise for my inability to respond in detail to that. I do not want to mislead the Committee by giving it an answer that is not properly prepared. I absolutely endorse the words in the letter from the Minister of State that we are entirely confident that our local staff behaved properly. That is why we have been urging the Iranians throughout this period—and we continue to do so—to accept that they did nothing wrong, to pardon Mr. Hossein Rassam, who is facing a prison sentence, and to allow the others to return to work in the embassy. I would like to come back to you in writing on the specific point about the application of the Vienna convention.<sup>3</sup>

**Q65 Sir John Stanley:** Could you respond to a more general question, which I would suggest is now the key policy issue for the Foreign Office? Given our experiences in Russia and in Iran, what is Foreign Office policy to try to provide, under the convention, a greater measure of diplomatic immunity to others of our locally engaged staff round the world who may face the sort of treatment that our staff have experienced in Russia and Iran?

**Sir Peter Ricketts:** I don't have evidence that pressures have been applied to our local staff of the kind that have happened in Russia and Iran—most particularly in Iran.

**Q66 Sir John Stanley:** Do you rule it out in China?

**Sir Peter Ricketts:** I can never rule anything out.

**Q67 Sir John Stanley:** Should we be thinking about China or other such countries?

**Sir Peter Ricketts:** Always ready to reconsider.

**Q68 Sir John Stanley:** Zimbabwe?

**Sir Peter Ricketts:** In Zimbabwe, which I visited recently, there was a strong, vigorous presence of local staff in the embassy, who I did not sense felt under any particular threat from the regime. Of course it is possible. In countries such as China, we have a large, local staff community who do excellent work for us, not just in Beijing but around China. I would like to be clear about the possibility of taking the steps that you have described, without the agreement of the receiving state under the Vienna

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convention, which I suspect would play a part in decisions about what to do regarding immunity. On the legal position, I need to do further research and write to you. I recognise the risk that you raise, but in my experience, I don't think that we have found it a problem, apart from the specific case of Iran, and to some extent Russia. However, in Russia, there has been as much pressure applied to our UK-based staff as there has been to locally engaged staff.

**Q69 Sir John Stanley:** In your letter, will you indicate whether you are thinking ahead and trying to anticipate locally engaged staff elsewhere being exposed to such risks?

**Sir Peter Ricketts:** Certainly I will.

**Q70 Mr. Hamilton:** Sir Peter, may I carry on with the theme of our staff? I echo the remarks that you made earlier about the excellence of Foreign Office staff, and the pressures that they are under given the current financial climate. I have one or two questions relating to points that you made earlier about recruitment. Has the recruitment of staff of graduate level coming into the service been affected by the financial crisis and the squeeze on your budgets?

**Sir Peter Ricketts:** In terms of quality of staff, no.

**Q71 Mr. Hamilton:** And numbers of applicants?

**Sir Peter Ricketts:** Actually, in the last year in which we were recruiting, last summer/autumn, we took in almost a record number of graduate-level entry staff—what we call our C band staff. We took in over 40 people, which is more than we usually take, because we find that there is an increasing demand in the FCO for staff of that level. We are taking fewer staff at lower levels, and for the next year or two, we will need to look carefully at how many we take in the light of budget pressures. Until now, we have continued to recruit our graduate-level entry staff at an even faster rate than we have in the past.

**Q72 Mr. Hamilton:** That is encouraging. To continue with the excellence and quality of staff that you normally have, you need to have a flow-in from the starting point.

**Sir Peter Ricketts:** Absolutely. We must not have a gap in our human capital for the future. I agree with that.

**Q73 Mr. Hamilton:** May I move on to promotion and career prospects within the Foreign Office? Do you see the budgetary constraints forcing people perhaps not to be promoted and there being fewer posts that they can apply for and a general slow-down for people in the possibilities for promotion within the service? Would that, in turn, lead to some of your brilliant staff looking—we touched on this earlier—for careers outside the Foreign Office if they become frustrated because they cannot see their careers develop within the Foreign and Commonwealth Office?

**Sir Peter Ricketts:** I have a number of reflections on that, and my colleagues may have as well. I think that over time the FCO will get a bit smaller, given the budgetary pressures. That will be true of other

Departments as well. I saw the Prime Minister's speech on Monday talking about reductions in the size of the senior civil service across the civil service. But, in comparison with other Departments, we shall go on having more senior staff than most, because we have this range of ambassador posts. Some of the ambassador posts have come down in their level of seniority, but none the less we have a large number of senior civil service posts because of our ambassadorial spread. So, the career prospects for staff joining us now are very good. I think that they will go on being very good. The shape of the organisation will change over time and we are finding that we need fewer operational level entry staff—what we call our B band staff—because of the sorts of jobs that they were doing around the world, some have been localised and the UK Border Agency is doing the work in different ways. The shape of the organisation will change, but the career prospects for bright graduates joining us now are still very good. We will still need a broad spread of ambassadors and senior officials well into the future.

**Q74 Mr. Hamilton:** You mentioned the numbers of graduates that are coming in at entry level and that the quality is still very good. Are you increasing the diversity of people coming in, from all backgrounds within the United Kingdom? Is that continuing?

**Sir Peter Ricketts:** Absolutely, we are. Mr. Bevan, do you want to say a word about that?

**James Bevan:** Yes, but not as much as we would like. If you look at the figures over the past 20 years, there is a significant increase in terms of women and ethnic minorities coming in. We still do not attract as many applicants from those currently under-represented minorities as we would like. We make very active efforts to go out and find people to recruit at graduate level. We also look at the talent pools elsewhere in Whitehall, and more widely. We opened our senior management structure to external competition a couple of years ago, so we have another opportunity to bring in fresh talent that way. But we are not satisfied where we are and will keep going aggressively.

**Q75 Mr. Hamilton:** That is really good news. May I just continue from the theme that Sir John started and developed so well, and express my own concern about the pressures on some of our locally engaged staff? Obviously, I am not going to repeat what Sir John said about Tehran, but I certainly agree with every word he said. When we were in Israel and the Occupied Territories earlier this year, we were with Richard Makepeace, our consul-general in East Jerusalem, and met some of the locally engaged staff. It is a slightly different pressure on them—no pressure from the authorities in terms of what they do or in the possibility of arrest or pressure through those staff on the British Government. But their inability to travel from where they live to where they work was having a huge impact, so we were told, on the work that they could do in the consulate-general in East Jerusalem. Is there anything that you can do from London to put pressure on the Israeli Government to allow those locally engaged staff to

get quickly to their place of work without harassment, so that they can carry on doing the excellent job that they do for the Foreign and Commonwealth Office and for our important diplomacy overseas in the Middle East?

**Sir Peter Ricketts:** I think you signal an important issue, which applies of course to Palestinians more widely, and our local staff are caught up in the wider restrictions that Palestinians are under in terms of access to East Jerusalem and, indeed, from one part of the West Bank to another. I do not know if we have specifically pressed the Israelis to allow for improved access because they are local staff members working for the consulate. I can certainly make inquiries to see whether we have done so or whether there is the possibility of doing so, but I think we are equally concerned about the restrictions that apply to Palestinians generally in their access to East Jerusalem. This is a part of that wider problem.

**Q76 Mr. Hamilton:** We would agree with that, of course. Sorry, my last question. The point that Sir John made about diplomatic status—the Israeli authorities would not stop diplomats going through the various checkpoints. If our staff were able to have that diplomatic status under the agreement—I can't remember which particular international agreement it was—surely that would help them quite a lot.

**Sir Peter Ricketts:** Let me look into that as part of the answer I've undertaken to give Sir John and I will cover that as well.

**Q77 Mr. Moss:** Given the increasing share of locally engaged staff and your desire to integrate those staff with the UK-based staff, and given that locally based staff probably have a lower level of security clearance, have you assessed any potential increase in risk, considering the greater access now of all employees to the new IT system—the F3G system? We're told that, now, locally based staff have access to confidential material through their own terminal. Have you made an assessment of increased risk here and what are you going to do about it?

**Sir Peter Ricketts:** Most certainly, we keep that in mind very much as part of the considerations. There will always be some jobs in embassies that local staff can't do for security reasons, as you say, but we are becoming increasingly an organisation that is open and where much of our work does not need to be at a high security classification. The design of our new F3G computer system is intended to reinforce that, because we have two completely separate parts of it: a part that is what we call the universal tier, which is up to restricted level, and then the confidential tier, which is completely separate from it. So it allows many members of staff, including local staff, to have access to a modern, flexible IT system that allows them to do their work, but it doesn't give them access to the confidential tier, which has to remain for fully DV-cleared staff, UK-based staff. But more and more of the work of more and more of our embassies can be done in unclassified areas of the embassy, using the unclassified part of our computer system, so we're trying to minimise the barriers that security

creates between local staff and UK staff. We've been running a campaign that we call "One Team", which is to try to emphasise how much we can work together and minimise the areas where inevitably there will be differences.

**Q78 Sandra Osborne:** Could I ask you about staff morale as far as bullying, harassment and discrimination is concerned? In the staff survey of 2008—I know that Mr. Bevan referred to the 2009 survey, which has not yet been published—17% of all FCO staff reported experiencing this, and it was only 11% on average across Whitehall. Also, 20% of locally based staff reported this, as opposed to 14% of UK-based staff. How do you explain this relatively high level of reporting of harassment and bullying?

**Sir Peter Ricketts:** First, can I say that I find it absolutely unacceptable? It's something that we are worried about and working on. We are very, very keen to see that we get to the bottom of it and root out whatever the problems are. Mr. Bevan can give you details of where we are in the 2009 staff survey. To our real disappointment, that number has not come down very significantly. It has come down from 17 to 16%, which is not good enough, so we have to continue to tackle this problem seriously. Part of it is understanding exactly what is going on here. We put together bullying, harassment and intimidation, and I need to understand more about what are the actual problems that staff are reporting there, because any suggestion of bullying or harassment is completely unacceptable. Indeed, we are prepared to take staff out of positions abroad and bring them home if we see evidence of behaviour that is bullying or harassment, and we have done that, so we're trying to send the strongest signal we can, which is taking people out of their postings and bringing them back to London if we see evidence of that. I don't know whether Mr. Bevan wants to add more detail.

**James Bevan:** On the question of why it's so high, I have three answers. I think the main reason it's high is that it's happening. There is enough evidence to confirm that there are significant and completely unacceptable levels of that behaviour going on in our organisation. I think a second reason why we're getting those high figures, though, is that we're actually going out and encouraging people to talk about it and put it on the table, rather than hide it away, as may have been the case in the past, so people are more prepared to say, "I'm experiencing bullying." The third reason it's happening—we have quite strong evidence for this—is that as we strengthen the way in which we manage poor performance, which we have not been good at in the past but are getting much better at, there is a recognised phenomenon where an officer who for a long time has been underperforming is tackled for the first time in the right way by a line manager and asked to improve their performance will turn around and accuse the line manager of bullying. When that happens, we investigate, and often we find that it is not bullying but professional, correct management of poor performance. I think it is very important to

disaggregate the data and do the studies, which we will do on the latest data. In terms of what we are going to do about it, as the permanent secretary was saying, we have reaffirmed the policy of zero tolerance, and we expect all the leaders in our organisation—heads of missions and our directors in London—to make sure that that is what happens. We are providing help and support to staff who experience such behaviour to deal with it, and we have just introduced a new arrangement which will come alive at the beginning of next year where, if the line manager is unable to help the officer who is experiencing unacceptable behaviour, there will be an independent person, either abroad or in London, whom they can call for advice and support. Finally, we are actually pursuing hot spots of very high reported behaviour of this kind. We did that last year and will do it this year. We will pursue the matter with the individual posts or directorates concerned and establish what is happening. In some cases, we have pursued that to the extent of withdrawing staff from post if we are convinced that they have been guilty of unacceptable behaviour, and in some cases it has led to disciplinary action against staff. We will stick with a very tough approach to dealing with this.

**Q79 Sandra Osborne:** The trade union does not agree with the explanation that allegations are resulting from tackling poor performance, for example. Can you tell me how many formal grievances have been raised by staff in relation to that?

**James Bevan:** I would need to check that and write to you.<sup>4</sup> We have not, as far as I am aware, had very many formal grievances raised in the case that you are describing.

**Q80 Sandra Osborne:** So if people were coming forward, would you not expect more formal grievances to be raised?

**James Bevan:** Do you mean formal grievances raised because an officer who was being performance managed thought that they were being bullied?

**Q81 Sandra Osborne:** In any case. If people feel more able to come forward than in the past, would you not expect there to be more formal grievances?

**James Bevan:** I see. We do have a process where the first report is obviously to the line manager, if an officer feels that they are being bullied. If the line manager is unable to help, or if the officer does not feel that they are getting the right support from the line manager, we have an employee assistance programme which people can call for advice and support. We have found that rather remote, though—it is a phone line. That is the reason why we decided to introduce, from the start of next year, the new assistance that I described. What we are calling a dispute resolution counsellor will be able to offer one-to-one support to an officer who experiences bullying. We have not found traditionally that our officers want to pursue these allegations through, if you like, the more formal mechanism of grievance,

and that is one reason why we encourage our staff to recognise bullying and speak up when they feel that they are experiencing it.

**Q82 Sandra Osborne:** One last question, Mr. Chairman. I understand that there was an independent survey following the 2008 staff survey which showed that reported levels of discrimination, bullying or harassment tended to be higher among the staff at lower grades, disabled staff and minority ethnic groups, black staff in particular. That is quite an indictment of the personnel situation, surely. What is your explanation for that? What action do you intend to take?

**James Bevan:** First, you are right. We were so concerned by the 17% figure from the last survey that we commissioned a more detailed analysis of what the data were telling us, and they told us that, by and large, the allegations tend to relate to junior officers who feel that they are being bullied by senior officers and to local staff who sometimes feel that they are being bullied by UK staff, and that there is a higher prevalence of reported experience of this behaviour from black minority ethnic and other minority groups. One thing that I have done is to meet with representatives of the black staff to talk through why they think this is happening. I have to say that there were some very convincing stories which resulted in my writing to all our heads of mission abroad to say that we are particularly concerned at the high levels of reported behaviour affecting black and minority ethnic staff and that we wanted to crack down on it absolutely to make sure that it reduces next year. The task for us now is to analyse the latest data in the new survey and see if that has happened. If it has not, we will have to keep going.

**Q83 Sir John Stanley:** Sir Peter, you will be familiar with the Daniel Fitzsimons case, which I want to raise because it poses a very major policy issue for the Foreign Office. If I can just read this in for the record, from *The Independent* on 1 September, “A British military contractor accused of shooting dead two of his colleagues in Iraq was hired despite being sacked from another security firm and having a long history of psychiatric illness . . . Daniel Fitzsimons, 29, is in Iraqi custody facing charges of premeditated murder after the shooting of fellow ArmorGroup colleagues Paul McGuigan and Darren Hoar and wounding Iraqi worker Arkhan Mahdi. If convicted he faces execution.” I do not expect you to comment on that particular case, Sir Peter, unless you want to, but the issue that I am raising with you is how it has come about that the Foreign Office is placing multi-million pound contracts with private military companies whose recruitment procedures are clearly patently inadequate.

**Sir Peter Ricketts:** The need to have private military companies to provide security for our staff in Afghanistan and Iraq, I think, is clear. We can't expect our staff to work in these countries, in these conditions, without protection, and the British Army does not have the capacity to provide the protection; so we need to go to the market and hire private military companies to do this. There are

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several private military companies around that we use, some in Iraq, some in Afghanistan. Of course we are extremely concerned to make sure that their recruitment and management practices are up to the standards we require. We make quite sure in our contracts that that is clear with them. I think the particular case that you refer to—Mr. Fitzsimons—was not a contractor working for the British Government.

**Q84 Sir John Stanley:** But surely ArmorGroup—I think we know it from our own experience in the Committee—has a number of substantial contracts with the Foreign Office.

**Sir Peter Ricketts:** ArmorGroup does, yes, of course. This is one employee of ArmorGroup, which is a very large organisation, and I think they have responded appropriately to this affair. I don't believe that should rule out ArmorGroup from any consideration for contracts with us, but it does underline the importance of having the right contracts, and the right understandings with companies about the staff that they recruit, and how they manage them.

**Q85 Sir John Stanley:** So are you saying to the Committee that the Foreign Office's policy, before it awards contracts to private military companies, is that it satisfies itself in the case of each and every contract that the recruitment procedures are such that someone who has previously been sacked by a private security firm for unreliability and has a history of psychiatric illness would not be able to get through that company's recruitment procedures?

**Sir Peter Ricketts:** What I am saying to the Committee is first of all that these companies, including ArmorGroup, we believe, are serious companies—that they take their responsibilities seriously. I am sure they are learning the lessons from this incident for the way that they recruit and manage their staff. Yes, in letting these contracts, which are major expensive contracts, we go into considerable detail with the management about the recruitment of staff and the management of the staff that they provide to work on our contract. Because we are in the position of quite a major employer for these companies we have some considerable influence over them. It is for the company to ensure that they have the right way of dealing with these incidents. I think it is for us to ensure through the contract that we have absolute clarity with the company about the standards that we expect.

**Q86 Sir John Stanley:** Are you satisfied, as of now, that the standard contractual terms you're entering into, with contracts for private security companies, as far as you can be assured, protect the Foreign Office against an undesirable individual being recruited into the complement of that firm—obviously in a weapon-carrying and live ammunition situation?

**Sir Peter Ricketts:** Yes, I am as sure as I can be. We have recently retendered the contracts for guarding and for close protection of our staff in Iraq, and we went through an exhaustive process of comparing

three or four different companies, including against the sorts of criteria that you're talking about, Sir John. So it is very much part of the evaluation we do before we let a contract, yes.

**Q87 Mr. Horam:** Briefly, Sir Peter, because we are running out of time, what thought has been given to seconding FCO staff to the European External Action Service? What is happening on that front?

**Sir Peter Ricketts:** This is one I responded to Mr. Heathcoat-Amory on earlier. My expectation is that the External Action Service will start with its in-place forces—as the military would say—in other words, the Commission staff around the world staffing up Commission offices. Over time, there will be opportunities to send member state diplomats or other officials to work in the External Action Service.

**Q88 Mr. Horam:** Have you established any particular process for doing that inside the FCO?

**Sir Peter Ricketts:** That will be part of the proposal that Baroness Ashton has to make as High Representative on the establishment of this External Action Service, but we expect that when member state diplomats join it, they will go as what are called, I think, in the jargon of Brussels, temporary agents. In other words, they will go on secondment to the European Union, paid for by the European Union on its terms and conditions of services, and we are expecting somewhere in the region of 25 UK diplomats to be involved by the time the thing is fully staffed in a couple of years' time. So, I don't expect a large number to be moving straight across. This is similar to the process we already have of seconding Whitehall officials to the EU institutions.

**Q89 Mr. Horam:** So, just the same?

**Sir Peter Ricketts:** The same arrangement.

**Q90 Chairman:** Have you written to Baroness Ashton with any specific proposals about how this organisation might be set up?

**Sir Peter Ricketts:** Indeed, I have spoken to her about it. We have briefed Baroness Ashton. She will, of course, be a European Union High Representative, but she is well briefed on the British approach.

**Q91 Chairman:** We are obviously, as a Committee, very interested in this area and we hope to meet her in her new role. If we could have access to information on what the Government's position is, that would be very helpful.

**Sir Peter Ricketts:** Let us send you a note about that, Mr. Chairman.<sup>5</sup>

**Q92 Ms Stuart:** Just a very small question. In previous years there has been the suggestion that because for our diplomats and a lot of our civil servants English is their first language, and they have a pretty poor record of acquiring second and third languages to a level of high competence, they are

sometimes held back from getting jobs in Brussels. Is this something that worries you in terms of getting the secondments? I think it would apply to our diplomats as well—that they have to have at least three languages in which they are fluent.

**Sir Peter Ricketts:** I am not sure that that principle will apply. That certainly applies in the Commission, I think. For promotion in the Commission you have to have native language plus two, I think. I don't know whether that will apply in the External Action Service.

**Q93 Ms Stuart:** Could you send us a note?

**Sir Peter Ricketts:** I'll cover that as well.<sup>6</sup> Our main aim is that people being seconded to the External Action Service should be chosen on merit. We don't want to see people being chosen on the basis of geographical quota, or on other sorts of considerations except merit. Merit needs to include language skills, but it shouldn't be exclusively that. I'll cover that in our note to you.

**Q94 Chairman:** Just one brief question about the Turks and Caicos Islands. Governor Wetherell was here this week, and I met him yesterday. We understand that there is a team of advisers to support the Governor in the run-up to July 2011. How is that organised? Some concerns have been expressed in some publications in TCI, and also in communications. We get lots of communications from TCI since our report and now our inquiry, probably more than from most places in the world, and given its population, certainly more per head. There is some concern expressed about the dangers of too strong a direct rule, and a kind of neo-colonial approach. How would you counter that?

**Sir Peter Ricketts:** Gosh. First of all—

**Andrew Mackinlay:** You don't actually accept that, do you?

**Chairman:** No. that accusation has been made and it would be interesting to have on the record your response to it.

**Sir Peter Ricketts:** I was going to respond that we have inevitably a colonial rather than a neo-colonial relationship with TCI, I suppose. Of course, the Committee has done important work on TCI, and Gordon Wetherell is now having to carry a heavy load in the current circumstances. As the Committee knows, we have sought from around Whitehall a number of officials with expertise in particular areas in which the Governor needs help in maintaining his temporary stewardship of affairs there. I don't believe that we have sent the numbers that would give rise to the sorts of suspicions you raised, Mr. Chairman; indeed I would be worried if we had. We need to continue to work to give Gordon Wetherell the support he needs in terms of expertise from Whitehall to get him through this very difficult period. I think we are covering the main requirements, but I wouldn't think we were at the level where anyone could say we were trying to take the place over. Our clear intention is, as you know, to return it to elected rule as soon as we can.

**Q95 Andrew Mackinlay:** I have been going on about Overseas Territories for some time, so I was pleased that Turks and Caicos cropped up. On the question of Bermuda and the United States, the US State Department and the White House did not understand what a United Kingdom Overseas Territory was because they sent these people from Guantanamo without any reference to you folk. Can you tell us to what extent was there one hell of a row, and do they understand it now? It is a very fundamental and serious matter that was not given the oxygen here in the United Kingdom. It was an affront by the United States to us, and they should have known better. Do they now know better, and can we be sure it will not happen again?

**Sir Peter Ricketts:** I would never use an undiplomatic term like a serious row, but I think that the US Administration are clear that we were not prepared to accept the way in which that matter was dealt with. That was also partly to do with the Bermudan authorities, who dealt with the US on a matter that was clearly to do with foreign affairs, which is reserved to the Governor. It was a problem both in terms of the State Department and of Bermuda. In total, our responsibility for foreign affairs was not respected in that case. Yes, I think that the State Department does now understand the special status of Overseas Territories.

**Q96 Chairman:** And there is no question of any other Uighurs or other people being sent from Guantanamo to any other Overseas Territories?

**Sir Peter Ricketts:** I certainly have no information of more Uighurs coming to any Overseas Territory, no.

**Q97 Chairman:** We will no doubt look at that closely in future. Can I ask you now some questions about senior appointments? Can you outline the process by which the Foreign Office has decided that there will be no new Minister to replace Lord Malloch-Brown and the reallocation of portfolios? Clearly, the current ministerial team is a bit short and under considerable pressure. As the permanent secretary, are you happy with that?

**Sir Peter Ricketts:** The allocation of Ministers to Departments is something for the Prime Minister. As permanent secretary, I will work with the ministerial team that is deployed to the Foreign Office.

**Q98 Chairman:** I understand that you will work with what you have. My question is how did we get to the position that we now have one fewer Minister in the Department than we had.

**Sir Peter Ricketts:** I don't want to seem evasive, but that must be a question for the Prime Minister. It is the Prime Minister who decides on the number of Ministers and who they are. So we are working with the ministerial team that we have.

**Q99 Chairman:** Okay. Can I then go to the future? Given that we are going to have a general election, are you preparing discussions in detail with the Opposition on issues such as the non-proliferation

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review conference next year? How much discussion do you have at official level with the shadow Cabinet and the other parties?

**Sir Peter Ricketts:** One of the benefits of our constitutional arrangements is that the civil service is permitted to engage with the Opposition in the run-up to an election so that the civil service is informed of the thinking of the Opposition as well as the Government party. As part of that, yes, I have had a number of discussions with Mr. Hague, and I have undertaken that I will keep those confidential and I feel I should respect that.

**Chairman:** I am not asking you about the content.

**Sir Peter Ricketts:** I have had a number of discussions with Mr. Hague.

**Q100 Chairman:** Have you also spoken with the Liberal Democrats?

**Sir Peter Ricketts:** I haven't, but I would be very willing to.

**Q101 Chairman:** The Government have also appointed a number of people as special representatives on issues such as climate change, peace-building, Afghanistan and Pakistan. Does that present any difficulties for you in terms of the relationship with people within the structure of the Government and the Department? Is there any difference in the way in which you behave towards a special representative who has come from a diplomatic background as opposed to someone who has come from academia or politics?

**Sir Peter Ricketts:** There are different sorts, as you suggest, Mr. Chairman. Some of them are simply senior officials who are added to the existing structure to cope with a particular surge in work. For example, Sherard Cooper-Coles, our special representative to Afghanistan, is simply one more senior official adding extra capacity in that area. The politicians, such as Mr. McConnell, Geoff Hoon, who is working on the NATO strategic concept for us, and Des Browne, who was doing some work on Sri Lanka, give us specific amounts of time to do rather targeted things, which normally involve travelling and overseas representation. They add to our capacity to deal with particular problems. I don't think we have any particular problem working with them.

**Q102 Chairman:** Do they have to clear what they do with you or with the Foreign Secretary? How does that work?

**Sir Peter Ricketts:** The political special representatives are normally either the Prime Minister's or the Foreign Secretary's special representative. They effectively work under the authority of the Prime Minister or Foreign Secretary. In practice, they work closely with officials. For example, if Jack McConnell is travelling, he usually takes an official with him. He is therefore an extra multiplier for us in our diplomatic work overseas.

**Q103 Mr. Heathcoat-Amory:** Sir Peter, you have mentioned some of the special representatives. We are also told that Mr. John Ashton will be the Foreign Secretary's special representative for climate change. Another is Rear Admiral Neil Morisetti, one of the Department's climate and energy security envoys. You have also appointed a chief scientific adviser and you already mentioned Geoff Hoon, Mr. McConnell and others. I find this very confusing. You are under immense budgetary pressure, you are losing staff abroad and are having to send people on unpaid leave—and it is getting worse—yet you are taking on a confused mixture of envoys, some of whom do not report to the Foreign Secretary, but are based in the Foreign Office. I think that you are behaving like a giant NGO. Where is the clarity of purpose? Are you not becoming a sort of dumping ground for unwanted—perhaps they are wanted, but they're certainly very expensive—personnel, over whom you rarely have any vestigial control, to solve problems elsewhere?

**Sir Peter Ricketts:** Let me reassure you, Mr. Heathcoat-Amory, that such people are effectively senior officials. John Ashton is a member of the diplomatic service who had been on secondment or unpaid leave doing climate change work and came back to us, but is still effectively a senior FCO official, as is Sherard Cooper-Coles on Afghanistan. The political representatives are not expensive because we do not pay their salary, we simply pay their expenses when they travel abroad for us. They provide some extra capacity, for example for representation at international conferences or to spend more time in a country than a Minister could and get into the detail. They therefore provide a valuable extra resource for us at very little cost, because we simply pay the additional travelling expenses for them.

**Q104 Mr. Heathcoat-Amory:** Yes, but you support these people. For example, Mr. McConnell first wanted to be high commissioner in Malawi and then changed his mind. He is now the Prime Minister's special representative for peacekeeping—I am not sure how successful he is being. He is supported by your Department and that is an expensive undertaking. You may not be paying his salary, but he is on the books, he has an office and you have to service him, listen to what he says and send him abroad or whatever. Are you not worried that that will go down very badly with your permanent staff, all of whom are having their careers blighted by cutbacks? At the same time, you are supplying facilities for a whole lot of other people who you clearly didn't want, but who have been imposed on you. It is not clear to this Committee who they report to and what they are doing. It is making our job difficult as well.

**Sir Peter Ricketts:** I wouldn't go as far as to say that people's careers are being blighted. I hope we can avoid that. I do not feel that there is confusion about their reporting lines. Jack McConnell certainly reports to the Prime Minister and to the Foreign Secretary. As you said, we provide him with a degree of support, but that is one part of one official's time.

For that, we have the opportunity of having Jack McConnell spending more time than a Minister would be able to spend in Africa, for example, dealing with difficult African peacekeeping issues. From where I sit, it does not feel as confused or as difficult as you suggest.

**Q105 Mr. Heathcoat-Amory:** And you think you're speaking for all your staff in saying that? There's no disquiet about these special representatives and others who are working out of your Department, clearly doing jobs that were previously done by your staff and your diplomatic service. Is there no problem with staff morale, no criticism, and are you entirely happy with these arrangements?

**Sir Peter Ricketts:** I have heard no criticism and, indeed, now we have our chief scientific adviser, he is bringing in a capacity we didn't have and that wasn't being done before. It is a net addition for us, in terms of professional capability.

**Q106 Sandra Osborne:** As well as special representatives, as you know, the Committee has taken a close interest in the appointment of people from outwith the diplomatic service to senior diplomatic posts—we recently interviewed Baroness Amos. The Constitutional Reform and Governance Bill, currently going through Parliament, has an amendment that would cap at three the number of political appointments to senior diplomatic posts. If this was agreed by Parliament, would it be welcomed within the diplomatic service?

**Sir Peter Ricketts:** As you know, we have had the practice for many years of the Prime Minister making a limited number of appointments in the diplomatic service. That is in the diplomatic service Order in Council, which is the power that successive Prime Ministers under different Governments have used. Of course, it is never easy for staff in the profession to see people coming from outside, but we have always worked well with the political appointees we have had and we are working very well with Baroness Amos now. I think I will leave it to Parliament to decide what to put in the legislation. All I can say, from where I sit, is that where political appointments are made under this power, we do everything in our power to work effectively with the appointees.

**Q107 Sandra Osborne:** So you don't see the value in capping it at three?

**Sir Peter Ricketts:** I don't want to venture into a territory that is Parliament's territory to decide.

**Q108 Mr. Horam:** The former Foreign Secretary, Lord Hurd, in a House of Lords debate on foreign policy in February 2009, said that "the Foreign Office in London—which is what I am mainly talking about—is ceasing to be a storehouse of knowledge providing valued advice to Ministers and is increasingly an office of management, management of a steadily shrinking overseas service . . . My main concern is that the Foreign Office in London has been hollowed out. I believe that it should, once again, consist of and produce a reserve

of knowledge that can put advice from overseas posts in a strategic context, hold its own in arguments with the Prime Minister and with No. 10." It is not only Lord Hurd who has been saying that. That is a flavour of the views of many other people who have given evidence to the Committee. How do you respond to that?

**Sir Peter Ricketts:** I have the greatest respect for Lord Hurd, with whom I worked as an official for many years, but in this case I do not agree with him. I see every day the FCO at the heart of policy making on a whole range of difficult, important, fast-moving and complex issues, and leading Whitehall work on it. I do not really recognise the description "hollowed out". It is true that there are fewer people working in the FCO now than there probably were when Lord Hurd was Foreign Secretary, but the advances in IT mean that our ambassadors are absolutely central in the policy-making process. Whenever the Foreign Secretary has an office meeting to talk about the Middle East, Afghanistan, Iraq or Iran, the ambassador will be on a secure video teleconference, joining that conversation. So the ambassador's capacity to be part of policy making is greater than it was. IT means that when any policy is being thought about or developed, the embassy or consulate involved will be part of that policy making. I think we are working much more effectively, using the very strong talents we still have for understanding and knowing about abroad in our embassies. They are part of the policy-making process in London. So I do not think the phrase "hollowed out" reflects the reality. The reality is that the FCO in London, working with our ambassadors, is still a real storehouse of knowledge and experience of abroad.

**Q109 Mr. Horam:** Would you agree that the involvement of the Prime Minister's office in No. 10 in foreign policy matters has increased over the years?

**Sir Peter Ricketts:** I think it has been increasing for generations. I think back to the second world war and the person who was most concerned with foreign policy in those days was the Prime Minister. The Prime Minister has had a leading role in foreign policy for generations. In terms of numbers, No. 10 is not expanding. It is a reality now that Heads of Government are very heavily concerned in foreign affairs, yes, but they depend very much on the FCO for support. They have tiny numbers in No. 10 and the Prime Minister is advised by us on a wide range of foreign policy.

**Q110 Chairman:** What about the national security strategy? Has that made any difference to what you do?

**Sir Peter Ricketts:** It is useful in setting a broad context for a lot of the work that we do and in drawing together the work of the Home Office, as well as the Department for International Development, the Ministry of Defence and ourselves on a whole range of issues. It certainly gives a context to the work I do, which is as the leading

official on public service agreement 30 on conflict work. So yes, it is helpful as a broad context for our work.

**Q111 Chairman:** You have just re-established a strategy unit. Is that just a re-badging of the policy planning unit that you used to have?

**Sir Peter Ricketts:** Yes. It is the policy planning unit, plus our research analysts. We have put them together, so that instead of having two separate groups we have them in one directorate, but there is no other change. It is still the same reason why we set up the policy planning staff again three or four years ago when I arrived: to give us—exactly responding to Mr. Horam's point—enough intellectual capacity at the centre of the organisation to be sure that we were covering all the major issues.

**Q112 Chairman:** Have you assessed its impact yet?

**Sir Peter Ricketts:** It hasn't really been in existence long enough to assess its impact, but we will do so.

**Q113 Chairman:** Finally, a few very quick questions. The UK Border Agency, which most MPs have a great number of dealings with—I won't go into that—is now under the Home Office. Are you satisfied that UK policies on issuing visas and visa operations give sufficient weight to foreign policy implications? We occasionally get complaints from foreign Governments, or foreign politicians, about the difficulties that business men have in getting visas to come to this country. In some contexts, that is seen as some diplomatic slight and can cause complications. Do you think the Home Office and the Border Agency really understand the foreign policy implications of delays on visas?

**Sir Peter Ricketts:** I might ask Mr. Bevan to respond, because he leads the work in the Foreign Office on UKBA and migration.

**James Bevan:** Thank you. Yes, I think we are. Clearly, we are in a situation where the Government have been very clear, over the last period, that they want to tackle illegal immigration very effectively, while at the same time facilitating legitimate travel. UKBA recognise, with us, that those are both parts of its job. So I think we are clear on the strategy. On how it works, we have a very effective partnership. I sit on the UKBA board. There is daily contact between more junior officials on either side. Our staff are seconded to our respective organisations. We have a migration directorate in the Foreign Office that works on a daily basis with UKBA on the policy and operational issues. From where I sit, it does work. That does not mean that there are not sometimes different perspectives from the Home Office side or the Foreign Office side, but where those

exist we have normally managed to resolve them through dialogue. At a practical level, the corporation is getting increasingly impressive. There was a good example last week. We managed to return a series of foreign national prisoners to Jamaica, which we had been waiting to do for a good time. That was the result of the Home Office and UKBA helping to identify and collect those prisoners, and the Foreign Office negotiating the prisoner transfer agreement with Jamaica and then working on the ground to make sure that it happened.

**Q114 Chairman:** So I can take it that if people complain about student visa problems and delays in getting to courses in this country, the Foreign Office is able to effectively persuade UKBA and the Home Office to take those concerns seriously?

**James Bevan:** Yes. That is a very good example. We did have concerns earlier this year, following the introduction of the new points-based system, that legitimate student numbers had gone down and we raised those with UKBA. It looked at some of the ways in which that system is being implemented, made some adjustments, and the numbers of legitimate students coming to the UK are now back up to the levels that they were previously.

**Q115 Chairman:** We do have some questions about public diplomacy, but given the time I think we will send you those in writing. Just briefly, are you happy with the planned restructuring and the revamp of your public diplomacy and structures that are coming through?

**Sir Peter Ricketts:** Yes, Mr. Chairman. We can respond in more detail in writing.<sup>7</sup> I know that Chris Bryant has written to the Committee, but I think the ministerial oversight is good and the fact that we are now a campaigning organisation needs to be reflected in our structures for dealing with that.

**Chairman:** Thank you. Sir Peter, may I take this opportunity to wish all your staff a very merry Christmas? The Committee will be working very closely with you for the rest of this Parliament, but this is our final session with you on the annual report. We certainly welcome the co-operation we get whatever we are doing, whether it is in this country or abroad, and the hard work that we know that people in the FCO put in liaising with Parliament and assisting us in our work.

**Sir Peter Ricketts:** Thank you, Mr. Chairman. I will certainly pass that on to our staff. In return, may I reciprocate the warm thanks for the spirit in which the Committee works with all our staff around the world and in London? Thank you.

**Chairman:** Thank you very much.

<sup>7</sup> Ev 95

# Written evidence

## Foreign and Commonwealth Office Winter Supplementary Estimate 2008–09 Memorandum

### 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, FCO Services, 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;
    - Section D: Peacekeeping and peace building activity and on associated strengthening of international and regional systems and capacity globally; and
    - Section E: Provision of specialist, targeted assistance in countries emerging from violent conflict.

### RfR1 WINTER SUPPLEMENTARY ESTIMATES CHANGES

#### *Machinery of Government Changes*

2. Transfer of £326,200,000 of other current provision and appropriations-in-aid in respect of the UKBA International Group (formally known as UK Visas) to the UK Borders Agency of the Home Office that took effect on 1 April 2008. We have not yet moved any balance sheet items, these are to be discussed further in time for inclusion in the Spring Supplementary round.

MACHINERY OF GOVERNMENT CHANGES						£m
<i>Description</i>	<i>RfR: section</i>	<i>Date of transfer</i>	<i>Amount £000</i>	<i>Transferring Dept</i>	<i>Receiving Dept</i>	
Transfer of programme expenditure	RfR1: A2	01/04/2008	326,200	FCO	Home Office	
Transfer of appropriations-in-aid	RfR1: A5	01/04/2008	326,200	FCO	Home Office	

#### *Take up of Departmental Unallocated Provision*

3. We have taken up all of our £17,000,000 administration DUP to offset adverse exchange rate movements.

#### *Transfers of Budgetary Cover*

4. Transfers of budgetary cover include:
  - Transfer of £5,000,000 from the Home Office for work on supporting managed migration to the UK.

- Transfer of £4,000,000 other current from DFID in respect of the Returns and Reintegration Fund to increase the number of foreign national prisoners and failed asylum seekers who return to their countries of origin and to ensure that those who return voluntarily are effectively re-integrated.
- Transfer of £11,000 from the Cabinet Office in respect of legal work undertaken by the Office of the Parliamentary Counsel.
- Transfer of £2,800,000 to MOD for counter-narcotics work in Afghanistan.
- Transfer of £400,000 other current to the Security and Intelligence Agencies for expansion and capability.
- Transfer of £45,000 to the Office of Government Commerce for our contribution towards the Centre of Expertise in Sustainable Procurement.
- Transfer of £40,000 to Cabinet Office for the Government Secure Zone.
- Transfer from British Council of £40,000 to Cabinet Office for the Government Secure Zone.

5. No FCO activities are expected to be reduced as a result of the above transfers. Transfers between government departments such as these are a routine occurrence and are therefore incorporated in the normal budgeting process.

#### *Neutral and Other Changes*

6. The following minor internal transfers are budget neutral and essentially arise from the need to align the Estimate with internal budget allocations:

- We have transferred £43,000 other current expenditure to bring the BBC World Service's grant in aid in line with agreed allocations.
- We have transferred £3,000 other current expenditure to bring the British Council's grant in aid in line with agreed allocations.
- We have transferred £200,000 to bring the British Council's capital grants in line with agreed allocations.
- We have transferred £4,710,000 from capital to capital grants for contributions to UN and NATO capital projects.

7. We have increased capital expenditure of £42,000,000 fully offset by non-operating income from asset sales, this includes the sale of the Madrid Embassy. The increase in capital expenditure is not linked to individual programmes and/or projects. Rather we have assessed the expected overall level of capital expenditure across all FCO capital budget holders, and anticipated the total demand for funds.

#### RfR2 WINTER SUPPLEMENTARY ESTIMATES CHANGES

##### *Claims on the DEL Reserve*

8. Claims on the DEL reserve will be used to meet the UK's share of assessed (obligatory) costs for UN, EU and OSCE peacekeeping operations and the secondments of UK military, policing and civilian personnel to a range of international peacekeeping operations. We intend to make a further claim for the balance in the Spring Supplementary Estimate. The claim on the reserve is comprised of:

- £100,000,000 programme expenditure for peacekeeping activities in Africa.
- £31,300,000 programme expenditure for peacekeeping activities in the rest of the world.

##### *Transfers of Budgetary Cover*

9. Transfers of budgetary cover include:

- Transfer of £16,000,000 from MOD for the 2nd tranche of Stabilisation Aid Fund (SAF) for work in Afghanistan.
- Transfer of £2,400,000 to MOD in respect of global peacekeeping activities in the Balkans.
- Transfer of £738,000 to DFID for SAF managed job slots in Afghanistan which assist with management of several SAF projects.

10. As with the RfR1 transfers no FCO activities are expected to be reduced as a result of the above transfers. Transfers between government departments such as these are a routine occurrence and are therefore incorporated in the normal budgeting process.

Table 1  
DETAILED EXPLANATION OF CHANGES

Machinery of Government Changes		
0.000	RfR1	Section A2 and A5 MoG transfer of £326.200 programme and appropriations-in-aid to Home Office for UKBA International Group
Transfers from non-voted Departmental Unallocated Provision		
17.000	RfR1	Section A1 take-up administration DUP to offset adverse exchange rate movements
Transfers between sections within the Estimate		
4.710	RfR1	Section A3 increase in capital grants from Section A7 for UN and NATO capital projects
0.200	RfR1	Section A7 increase from Section E3 to align British Council's capital grants
0.043	RfR1	Section B2 increase from Section A2 to align BBC World Service's, grant-in-aid
0.003	RfR1	Section C2 increase from Section A2 to align British Council's, grant-in-aid
Transfers from Other Government Departments		
16.000	RfR2	Section E3 programme transfer from MOD for Stabilisation Aid Fund
5.000	RfR1	Section A2 programme transfer from Home Office for work on migration
4.000	RfR1	Section A2 programme transfer from DFID for Returns and Reintegration Fund
0.011	RfR1	Section A1 administration transfer from Cabinet Office for Office of Parliamentary Counsel legal work
25.011		<i>Resource Total Change to DEL</i>
Transfers to Other Government Departments		
-2.800	RfR1	Section A2 programme transfer to MOD for counter-narcotics work in Afghanistan
-2.400	RfR2	Section D3 programme transfer to MOD for planned Global peacekeeping activities
-0.738	RfR2	Section E3 programme transfer to DFID for management of Stabilisation Aid Fund projects in Afghanistan
-0.400	RfR1	Section A2 programme transfer to the Security and Intelligence Agencies for expansion and capability
-0.045	RfR1	Section A1 administration transfer to the Office of Government Commerce for sustainable procurement
-0.040	RfR1	Section A2 programme transfer to Cabinet Office for Government Secure Zone
-0.040	RfR1	Section C2 programme transfer from British Council to Cabinet Office for Government Secure Zone
-6.463		<i>Resource Total Change to DEL</i>
Transfers from Central Funds		
100.000	RfR2	Section C3 Resource Reserve claim for peacekeeping funds for Africa
31.300	RfR2	Section D3 Resource Reserve claim for peacekeeping funds for rest of the world
131.300		<i>Resource Total Change to DEL</i>
Increases in gross spending offset by Appropriations in Aid		
42.000	RfR1	Section A7 increase in capital offset by Section A8 increase in non-operating appropriations in aid
149.848		<i>Net total change to Resource DEL</i>

#### DEPARTMENTAL EXPENDITURE LIMIT (DEL) AND ADMINISTRATION BUDGETS

11. The tables below show a comparison of the 2008–09 DEL (Table 2 and 2a) and Administration (Table 3) budgets with the 2002–03, 2003–04, 2004–05, 2005–06, 2006–07 and 2007–08 outturn, the forecast for 2008–09 and plans for 2009–10 and 2010–11.

12. Table 2a 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 2 that are on a consistent basis year on year, including reclassification by Treasury of expenditure across all years of the Public Expenditure cycle.

Table 2

## DEL COMPARISON

	£m								
	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Forecast</i>	<i>Plans</i>	<i>Plans</i>
Resource DEL <sup>1,2</sup>	1,477.982	1,511.272	1,710.233	1,876.593	1,827.287	1,895.961	1,979.547	1,609.934	1,617.903
Capital DEL	102.021	86.671	116.676	131.842	160.314	226.377	206.060	216.060	205.060
Less Depreciation <sup>1,3</sup>	67.122	64.060	67.156	108.725	81.555	73.220	105.050	103.050	100.050
Total	1,512.881	1,533.883	1,759.753	1,899.710	1,906.046	2,049.118	2,080.557	1,722,944	1,722,913

<sup>1</sup> Figures for all years reflect the reclassification of impairment expenditure from DEL into AME.

<sup>2</sup> Resource DEL figures for 2009–10 onwards are understated because they do not include all of the conflict prevention expenditure, which will be transferred at the time of the relevant Main and Supplementary Estimates. In addition 2005–06 included expenditure on a number of one off items (Tsunami expenditure, Efficiency Challenge Fund & G8 & EU presidencies).

<sup>3</sup> 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 2a

## PREVIOUS YEARS' EXPENDITURE AGAINST DEPARTMENTAL EXPENDITURE LIMITS

		£m				
<i>Year</i>		<i>Voted</i>	<i>Non-voted</i>	<i>Total DEL</i>	<i>Outturn</i> <sup>1</sup>	<i>Variance</i>
Resource						
	2004–05	1,607.192	209.690	1,816.882	1,736.188	80.694
	2005–06	1,999.224	6.713	2,005.937	1,916.190	89.747
	2006–07	1,924.913	44.213	1,969.126	1,852.024	117.102
	Final outturn 2007–08	1,950.523	5.862	1,956.385	1,895.961	60.424
Capital						
	2004–05	101.533	1.000	102.533	71.236	31.297
	2005–06	135.697	1.000	136.697	92.959	43.738
	2006–07	157.779	1.000	158.779	160.747	– 1.968
	Final outturn 2007–08	243.567	—	243.567	227.973	15.594

<sup>1</sup> Outturn is based on the definition of DEL in the relevant year and so is not consistent with the outturn in Table 2 that includes subsequent classification changes effective across all years.

Table 3

## ADMINISTRATION BUDGET COMPARISON

	£m								
	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Forecast</i>	<i>Plans</i>	<i>Plans</i>
Administration budget	353.296	375.961	405.495	399.931	393.201	367.508	430.535	420,513	411.482

<sup>1</sup> Figures for all years reflect the reclassification of impairment expenditure from DEL into AME.

## DEPARTMENTAL UNALLOCATED PROVISION (DUP) 2008–09

13. All FCO provision has been allocated in the Winter Supplementary Estimate.

Table 4

## 2008–09 DEPARTMENTAL UNALLOCATED PROVISION

	<i>Resource</i>	<i>Capital</i>
RfR1 DUP to meet unforeseen requirements arising in-year	£0.0m	£0.0m
Total	£0.0m	£0.0m

14. We have taken up £17,000,000 DUP to offset adverse exchange rate movements.

## END YEAR FLEXIBILITY (EYF)

15. The Public Expenditure Outturn White Paper published in July 2008 showed a total figure of £171.931 million for carry forward of underspend into 2008–09 under the DEL EYF scheme.

16. We have not taken up any EFY. In the Spring Supplementary Estimate we may take up resource EYF for restructuring and to offset adverse exchange rate movements, and capital EYF for our ongoing programme to increase the security and safety of our Estate and the people using it.

Table 5  
ACCUMULATION OF EYF

			Total	<i>Of which near cash</i>	Capital	Total
	Administration	Programme	Resource			
Total FCO EYF Entitlement in Public Expenditure Provisional Outturn July 2008 (table 6—Cm 7419)	58.559	6.538	155.097	120.383	16.834	171.931
EYF drawn down in Winter Supplementary	—	—	—	—	—	—
<b>BALANCE OF ACCUMULATED END YEAR FLEXIBILITY GOING INTO 2008–09</b>	58.559	96.538	155.097	120.383	16.834	171.931

#### PUBLIC SERVICE AGREEMENTS

17. The bulk of the increase in expenditure in this Supplementary Estimate is take-up monies for peacekeeping to further the conflict reduction PSA on which we are the lead department. We have increased capital expenditure by £42 million fully offset by appropriations-in-aid as part of our ongoing programme to increase the security and safety of our Estate and the people using it. This up-take of EYF is designed therefore to improve delivery against all of the FCO's Departmental Strategic Objectives and PSA targets. We have also had transferred in amounts of £5 million from the Home Office and £4 million from DFID to facilitate work in furtherance of the shared migration PSA.

#### IFRS TRIGGER POINT 1

18. In view of the uncertainty in forecasting the value of open contracts as at 31 March, the HMT Spending Team agreed that the FCO should defer making its estimation of the impact of IFRS on FCO budget, in particular the impact on budget of FRS26 in respect of Financial Instruments Measurement, until the Spring Supplementary Estimate.

*Keith Luck*  
Director General Finance

10 November 2008

#### **Letter to the Chairman of the Committee from Sir Peter Ricketts KCMG, Permanent Under-Secretary, Foreign and Commonwealth Office**

1. I am writing to update you on the latest FCO management issues. This letter covers the period October to December 2008.

#### INTEGRATION OF THE FCO AND IDENTITY PASSPORT SERVICE (IPS) PASSPORT OPERATIONS

2. On 6 November the Home Office approved the transfer of the FCO's passport operation to the IPS by April 2011. The FCO will continue to issue Emergency Travel Documents (ETDs) to British nationals who have lost their passports or had them stolen, and will provide IPS with a delivery platform for issuing passports to British nationals overseas.

3. This will be a phased process, starting with the planned signing of a Memorandum of Understanding in April 2009. The second significant milestone will be the repatriation of passport book printing to the UK, scheduled for October 2010. Work is underway with the IPS to establish a joint project team and governance structure to manage this integration process.

4. On 17 November the FCO signed a contract with Logica (in partnership with Worldreach and De La Rue) for the design and delivery of BRIDGE, a new passport processing system which will play an important role in this transition. BRIDGE will be introduced in two phases. Phase I will provide posts with the capability to issue ETDs and will roll out from June 2009. Phase II will enable full passport applications to be processed overseas, consistent with IPS systems, by the end of 2010.

5. As part of the integration process, and in response to the National Audit Office (NAO) recommendations to reduce the number of passport production centres, the FCO's Passport Next Generation Programme has also begun to streamline the consular passport network. Passport applications from Benelux countries are now processed in Paris. The Embassy in Madrid handles all applications from Iberia, and Washington is the new production centre for North America. 2009 will see further rationalisation in Western and Northern Europe, Australasia, Central and South America, and Asia.

6. Taken together, these developments represent significant steps in the modernisation of the UK's passport operation to make it more efficient and secure, while at the same time maintaining and improving the service provided to British nationals.

#### CORPORATE SERVICES

7. In December the FCO Board approved the business case for the new Corporate Services Programme. This will help to modernise our corporate services delivery over the next two years and is one of the Board's key priorities in 2009. I set out the Key Features of the programme in my letter of 30 September 2008.

8. The new facilities management contract for the UK Home Estate went live on 1 December followed by our Embassies in Warsaw and Vienna on 10 and 15 December respectively. The arrangements are working well. The remaining 12 overseas posts in Europe that are to be included will go live during the course of the first 6 months of 2009.

9. The Office of Government Commerce (OGC) have just completed a gateway review of our procurement activities and we expect to receive their report in January, which will help us to shape our procurement effort in future.

#### PUBLIC SERVICE AGREEMENTS (PSAs)/DEPARTMENTAL STRATEGIC OBJECTIVES (DSOs)

10. We sent you in mid December the FCO's 2008 Autumn Performance Report. Hard copies have been sent to you. The report is the first of the CSR07 period. It provides progress assessments for 01 April—30 September on our eight DSOs and the one PSA target (Conflict) for which we are the lead Whitehall Department. The report was compiled in accordance with HMT guidance and is closely aligned to our internal Business Planning assessments.

11. The FCO Board conducted its own internal mid-year review of DSO Plans on 9 October and met again on 16 October to discuss the outcome. We sent you a copy of the assessments for each of our DSO outcomes. The main point I took from the process was that the DSOs are bedding down well and are driving more and more of our activity. I was encouraged to see that the process of reviewing the DSOs is getting better each time we do it, and giving the Board a more accurate picture of how the FCO is performing.

12. The NAO have now concluded their annual review into the data systems the FCO use to measure performance against its DSOs and PSA 30. We await their findings and will share them with you.

#### RISK

13. The Top Risks Register (TRR) is updated quarterly and reviewed by the FCO Board. When updated in December, the TRR included six operational risks (physical security, resources, internal financial controls, IT systems, Visas, and FCO change) and eight strategic risks (terrorist attack, Iran, Afghanistan, Iraq, Horn of Africa, Pakistan, Zimbabwe, and the Middle East Peace Process). The Board also discusses individual risks in depth at its monthly meetings. Most recently, they focused on FCO resources (November) and Physical Security (October) to confirm that the right mitigation measures were in place where possible and were being well managed. We continue to raise awareness of risk management throughout the organisation.

#### SERVICE LEVEL AGREEMENT (SLA) WITH PARTNERS ACROSS GOVERNMENT

14. The SLA, which governs the recovery of full economic costs for the management and support services we provide to Partners Across Government (PAGs), has now been signed by the majority of PAGs. DFID are still examining the cost implications for future Financial Years. The Met Police is the only significant PAG still to sign and we are working to reach early agreement.

#### ACTIVITY RECORDING

15. The second quarter's activity recording data was successfully collected at the end of October with 99% of the Excel returns submitted on time. Although a lot of progress has been made, the data contained some gaps and inconsistencies and needs to improve. These are now being investigated and reconciled and we expect to collect more accurate data in quarter 3. Quarter 3 returns are due by the end of January 2009.

#### FIVE STAR FINANCE

16. We are moving towards our next milestone of Four Stars by the end of February 2009. Key steps in the last quarter are set out below:

Eight New B3 accountancy trainees (recruited through the Government Finance Profession Scheme) have now joined us. The trainees will undertake a series of placements in the FCO finance community during their training. We plan to recruit at least five more trainees in 2009. The aim is for the FCO to “grow its own” accountants who will be equipped to occupy senior management positions in the future.

17. The Consular Credit Card Payment system has been rolled out to 24 posts with 8 more (entire Turkish network and Lebanon) joining in January 2009. A further twelve posts (mainly South America, Russia, Japan, UAE) are expected to go live with the project in February. The project allows consular customers to pay for all consular services by credit card, using a centrally negotiated contract with Barclaycard.

18. We are simplifying our resource IT management system, PRISM. We aim to create new simplified, standardised and streamlined processes for all users. Reducing the complexities will make it easier for our users to get the input right first time, thus improving the speed and quality of our Management Information.

19. We’re implementing Hyperion and Oracle Business Intelligence Enterprise Edition (OBIEE) to provide our people with the best in planning, budgeting and M.I. tools.

#### ESTATES

20. New offices for the Deputy High Commission in Mumbai opened on 29 October. In November, we also opened new offices for the Embassy in Podgorica.

21. I enclose our quarterly report for properties sold (Annex A) in the second quarter of financial year 2008–09. No properties were purchased. None of the properties sold were the Residence of a Head of Mission. The property in Cape Town was the Residence of the Consul-General and was no longer fit for purpose. We have taken on a temporary leased property while we look for a more permanent solution. The property in Durban was the Residence of the Head of Trade and Investment and was sold as the position has been localised.

#### GREENING THE FCO

22. Greening the FCO became part of our High Level Change Programme in February 2008. In the summer we commissioned the Carbon Trust to work with us to develop our strategic vision for sustainable operations. Their report recommended a number of steps we could take to implement a sustainable operations policy in order to broadly bring the entire FCO estate into line with the Sustainable Operations on the Government Estate targets (which apply in the UK only).

23. This initiative will form a core element of the FCO’s broader environmental programme which, to date, has included implementing a comprehensive energy management system in our UK offices and introducing similar projects in 100 of our overseas Posts. Part of the Carbon Trust’s work is to advise on the design of an on-line tool to identify and measure our global carbon footprint.

#### FCO SERVICES

24. In my last letter to you, I referred to our planned programme of ‘value for money’ assessments of the services we receive from FCO Services. This programme is now underway, beginning with Consular Directorate last November. This assessment is due to be completed by the end of January and the outcomes will inform our negotiations for a new Service Level Agreement (SLA) with FCO Services. We expect to follow a similar process with our other SLAs as they fall due for renewal between April 2009 and April 2011.

25. We are currently working with FCO Services against an agreed timetable to update the Key Performance Indicators for services specified within individual SLAs to achieve better measures of success.

26. New formal Ministerial targets for 2009/10 are due to be agreed in February and will be announced in a written statement to Parliament before the end of the financial year.

#### THIRD GENERATION FIRECREST (F3G)

27. We deployed our new IT system, F3G, to the first Pilot Posts, Athens and The Hague, in December. The Pilots are running successfully. We are now working to improve the deployment process, and are revising our overseas rollout timetable. In the UK we have completed the installation of over 5000 new computers, and we have undergone a major data preparation exercise in advance of full migration to F3G in spring 2009.

## UKBA

28. Following the conclusion of negotiations with the UK Border Agency (UKBA) on SLAs covering human resources, IT and finance, during the third quarter the FCO has taken steps with the Agency to align our business planning processes. Following the launch of the Agency's Country Planning Programme in September, the FCO's Migration Directorate is working closely with the Agency to help increase the number of Failed Asylum Seekers and Foreign National Prisoners (FNPs) returned to countries of origin. In December the Agency announced that the UK had returned over 5000 FNPs in 2008, meeting the PSA target for the year.

29. Given our shared agenda, the FCO is committed to ensuring that a significant number of UKBA's international positions continue to be filled by FCO staff. The successor to Mark Sedwill as Director of the Agency's International Group is Barbara Woodward, formerly Deputy Head of Mission at our Embassy in Beijing.

## HR

30. The FCO secured re-accreditation in Investors in People in December. This is welcome confirmation of our improving management standards at home and overseas.

31. The FCO implemented a three year pay deal (2008–11) in November, for staff below Senior Management Staff level, offering staff stability and predictability. FCO Services have separately agreed a one-year deal.

32. Our Strategic Workforce Plan has become a key tool for our HR planning. We recently identified the need to recruit extra Band C staff and a small number of Band D staff with different skills, for example programme and project management. These campaigns are now complete and staff joined us between October and December. The Plan is due for its second update this month. I shall let you have a copy once this is complete.

33. In tandem with the Strategic Workforce Plan, which largely focuses on UK based staff, we have also been conscious of the need to review our strategy for local staff. They make up the majority of our workforce and it's crucial that we make the most of the talent and skills that they have to offer. The FCO Board took a paper about the strategy review in December. This identified five key areas for action:

- Transforming training;
- Improving access to our buildings and IT;
- Creating more working opportunities in the UK and the network (we have recently advertised a pilot opportunity for a local member of staff to come and work in our Diversity Strategy Unit in London);
- Flexi-grading some jobs;
- Promoting the ethos of "one team"—boosting the cultural mindset that we all (FCO UK-based staff, local staff and staff from our Partners Across Government) work towards common goals.

34. Alongside this, we are also in the process of finalising the FCO's Diversity and Inclusion Strategy for 2008–13. There are many links between the two papers and the teams have recognised the need to work closely together with posts on implementing their action plans. Effective leadership and accountability are at the heart of making sure that both strategies are successful.

16 January 2009

## Annex A

## FCO PROPERTY SALES FOR THE PERIOD 1 JULY TO 30 SEPTEMBER 2008

			£m		
<i>Date</i>	<i>Post</i>	<i>Type of Property</i>	<i>Exchange Rate to Pound Sterling</i>	<i>Gross Sales Receipt Transaction Currency</i>	<i>Gross Sales Receipt Sterling</i>
2 July 2008	Cape Town	Residence	0.0640053252	ZAR 9,000,000	576,048
8 July 2008	Wellington	Residential	0.3809378690	NZD 621,000	236,562
1 August 2008	Stockholm	Residential	0.0830509601	SEK 7,642,459	634,714
8 August 2008	Durban	Residence	0.0671415815	ZAR 2,600,000	174,568
22 August 2008	Buenos Aires	Residential	0.5259835893	USD 275,000	144,645
25 August 2008	Ottawa	Residential	0.5206977350	CAD 295,000	153,606
2 September 2008	Manila	Office	0.0118243842	PHP125,241,840	1,480,908
30 September 2008	Wellington	Residential	0.3783006734	NZD 645,000	244,004
				Gross Sales Proceeds	3,645,055

**Letter to the Chairman of the Committee from Sir Peter Ricketts KCMG, Permanent Under-Secretary,  
Foreign and Commonwealth Office**

PUBLICATION DATE OF 2009 FCO DEPARTMENTAL REPORT

The preparatory work to produce the 2009 FCO Departmental Report is now well in hand. I wanted to let you know as early as possible in the production process our thoughts on a publication date.

The 2008 FCO Departmental Report was published in May 2008. The 2009 Departmental Report will, for the first time, also include our annual Resource Accounts. As I am sure you know, the Treasury strongly encourages Departments to publish a combined Departmental Report and Resource Accounts. Including the Resource Accounts means that readers have a complete picture of what a Department has done in the previous financial year and how it has spent its money. It also means we can include an actual, rather than a forecast, spend.

This does seem a sensible reform, and many other Departments are doing it. It would mean however, that we could not publish the 2009 Departmental Report in May, because it is not possible to produce the Resource Accounts, clear them with the NAO, and incorporate them in the lengthy design and publication process by that date. The guidance to Departments from the Treasury on the production of 2009 Departmental Reports recognises these obstacles to a May publication date. The guidance states that the 2009 deadline for publication of Departmental Reports which include the Resource Accounts is the Parliamentary Summer Recess i.e. 21 July. We would wish to publish our Departmental Report a few weeks before this date to allow the Committee to have the opportunity to read it before the Summer Recess. With that in mind, we are aiming for a mid-June publication date.

I would be grateful to know whether the Committee would be content with a June publication date in order to incorporate our Resource Accounts.

27 January 2009

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

FCO WINTER SUPPLEMENTARY ESTIMATE 2008–09

Thank you for the letter from the Second Clerk on behalf of the Foreign Affairs Committee of 19 December with questions about the detail of the FCO Winter Supplementary Estimates.

We have taken account of the FAC's general comments and will in future address these. In particular we will endeavour to:

- make clearer which sub-totals make up the total change to Resource DEL; and
- provide more information in the background or footnotes explaining significant movements.

I have attached the more detailed answers to the Committee's questions below in the same format and layout as you asked them in your letter.

We will shortly be laying the Spring Supplementary Estimates to Parliament.

1. PEACE-KEEPING ACTIVITIES

(i) *For what activities will the additional peacekeeping funding of £131.3 million be used?*

This additional £131.3million was drawdown from the FCO/DfID/MoD tri-departmental Peacekeeping Budget. This is a separate fund from the Conflict Prevention Pool and its use is agreed with the Treasury. The money will be used to, among other things:

- fund the share of the costs the UK is obligated to pay for UN, EU and OSCE peacekeeping missions and international courts and tribunals;
- provide support to African Union peacekeeping missions; and
- fund the deployment of civilian, police and military personnel to international missions.

(ii) *Has the Government provided additional funding for the escalation in conflict in the Congo or has the Department been required to divert funding from elsewhere?*

The costs of the expanded UN mission to the Democratic Republic of Congo (MONUC) are not yet agreed but will be found from within the Peacekeeping Budget funding for African peacekeeping activities.

(iii) *In a letter to the Committee of 18 September 2008, the Department stated that the “Government has merged the Global and Africa Conflict Prevention Pools into the single Conflict Prevention Pool (CPP) to reduce bureaucracy, focus effort on where it can deliver best returns and ensure that the new single Pool remains an effective instrument for long term conflict prevention”. Why has the FCO identified the funding for African-keeping activities and global peace-keeping activities separately in its Estimate when the Global Conflict Prevention Pool and the African Conflict Prevention pool have been merged?*

We agree that showing separate Sub-Saharan Africa and Global sections on RfR2 of the Estimate for both the Conflict Prevention and Peacekeeping Pools is no longer appropriate. However the decision to merge the pools arrived too late to reflect it the Main Estimate for 2008–09 and therefore to ensure consistency we used the same headings in the Winter Estimate. We intend to include only one line for the Conflict Prevention Pool and one line for the Peacekeeping Pool from Main Estimates 2009–10.

(iv) *Will the Department be required to pay any of these funds back through a reduction in its End-Year Flexibility?*

The Department does not expect it will be required to pay these funds back through a reduction in end-year flexibility.

## 2. DRAW-DOWN OF DEPARTMENTAL UNALLOCATED PROVISION TO OFFSET EXCHANGE RATE MOVEMENTS

(i) *To what extent have forward currency contracts with the Bank of England reduced the risk of the Department’s exposure to currency fluctuations?*

The currency volumes purchased, whether through forward contracts or at the daily rate, are based on the FCO’s forecast of net US Dollar, Euro and Yen exposure—ie after taking account of recycling US Dollars and Euros earned (in the main from selling consular and visa services). This means our forward purchases have secured protection against devaluation of sterling for our currency exposure, not our budget. However, as well as the forward purchases, we have also had to purchase at the prevailing daily rate, our foreign exchange requirements in full for the months April to June 2008, and for up to 20% of our net exposure for the period July 2008 to March 2009. So our forward purchases did not provide complete protection against our currency exposure this financial year.

Our forward purchase of currency was not designed to compensate for the difference between gross budgets for US Dollars, Yen and Euros, which were set at £1 = \$2.0143, Y = 236.12 and €1.4578, and our net currency exposure. For this difference we have continued to provide in-year uplifts as part of the Overseas Prices Movement (OPM) mechanism. These uplifts should theoretically compensate for the difference between CSR settlement rates, and the rates that the currencies were secured at, adjusted as required to reflect changes in budget volume, activity, and the removal of any contingency.

(ii) *Now that the Department has drawn-down all its DUP, how will it find the funds to offset any further adverse exchange rate movements during the remaining months of the financial year?*

The Treasury has allowed us to use up to £15 million End Year Flexibility (EYF) to fund OPM uplifts to posts affected by adverse sterling movements. If further uplifts are required during the remainder of the financial year the FCO will have to fund this through use of any forecast underspend, or through reprioritisation and efficiency savings.

(iii) *To what extent is the Department likely to need additional funds in the remaining years of the CSR if the value of the pound sterling continues at its current levels or falls even further against other major currencies?*

The use of EYF is not guaranteed by HMT for future years and if Sterling continues to fall, it may not be possible to continue the FCO’s operationally essential work in a global network of Posts, without additional funding. We estimate that, unless Sterling strengthens from its present low levels, the FCO will need to find significant amounts of additional savings, possibly up to £95 million, in each of 2009–10 and in 2010–11 to meet our projected commitments.

The forward purchasing of our foreign exchange requirements at the most favourable exchange rates we can achieve does provide some degree of relief. It is not possible to make detailed predictions, but at the moment we are also forecasting unrealised gains on contracts already secured for 2009–10 and 2010–11 amounting to some £90 million in total. The reality of course could be very different.

## 3. TRANSFER OF UKBA

(i) *How will the FCO be involved in the UKBA International Group, now that it has moved to the Borders Agency of the Home Office?*

In the wake of UKvisas merger with UKBA the FCO has continued to attach great importance to bringing its negotiating expertise and overseas network of posts to bear in supporting UK immigration policy. A Memorandum of Understanding signed by the FCO and Home Office Permanent Under-Secretaries in January 2008:

— recognised the FCO’s continued policy interest in migration and related issues;

- established that visa operations will remain integrated with the work of FCO posts overseas; and
- that FCO staff will continue to fill a substantive proportion (at least 40%) of UKBA International Group jobs at home and overseas.

Service Level Agreements on Finance, HR and IT have subsequently been established. FCO staff continue to fill a number of key UKBA International Group positions at home and overseas and the new Group Director, Barbara Woodward, is a career diplomat.

Additionally, since April 2008 the FCO has established “supporting managed migration for Britain” as one of its eight Departmental Strategic Objectives. The FCO’s Migration Directorate is responsible for delivering this objective. The Directorate is very much a cross-departmental effort, comprising a mixture of career diplomats, UKBA immigration experts and DfID practitioners. Its staff are in daily contact with their UKBA International Group counterparts and work to shared objectives. Senior Migration Directorate staff attend UKBA Board meetings.

(ii) *What impact will this move have on other areas in the FCO that perhaps relied on information that was gathered from the UKBA International Group?*

The FCO’s Migration Directorate is the Agency’s main international stakeholder and its main channel of communication with the FCO. As such, the Directorate ensures that the FCO’s geographical directorates and the overseas network of posts are consulted on major policy/operational developments within the Agency which may have an impact overseas.

#### 4. UN AND NATO CAPITAL PROJECTS

(i) *What were the reasons for the transfer of £4.71 million to capital grants in respect of contributions to UN and NATO capital projects?*

This transfer aligned the Estimate more accurately with internal allocations than had been possible in the Main Estimates 2008–09.

(ii) *To what extent will the fall in sterling result in an increase in the sterling value of international subscriptions and a greater proportion of the FCO’s budget being taken up on making international contributions?*

The FCO shares the burden of exchange rate movements on international subscriptions with the Treasury under the arrangement whereby HMT fund 60% of any increase above a baseline of £102m. In line with this arrangement we have asked HMT for an additional £5m in the Spring Supplementary Estimates specifically to fund additional costs brought about by exchange rate losses for this FY.

Our foreign currency forward purchase contracts do include an element for our international subscription costs. The figures below, on the extent to which forward purchase may offset increased costs of international subscriptions, depend on the future state of the currency markets.

2008–09

##### *Sterling/US Dollar*

Sterling budgets for international subscriptions were based on £1 = \$2.0143 and sterling has weakened considerably over the course of the financial year. The sterling cost of contributions has therefore increased, but the budgetary impact has been significantly mitigated by the fact that over 80% of the exposure was forward purchased at between \$1.93 and \$1.96. Variable exchange rates throughout the year however, mean that spot purchases for the shortfall have at times been secured for poorer rates than these – and will be by some considerable margin in the period January to March. We forecast the combined effect on international subscription sterling budgets will be an overspend.

##### *Sterling/Euro*

Sterling budgets for international subscriptions were based on €1.4578. Again, forward purchasing of 80% of the Euro exposure has mitigated the budget impact, but with rates secured at around €1.26, and spot rates for the balance at times being significantly lower than this, budgetary pressures are greater than for the US Dollar based budgets. Again we forecast the combined effect on international subscription sterling budgets will be an overspend.

2009–10

##### *Sterling/US Dollar*

About 90% of exposure has been forward purchased for 2009–10. Rates secured to date have ranged from a high of \$1.73 to a low of \$1.44. With no reduction in the payments to International Organisations, and assuming sterling doesn’t strengthen, we forecast our international subscription budgets will face a pressure of between 25% and 30%.

2009–10

*Sterling/Euro*

Over 95% of exposure has been forward purchased for 2009/10. Rates secured to date have ranged from a high of nearly €1.28 to a low of \$1.11. With no reduction in the payments to International Organisations, and assuming sterling doesn't strengthen, we forecast our international subscription budgets will face a pressure of between 25% and 30%.

5. CAPITAL EXPENDITURE

(i) *What profit did the Department make on the sale of the Madrid Embassy?*

The FCO made no profit in the accepted sense on the sale of the Madrid Offices. The net receipts, generated after costs incurred through the sales process, were approx £42 million.

(ii) *Can you give a breakdown of the capital projects on which the Department will spend this £42 million?*

The receipts generated by the Madrid sale were added to the FCO's capital budget and were not linked to any particular project or expenditure.

6. MOVE TO IFRS

(i) *How will the adoption of the financial instrument standards (FRS 25, 26) impact on your Estimate and accounts?*

Following HMT's withdrawal from underpinning the Overseas Price Mechanism in the latest CSR, the FCO put in place a rolling system of Dollar and Euro forward purchase contracts to provide a degree of budget certainty against our major cash flows denominated in foreign currency. These are deemed to be financial instruments in terms of the Standards and un-matured contracts. They will assume a value at the 31 March balance sheet date, when measured against the prevailing rates of exchange (the daily rate on 31 March) and the forward contract rates.

The values may be assets or liabilities dependent upon whether the daily rate is higher or lower than the contract rate. These assets or liabilities need to be recognised in our balance sheet and the corresponding gains or losses reflected in our operating cost statement. Because of the continued weakness of sterling, and unless there is a marked recovery before the end of March, unrealised gains are expected to be substantial at the year-end, at some £90 million.

In view of the volatility engendered by this "mark to market" accounting, we have, in concert with MOD, requested that gains and losses be shown as Annually Managed Expenditure.

(ii) *What are the "open contracts" being referred to in the Estimate Memorandum?*

The "open contracts" referred to are those forward contracts that have not matured at the balance sheet date, thus requiring assessment as financial instruments, ie the foreign currency will be delivered and paid for in terms of the contracts during a future accounting period.

*Tony Woodison*

Deputy Finance Director & Head FMG

30 January 2009

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**Foreign and Commonwealth Office Spring Supplementary Estimate 2008–09 Memorandum**

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, FCO Services, 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;
  - Section D: Peacekeeping and peace building activity and on associated strengthening of international and regional systems and capacity globally; and
  - Section E: Provision of specialist, targeted assistance in countries emerging from violent conflict.

#### RfR1 SPRING SUPPLEMENTARY ESTIMATES CHANGES

##### *Machinery of Government Changes*

2. There were no further items identified for transfer in the Spring Supplementary Estimate.

##### *Take Up of End Year Flexibility*

3. The take up of £10,800,000 Resource DEL EYF is in respect of restructuring. The take up of £6,500,000 Resource DEL EYF is in respect of adverse currency fluctuations.

##### *Claims on the DEL Reserve*

4. Claims on the DEL reserve include:
  - £24,500,000 programme expenditure for Consular premiums collected in the UK by the Home Office that are transferred to the FCO via the Reserve.
  - £24,000,000 programme expenditure arising from the FCO/HMT 40/60 International Organisations subscription cost sharing agreement.

##### *Transfers of Budgetary Cover*

5. Transfers of budgetary cover include:
  - Transfer of £4,700,000 from the Home Office for work on supporting managed migration to the UK representing the second tranche of funding (£5,000,000 was transferred in the Winter Supplementary) to cover in-country costs incurred through the consideration of both Work Permit and Highly Skilled Migrant Programme visa applications and compliance costs associated with in-country activity to ensure that visa holders are adhering to their conditions.
  - Transfer of £1,000,000 other current from DFID in respect of the Returns and Reintegration Fund to increase the number of foreign national prisoners and failed asylum seekers who return to their countries of origin and to ensure that those who return voluntarily are effectively re-integrated.
  - Transfer of £200,000 other current from DFID in respect of bilateral project work in Africa.
  - Transfer of £11,200,000 other current to the Security and Intelligence Agencies for expansion and capability.
  - Transfer of £1,800,000 to MOD for building law enforcement capacity in Afghanistan.
  - Transfer of £270,000 other current to the Security and Intelligence Agencies for expansion and capability.
  - Transfer of £104,000 other current to the Home Office in respect of gratis visas for Zenit St Petersburg fans attending the UEFA Cup in Manchester.
  - Transfer of £18,000 administration to DIUS for Government Skills.

6. No FCO activities are expected to be reduced as a result of the above transfers. Transfers between government departments such as these are a routine occurrence and are therefore incorporated in the normal budgeting process.

*Neutral and Other Changes*

7. We are awaiting definitive guidance on how to reflect IFRS changes to budget without presenting a negative overall change to an RfR where a significant credit arises. Pending this we have reflected the estimated indirect resource impact of the introduction of the IFRS Financial Instruments trigger point 1 on unrealised gains for forward purchase of Stirling contracts of £80,000,000, with an offsetting debit in impairments.

8. We have transferred £39,400,000 other current from RfR1 to RfR2 in respect of Peacekeeping pool funds in Africa, of which £29,400,000 is the gain we made on the foreign exchange forward contracts to offset the increased costs in Peacekeeping due to the fall in Sterling, the benefit of which would otherwise score entirely in RfR1, and £10,000,000 to the UN trust fund for Peacekeeping in Somalia.

9. We have reduced depreciation to better reflect forecast outturn and have transferred £20,000,000 from non-cash resource to near-cash resource expenditure

10. We have transferred £6,500,000 other current to the British Council in respect of exchange rate fluctuations and £400,000 from FCO programme to the Council to contribute towards the cost of the Turner exhibition in China.

11. We have transferred £10,000,000 other current to capital in respect of capital pressures, in particular FCO Services capitalisation.

12. We have increased operating appropriations in aid, fully offset by spending, to include:

- £309,700,000 other current to charge UKBA for the costs incurred on their behalf by FCO following on from the transfer of budget cover effected in the Winter Supplementary Machinery of Government change.
- £22,000,000 other current for Consular fees. Expenditure and receipts have been adjusted upward to reflect current levels of income and this does not imply a need to increase fees.
- £20,000,000 for services provided to partners across government, including FTN telecom charges.
- £600,000 administration for FCO Services interest payments following their change in status to a trading fund from 1 April 2008.

**RfR2 SPRING SUPPLEMENTARY ESTIMATES CHANGES**

13. Please note that following the merger of the Global and Sub Saharan Africa Pools subsequent to CSR07 we intend to show one line in RfR2 for Peacekeeping and one line for Conflict Prevention Programmes from Main Estimates 2009–10.

*Claims on the DEL Reserve*

14. Claims on the DEL reserve will be used to meet the UK's share of assessed (obligatory) costs for UN, EU and OSCE peacekeeping operations and the secondments of UK military, policing and civilian personnel to a range of international peacekeeping operations. The claim on the reserve to fund this activity is comprised of:

- £13,925,000 programme expenditure for peacekeeping activities in Africa.
- £13,675,000 programme expenditure for peacekeeping activities in the rest of the world.

*Transfers of Budgetary Cover*

15. Transfers of budgetary cover include:

- Transfer of £15,350,000 from MOD for the final tranche of Stabilisation Aid Fund (SAF), of which £13,600,000 is for work in Afghanistan and £1,750,000 for work in Iraq.
  - The Stabilisation Aid Fund (SAF) was established as part of the 2007 Comprehensive Spending Review (CSR 2007). The purpose of the SAF is to fund civil conflict stabilisation activities in “hot” conflict zones—volatile or hostile areas where the security situation does not yet permit us to commence traditionally funded programmes and provides funding of £269 million over the three years of the CSR: 2008–09 to 2010–11.
  - More broadly the SAF also supports the UK Government's aims for managing and resolving conflict as set out in the National Security Strategy and Conflict Strategy, and elaborated in the 2008–11 Public Service Delivery Agreement (30): Reducing the Impact of Conflict. The PSA aims to achieve:
    - A global and regional reduction in conflict and its impact through improved UK and international efforts to prevent, manage and resolve conflict, and to create the conditions required for effective state-building and economic development.

- The SAF constitutes an essential component of efforts to enhance the UK Government's efforts to bring about greater stability in countries emerging from violent conflict. Greater stability is achieved through a combination of:
  - promoting non-violent ways to resolve conflict;
  - providing greater protection to the host nation civilian population and institutions;
  - meeting other priority needs such as job opportunities and delivering basic services to underpin confidence in the nascent political processes; and
  - invariably these require building the legitimacy and capability of host nation institutions including local and central state authorities.
- Transfer of £6,516,000 from DFID in respect of conflict prevention activities in Africa to support the Africa Union in peacekeeping, capacity building and conflict resolution. Projects funded include the Good Governance Programme in Zimbabwe and the Sudan Peacekeeping Fund.
- Transfer of £1,000,000 from DFID in respect of global conflict prevention activities in South Asia.
- Transfer of £216,000 from DFID in respect of work in Ghana by the Carter Centre.
- Transfer of £916,000 to DFID for SAF managed job slots in Afghanistan which assist with management of several SAF projects.

16. As with the RfR1 transfers no FCO activities are expected to be reduced as a result of the above transfers. Transfers between government departments such as these are a routine occurrence and are therefore incorporated in the normal budgeting process.

#### NEUTRAL AND OTHER CHANGES

17. As described above we have transferred £39,400,000 from RfR1 to RfR2.

Table 1

#### DETAILED EXPLANATION OF CHANGES

End year flexibility		
10.800	RfR1	Section A2 Take up of programme End Year Flexibility for restructuring
6.500	RfR1	Section A2 Take up of programme End Year Flexibility for adverse exchange rate fluctuations
<i>17.300 Resource Total Change to DEL</i>		
Transfers from programme to capital		
10.000	RfR1	Section A7 increase from Section A2 to cover capital pressures
<i>-10.000 Resource Total Change to DEL</i>		
<i>10.000 Capital Total Change to DEL</i>		
Transfers between sections within the Estimate		
39.400	RfR1&2	Transfer to RfR2 Section C3 from RfR1 Section A2 for peacekeeping pool funds in Africa
20.000	RfR1	Section A2 increase in programme near-cash from depreciation non-cash
6.900	RfR1	Section C2 increase from Section A2 for the British Council
Transfers from Other Government Departments		
15.350	RfR2	Section E3 programme transfer from MOD for Stabilisation Aid Fund
6.516	RfR2	Section A3 programme transfer from DFID for conflict prevention work in Africa
4.700	RfR1	Section A2 programme transfer from Home Office for work on migration
1.000	RfR1	Section A2 programme transfer from DFID for Returns and Reintegration Fund
1.000	RfR2	Section B3 programme transfer from DFID for global conflict prevention work
0.216	RfR2	Section A3 programme transfer from DFID for work in Ghana by the Carter Centre
0.200	RfR1	Section A2 programme transfer from DFID for bilateral project work in Africa
<i>28.982 Resource Total Change to DEL</i>		
Transfers to Other Government Departments		
-11.120	RfR1	Section A2 programme transfer to the Security and Intelligence Agencies for expansion and capability
-1.800	RfR1	Section A2 programme transfer to MOD counter narcotics work in Afghanistan
-0.916	RfR2	Section E3 programme transfer to DFID for management of Stabilisation Aid Fund projects in Afghanistan
-0.270	RfR1	Section A2 programme transfer to the Security and Intelligence Agencies for expansion and capability
-0.104	RfR1	Section A2 programme transfer to the Home Office for gratis visas for Zenit St Petersburg fans
-0.018	RfR1	Section A1 administration transfer to DIUS for government skills
<i>-14.228 Resource Total Change to DEL</i>		

Transfers from Central Funds		
24.500	RfR1	Section A2 Resource Reserve claim for consular premiums
24.000	RfR1	Section A3 Resource Reserve claim for International subscriptions cost sharing agreement
27.600	RfR2	Sections C3 and D3 Resource Reserve claim for peacekeeping pool funds
76.100		<i>Resource Total Change to DEL</i>
Increases in gross spending offset by Appropriations in Aid		
309.700	RfR1	Section A2 increase in programme offset by Section A5 increase in appropriations in aid
22.000	RfR1	Section A2 increase in programme offset by Section A5 increase in appropriations in aid
20.000	RfR1	Section A1 increase in administration offset by Section A5 increase in appropriations in aid
0.600	RfR1	Section A1 increase in administration offset by Section A5 increase in appropriations in aid
Other budget neutral changes		
80.000	RfR1	Section F2 increase in unrealised gains offset by impairments for introduction of IFRS trigger point 1
98.154		<i>NET TOTAL CHANGE TO RESOURCE DEL</i>
10.000		<i>NET TOTAL CHANGE TO CAPITAL DEL</i>

#### DEPARTMENTAL EXPENDITURE LIMIT (DEL) & ADMINISTRATION BUDGETS

18. The tables below show a comparison of the 2008–09 DEL (Table 2 and 2a) and Administration (Table 3) budgets with the 2002–03, 2003–04, 2004–05, 2005–06, 2006–07 and 2007–08 outturn, the forecast for 2008–09 and plans for 2009–10 and 2010–11.

19. Table 2a 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 2 that are on a consistent basis year on year, including reclassification by Treasury of expenditure across all years of the Public Expenditure cycle.

Table 2  
DEL COMPARISON

	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Forecast</i>	<i>Plans</i>	<i>Plans</i>
Resource DEL <sup>1,2</sup>	1,477.982	1,511.272	1,710.233	1,876.593	1,827.287	1,895.961	2,077.701	1,609.934	1,617.903
Capital DEL	102.021	86.671	116.676	131.842	160.314	226.377	216.060	216.060	205.060
Less	67.122	64.060	67.156	108.725	81.555	73.220	85.050	103.050	100.050
Depreciation <sup>1,3</sup>									
Total	1,512.881	1,533.883	1,759.753	1,899.710	1,906.046	2,049.118	2,208,711	1,722,944	1,722,913

<sup>1</sup> Figures for all years reflect the reclassification of impairment expenditure from DEL into AME.

<sup>2</sup> Resource DEL figures for 2009–10 onwards are understated because they do not include all of the conflict prevention expenditure, which will be transferred at the time of the relevant Main and Supplementary Estimates. In addition 2005–06 included expenditure on a number of one off items (Tsunami expenditure, Efficiency Challenge Fund & G8 & EU presidencies).

<sup>3</sup> 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 2a  
PREVIOUS YEARS' EXPENDITURE AGAINST DEPARTMENTAL  
EXPENDITURE LIMITS

Year	Voted	Non-voted	Total DEL	Outturn <sup>1</sup>	Variance
<i>Resource</i>					
2004–05	1,607.192	209.690	1,816.882	1,736.188	80.694
2005–06	1,999.224	6.713	2,005.937	1,916.190	89.747
2006–07	1,924.913	44.213	1,969.126	1,852.024	117.102
Final outturn 2007–08	1,950.523	5.862	1,956.385	1,895.961	60.424
<i>Capital</i>					
2004–05	101.533	1.000	102.533	71.236	31.297
2005–06	135.697	1.000	136.697	92.959	43.738
2006–07	157.779	1.000	158.779	160.747	-1.968
Final outturn 2007–08	243.567	—	243.567	227.973	15.594

<sup>1</sup> Outturn in is based on the definition of DEL in the relevant year and so is not consistent with the outturn in Table 2 that includes subsequent classification changes effective across all years.

Table 3

## ADMINISTRATION BUDGET COMPARISON

	£m								
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Forecast</i>	<i>Plans</i>	<i>Plans</i>
Administration budget	353.296	375.961	405.495	399.931	393.201	367.508	430.517	420,513	411.482

<sup>1</sup> Figures for all years reflect the reclassification of impairment expenditure from DEL into AME.

## DEPARTMENTAL UNALLOCATED PROVISION (DUP) 2008-09

20. All FCO provision was allocated in the Winter Supplementary Estimate. We took up £17,000,000 DUP to offset adverse exchange rate movements.

Table 4

## 2008-09 DEPARTMENTAL UNALLOCATED PROVISION

	<i>Resource</i>	<i>Capital</i>
RfR1 DUP to met unforeseen requirements arising in-year	£0.0m	£0.0m
Total	£0.0m	£0.0m

## END YEAR FLEXIBILITY (EYF)

21. The Public Expenditure Outturn White Paper published in July 2008 showed a total figure of £171.931 million for carry forward of underspend into 2008-09 under the DEL EYF scheme.

22. As explained above, we have taken-up of £10,800,000 Resource DEL EYF is in respect of restructuring and £6,500,000 Resource DEL EYF is in respect of adverse currency fluctuations.

Table 5

## ACCUMULATION OF EYF

	£m					
	Administration	Programme	Total Resource	<i>Of which near cash</i>	Capital	Total
Total FCO EYF Entitlement in Public Expenditure Provisional Outturn July 2008 (table 6 – Cm 7419)	58.559	96.538	155.097	120.383	16.834	171.931
EYF drawn down in Winter Supplementary	—	—	—	—	—	—
EYF drawn down in Spring Supplementary	—	17.300	17.300	17.300	—	17.300
<b>BALANCE OF ACCUMULATED END YEAR FLEXIBILITY GOING INTO 2009-10</b>	58.559	79.238	137.797	103.083	16.834	154.631

## PUBLIC SERVICE AGREEMENTS

23. The major part of the increase in expenditure in this Supplementary Estimate is take-up monies to further the conflict reduction PSA on which we are the lead department.

24. Other major changes impact on the PSA commitment to ensure controlled, fair migration. These are the budget neutral increase in other current expenditure and receipts of £309.7m for charges to UKBA following the Machinery of Government change and £22m to cover increased consular business, the transfer from the Treasury Reserve of £24.5 million of consular income and the £4.7 million for migration transferred from UKBA.

25. The £24 million taken up as part of the 40/60 cost sharing agreement for International Subscriptions particularly supports the DSO for preventing and resolving conflict through a strong international system but also confers benefits across a number of DSOs and PSA targets.

26. The up-take of EYF of £10.8 million and £6.5 million for respectively improved efficiency and currency fluctuations are both designed to improve delivery across a number of FCO's Departmental Strategic Objectives and PSA targets.

27. We have also increased capital expenditure by £10 million, fully offset by reductions in resource expenditure, to increase the security and safety of our Estate and the people using it and so improving delivery across all FCO Departmental Strategic Objectives and PSA targets.

*Keith Luck*

Director General Finance

2 February 2009

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**Letter to the Chairman of the Committee from Sir Peter Ricketts KCMG, Permanent Under-Secretary,  
Foreign and Commonwealth Office**

THE FCO 2008 STAFF SURVEY

We have just received the full results of our annual survey of all our staff at home and abroad. I thought the Committee would be interested to see these.<sup>1</sup>

The overall results are encouraging. They show that most of our staff like working for us, think our organisation is a good one, and see us improving in the areas where we need to improve.

For example:

- we got our highest ever response rate this year: 71% of our staff around the world, up 22% on last year. That gives us confidence that our staff think we are listening to what they say and will act on it. We are and we will;
- most of the ratings were positive. These cover what staff think about their job, reward and recognition, career, training, work-life balance, diversity, security, line managers, leadership, change and communication;
- 92% of our staff understand how their own work contributes to the objectives of the FCO or their post. 88% think they are doing something worthwhile. 84% are proud to work for us. Many of these scores are well ahead of the central government average;
- there were some big improvements compared with last year's survey. Leadership: 70% of staff now say their senior managers show integrity (7% higher than last year). Change: 68% of staff now understand why the FCO is changing, up 7%. Diversity: 73% now say the FCO/post is actively committed to it, up 7%; and 70% think their senior managers are, up 10%. Flexible working: 63% now say their manager supports it, up 11%; and
- we are making progress over time. Comparing each of the surveys from 2004 onwards shows that in each successive year our staff have given the FCO better ratings overall than in the previous one. This suggests that the organisation really is improving.

Of course there are some important messages for me and the senior leadership team as well. For example, only 36% of our staff think the overall pay and benefits package we offer is reasonable (though this is also one of the most improved scores: 8% higher than last year).

Of greatest concern to me was the figure for discrimination, bullying and harassment: 17% of our staff said they had experienced it. This is 17% too many. We are looking carefully at the reasons. Part of the explanation may be that our recent diversity training has encouraged staff to speak out: the figure was 2% up on last year, and most now say they would feel able to report such treatment if it happened to them (up 7% to 63%).

Our policy on discrimination, bullying and harassment is simple: zero tolerance. We have reaffirmed this to all staff; told our Heads of Mission and Directors that we look to them to ensure it; and underlined that we will take disciplinary action up to and including dismissal against any staff member found to have behaved in this way.

We have shared all the main survey results with our staff and told them how we intend to respond to the various points they raised. We have also shared with staff the detailed scores for each of our posts and directorates, and have encouraged our Heads of Mission and Directors to discuss these with their own

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<sup>1</sup> Not printed.

teams. We are doing more analysis of some of the points that emerged from the survey. Finally we are inviting staff to debate some of the issues which came up in the survey with senior management during an online conversation we are holding next month, open to all staff.

17 February 2009

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**Letter to the Chairman of the Committee from Rt Hon David Miliband MP, Secretary of State  
for Foreign and Commonwealth Affairs**

Thank you for your letter of 23 January about a meeting of the Foreign Affairs Committee which discussed recent failures by the FCO to issue in time visas to musicians and performers invited to an event at the Kyrgyz Embassy in the UK by the Kyrgyz Ambassador.

The Committee asked what action the FCO is taking to ensure such an incident does not reoccur and what contingency plans are now in place or in development to deal with any reoccurrence of the “critical IT failures” which took place.

The recent loss of IT services in Almaty were due to local interference affecting satellite connectivity and outside the control of the FCO and its telecommunications provider. In order to lessen the risk to our communications in places such as Almaty, we are replacing satellite with leased line capability where this is possible. This work was completed in Almaty on 21 November. The satellite dish in Almaty is being relocated to provide back-up communications.

The Committee also asked whether similar IT failures have occurred elsewhere and if so whether these have had significant adverse consequences.

A similar interference problem was experienced last year in Lagos; different solutions were put in place as quickly as possible to restore service. Solutions included changing band width to cover different channels and installation of a screen to prevent interference. Post now have automatic failover to an ISDN back-up link in the case of failure.

The Committee also asked what the implications are of this incident for the FCO’s hub and spoke system for visa processing and in relation to the potential disadvantaging of individuals applying from countries, such as Kyrgystan, in which the FCO has no post.

The hub and spoke model consolidates the number of visa processing centres. It does not affect the number of locations where customers can submit their applications. The mandated collection of biometric data from all visa applicants means that they must visit a designated biometrics collection point. Applicants from countries with no biometrics collection point are usually directed to nearby, contiguous countries. One of the drivers of the hub and spoke model is to move work from insecure locations with unreliable logistical support into hubs on a more stable logistical platform.

As the Committee may know, we have signed global contracts with commercial partners to standardise and extend our existing network of Visa Application Centres (VACs). These agreements allow us to open a Visa Application Centre in any location where it would be economically viable. The number of applicants in Kyrgystan do not currently justify opening such a Centre there but we are keeping the situation under constant review.

I would like to reassure the Committee that the FCO takes these issues very seriously and is working closely with our telecommunications provider to resolve them as quickly as possible. We will continue the work to replace satellite with leased line in those places where it is possible and to review back-up communications capability within overseas posts.

24 February 2009

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**Letter to the Chairman of the Committee from Sir Peter Ricketts KCMG, Permanent Under-Secretary,  
Foreign and Commonwealth Office**

**REVISION OF DIPLOMATIC SERVICE REGULATION 5: CONFIDENTIALITY AND  
OFFICIAL INFORMATION**

At our meeting in October, I explained that I was ready to publish revised guidance for former members of the Diplomatic Service on memoirs and the use of official information, but I thought it better to do so alongside the changes to the Civil Service Management Code that were underway at the time. My decision responded to one of the criticisms made by the Public Administration Select Committee (PASC) in their 2006 report on the publication of political memoirs, namely the different approaches taken by the Cabinet Office and the FCO in the past which have given rise to confusion and inconsistency.

I am pleased to say that the changes to both the Civil Service Management Code and DSR5 are now finalised. They are fully in line with one another and incorporate the amendments to the rules agreed in the Government's response to the PASC 2006 report on memoirs. In addition, DSR5 includes much clearer and less restrictive guidance for former members of the Diplomatic Service. A copy of the revised DSR5 is attached.

2 March 2009

#### DIPLOMATIC SERVICE REGULATION 5: CONFIDENTIALITY AND OFFICIAL INFORMATION

5.1. Members of the Diplomatic Service are reminded on appointment, retirement or resignation that they are bound by the provisions of the criminal law, including the Official Secrets Acts, which protect certain categories of official information, and by their duty of confidentiality owed to the Crown as their former employer.

##### *Standards of Conduct for Serving Members of the Diplomatic Service*

5.2. Members of the Diplomatic Service must handle information as openly as possible within the legal framework. Government policy in this area is available via the website of the Ministry of Justice at <http://www.justice.gov.uk/guidance/guidancefoi.htm>. Members of the Diplomatic Service must not, without relevant authorisation, disclose official information which has been communicated in confidence within Government or received in confidence from others. It is an individual's responsibility to ensure that any action which may require authorisation is properly authorised in advance.

5.3. Members of the Diplomatic Service must continue to observe this duty of confidentiality after they have left the Diplomatic Service. See sections 5.15. to 5.19.

5.4. Members of the Diplomatic Service must not take part in any activities or make any public statement which might involve the disclosure of official information or draw upon experience gained in their official capacity without the prior approval of their Head of Department or Head of Post. They must clear in advance material for publication, broadcasts or other public discussion which draws on official information or experience. Members of the Diplomatic Service should not accept payment for speeches, books, magazine articles etc written in an official capacity.

5.5. The same standards of conduct apply to participation in social media and online activity. Guidance on blogging on public websites is given at [http://www.fconet.fco.gov.uk/About+the+FCO/Depts/DDG/Blog\\_Guidance.htm](http://www.fconet.fco.gov.uk/About+the+FCO/Depts/DDG/Blog_Guidance.htm)

5.6. Members of the Diplomatic Service must not seek to frustrate the policies or decisions of Ministers by the use or disclosure outside the Government of any information to which they have had access as a member of the Diplomatic Service.

5.7. Members of the Diplomatic Service must not publish or broadcast personal memoirs reflecting their experience in Government, or enter into commitments to do so, whilst in Crown employment. The permission of the Permanent Under-Secretary must be sought before entering into a contractual commitment to publish such memoirs after leaving the Service.

5.8. Proposed memoirs should be submitted in good time before any proposed publication date. In reviewing information for publication, the FCO will have regard to whether the information could cause damage to international relations; national security or to the confidential relationships between Ministers, and between Ministers and officials.

5.9. Members of the Diplomatic Service who are appointed to sensitive posts<sup>2</sup> will, as a condition of taking up such a post, be taken to have assigned to the Crown copyright in any future work which relates to their employment and/or which contains or relies upon official information which came into their knowledge or possession by virtue of their employment as a member of the Diplomatic Service. Where permission to publish the work (or parts of it) is provided by the Permanent Under-Secretary, the Crown will reassign copyright in the relevant part of the work. In addition, information may also be subject to Crown copyright (see sections 5.20 to 5.25.)

##### Access to papers of a previous Administration

5.10. In discharging your duties as a member of the Diplomatic Service you must maintain the long-standing conventions that Ministers and special advisers may not normally have access to papers of a previous Administration of a different political complexion. Further guidance is set out in the Cabinet Office publication *The Directory of Civil Service Guidance*.

<sup>2</sup> Sensitive posts are defined as Permanent Under-Secretary, Director General Political, Director General Defence & Intelligence, Principal Private Secretary, HMA Washington, Permanent Representative Brussels and Special Advisers.

#### Surveys and research projects

5.11. Members of the Diplomatic Service must not take part in their official capacities in surveys or research projects, even unattributably, if they deal with attitudes or opinions on political matters or matters of policy.

#### Trade union representatives

5.12. Members of the Diplomatic Service who are elected national, departmental or branch representatives or officers of a recognised trade union need not seek permission before publicising union views on an official matter which, because it directly affects the conditions of service of members of the union as employees, is of legitimate concern to their members, unless their official duties are directly concerned with the matter in question. In all other circumstances they must conform to the standards set out above.

#### Activities of spouses and partners

5.13. Spouses/Partners, unless serving officers themselves, are under no obligation to submit their own memoirs. However, where a publication or other public intervention by your spouse or partner is liable to be interpreted as politically sensitive and therefore detrimental to your own position or more widely to the FCO, you are advised to seek guidance from the Head of Information Management Group (IMG).

#### *Leaked Select Committee Reports*

5.14. Members of the Diplomatic Service in receipt of a leaked Select Committee report must not make any use of it nor circulate it further. They must return the report without delay to the Clerk of the relevant Committee, and only then may they inform their Ministers or Assembly Secretaries. Leaked reports from Committees of the devolved legislatures must be handled in the same way.

#### *Standards of conduct for former members of the Diplomatic Service*

5.15. The FCO welcomes debate on foreign policy and former members of the Diplomatic Service are regular contributors to that debate. The FCO recognises that there is a public interest in allowing former officials to write accounts of their time in government. These contributions can help public understanding and debate. It follows therefore that there is no ban on former members of the Diplomatic Service writing their memoirs or engaging in public debate, but obligations of confidentiality remain after staff have left the Diplomatic Service. The rules below are in place to offer guidance and to balance the public interest.

5.16. The FCO relies on former officials to exercise their good sense and professional judgement about how much they can say publicly for example in interviews, lectures or debates, without the need to consult the FCO.

5.17. The key principles to take into account are that when engaging in public dialogue whether in written or oral form, you should not:

- prejudice national security;
- damage international relations;
- be destructive of the confidential relationship between ministers and officials.

In addition, the FCO has a duty of care to both current and former members of staff who are named in a manuscript in such a way as to cause offence and/or distress.

5.18. To that end any memoir, or part thereof, by retired members of the FCO that draws on official information or the writer's own experience in a way which might conflict with the principles above must be submitted to the FCO for comment. You can be assured that all such material will be processed without undue delay.

5.19. The FCO is always willing to provide guidance and assistance in this area. If in doubt please do make contact through:

Head of Information Management Group  
Old Admiralty Building, G/67  
London SW1A 2PA  
Tel No: 0207 008 1118/1128

#### *Crown copyright*

5.20. Under the Copyright, Designs and Patents Act 1988, works made by members of the Diplomatic Service in the course of their official duties are subject to Crown copyright protection. The responsibility for the management and licensing of Crown copyright rests with the Controller of Her Majesty's Stationery Office (HMSO) in her capacity as Queen's Printer for works produced by UK Government departments, Northern Ireland departments and the National Assembly for Wales.

5.21. Members of the Diplomatic Service must obtain the prior approval of the Head of Information Management before entering into any arrangements regarding the publication or dissemination of any Crown copyright protected material by private sector publishers or information providers. Such arrangements would usually be the subject of specific licensing, to be handled by OPSI's Information Policy team. This would not apply in the following circumstances:

- (a) where material is to be published in learned journals or in the proceedings of conferences or seminars;
- (b) where the material in question is to be published in an official, authorised work specifically on behalf of the originating department or agency.

5.22. Crown copyright is not an issue when a member of the Diplomatic Service produces a copyright work unconnected with their official duties and entirely in their own time. If, however, the work in question is linked to their official duties, they should in the first instance consult the Head of Information Management Group, who in turn may need to consult OPSI. Under these circumstances, the following factors need to be taken into account:

- (a) whether the Member of the Diplomatic Service produced the work during official time;
- (b) whether the work is based on existing Crown copyright source documents; and
- (c) whether there are security considerations.

5.23. If a member of the Diplomatic Service writes a book in their own time, which is unrelated to their official duties, but wishes to incorporate extracts of Crown copyright protected material within the work, permission to reproduce the material should be obtained from OPSI. It is customary in such cases for the licence to be granted in favour of the publisher rather than the author, as it is the publisher which is reproducing the material. It is permissible for the author to submit the application on the publisher's behalf. Where an individual is on secondment outside the Diplomatic Service, copyright in any work which they produce during the term of their secondment will usually rest with the host organisation. This should be covered within the terms of the secondment.

5.24. OPSI has published guidance on clearance and licensing arrangements for articles written by civil servants: see <http://www.opsi.gov.uk/advice/crown-copyright/copyright-guidance/publication-of-articles-written-by-ministers-and-civil-servants>. Guidance on various aspects relating to copyright and official publishing is available on the OPSI website at <http://www.opsi.gov.uk/advice/crown-copyright/copyright-guidance/index.htm>.

Guidance on various aspects relating to copyright and official publishing is available on the OPSI website at <http://www.opsi.gov.uk/advice/crown-copyright/copyright-guidance/index.htm>.

5.25 If you have further questions concerning copyright procedures please refer them to:

Head of Information Management Group  
Old Admiralty Building, G/67  
London SW1A 2PA  
Tel No: 0207 008 1118/1128

*Updated: January 2009*

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**Letter to the Chairman of the Committee from Sir Peter Ricketts KCMG, Permanent Under-Secretary,  
Foreign and Commonwealth Office**

**ALLEGATIONS OF MISCONDUCT BY KBR MANAGERS IN BRITISH EMBASSY BAGHDAD**

You will be aware that there have been further allegations of misconduct by KBR staff at our Baghdad Embassy.

These allegations, which were made to Embassy senior management by an Iraqi member of KBR staff and immediately reported to FCO, concerned misconduct by a female member of KBR's Iraqi staff, in the form of abusive behaviour towards other locally-hired KBR colleagues. It was further alleged that she was able to behave in this way without sanction because of an improper but consensual relationship with an expatriate KBR staff manager.

Unlike the allegations made 2007, there was no suggestion that expatriate KBR staff had sexually harassed or abused members of their local staff. But because the allegations were similar to those made in 2007 in the sense that they concerned relationships between local and expatriate KBR staff, we agreed with KBR that there should be a joint investigation into the allegations.

Two FCO officers with extensive experience of conducting investigations therefore joined two senior UK-based KBR staff in visiting Baghdad and Kuwait to investigate the allegations. They deployed to Baghdad within four days of the allegations being made. Meanwhile, the KBR manager concerned was immediately suspended and removed to Kuwait on the earliest available flight.

The investigating team has now completed their enquiries and reported the initial findings orally to FCO officials. These were based on a series of long and thorough interviews, totalling 60 hours, with all those who might have knowledge relevant to the allegations, including all KBR staff in Baghdad. The investigating team found no evidence to corroborate rumours of sexual misconduct between the expatriate manager and the female local staff member who was the subject of the complaint. They did find however that the female member of staff had encouraged such rumours; that she and four of her colleagues had engaged in violent, abusive and intimidating behaviour towards other KBR local staff; and that local KBR management had failed to deal satisfactorily with this behaviour. As a result, KBR have dismissed the five local staff concerned for gross misconduct, and the expatriate manager concerned has been removed from the FCO contract in Iraq.

I met senior managers from KBR to follow this up. They agreed that there had been a failure of management standards, which was of particular concern in the light of the 2007 allegations. We agreed on a series of actions to address these failings and deliver systemic improvements, through a thorough review of KBR's local management systems, structures and practices in Baghdad. This will include ensuring there are robust procedures in place to enable KBR's local staff to raise grievances in confidence, and for better oversight of expatriate KBR staff. We also agreed that the requirement for high standards of behaviour and management should be codified through new clauses in our contract with KBR. We will also apply these provisions to similar contracts between the FCO and other contractors as appropriate.

I recognise that these allegations and the findings detailed above have revived interest in KBR's investigation into the 2007 allegations. The investigating team were not tasked specifically to review that matter; their firm view is that it would have been impossible, given the passage of time, to do so fairly or effectively. I should emphasise however that in the course of an extremely thorough investigation, they did not encounter any suggestion that sexual abuse or harassment of local staff by expatriate managers was taking place, or had done so in the past. I would also reiterate the point made by the Foreign Secretary in his letter to you of 19 May 2008: that the conduct and outcome of the 2007 investigation was collectively reviewed in 2008 by a new Embassy senior management team, and that senior officials in the FCO accepted their recommendation that there were no grounds for re-opening the issue. That remains our position.

I have also taken note of the relevant recommendations in the Committee's report of 8 February. We will respond formally to these in due course, but we continue to believe that as a general rule, the primary responsibility for dealing with problems between and among staff employed by a contractor should lie with the company concerned. As our response to these allegations shows, however, we accept that occasions may arise when it is right to take action jointly.

4 March 2009

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**Letter to Rt Hon David Miliband MP, Secretary of State for Foreign and Commonwealth Affairs  
from the Chairman of the Committee**

SECONDMENT OF POLICE OFFICERS TO RECONSTRUCTION MISSIONS OVERSEAS

I write to seek further clarification on a matter raised in an article in the *Financial Times* on Monday 2 March.

The article suggests that as a result of budgetary constraints resulting from the financial crisis, the UK will withdraw many of the police officers currently seconded overseas to help with reconstruction efforts and reduce the UK's contribution to a level similar to Slovakia's.

My Committee would be grateful for a memorandum on this matter clarifying what level of support the FCO anticipates it will be able provide for reconstruction efforts overseas in the near future, and in particular the number of police officers that will be seconded for these purposes.

18 March 2009

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**Letter to the Chairman of the Committee from Rt Hon David Miliband MP, Secretary of State  
for Foreign and Commonwealth Affairs**

I wrote to you last year about the changes we were making to FCO scholarships and the decision to stop funding scholarships for *developed* Commonwealth countries through the Commonwealth Scholarship and Fellowship Plan. This reflects the vast increase in other sources of funding over the last 20 years. I will respond in due course in the usual way to the Foreign Affairs Committee's Report on the Foreign and Commonwealth Office's Departmental Annual Report 2007-08, in which you regretted the decision and expressed the view that it had caused damage to the UK's reputation in the Commonwealth (paragraph 242). I continue to believe that the reforms we have made in terms of ambition and focus will serve us well.

Meanwhile I wanted to inform you that we have decided to contribute £500,000 to the new Commonwealth Scholarships Endowment Fund marking the 50th anniversary of Commonwealth Scholarships. The Fund is intended to pay for scholarships tenable in developing Commonwealth countries. I wrote recently to Kamallesh Sharma, Commonwealth Secretary-General, to confirm the donation, which I had indicated last May might be possible before the end of this financial year.

We are pleased to support this initiative, which will make a major contribution to collaboration within the Commonwealth and to our links with developing Commonwealth countries. We hope that this decision will help Kamallesh Sharma and the Commonwealth Scholarship Commission to promote the initiative among other Commonwealth governments.

I am putting a copy of this letter in the Library of the House.

25 March 2009

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**Letter to the Chairman of the Committee from Rt Hon David Miliband MP, Secretary of State  
for Foreign and Commonwealth Affairs**

I know that the Foreign Affairs Committee, Defence and International Development Committees have all taken a very close interest in the issue of the resources available to HMG for activity to prevent and resolve conflict, and in particular in the issue of how we will address rising assessed costs for international peacekeeping. I attach the text of a Written Ministerial (WMS)<sup>3</sup> which I have issued today, together with the Secretary of State for Defence and the Secretary of State for International Development.

The WMS explains that we will earmark £456 million from the £556 million available for conflict in 2009–10 to cover the projected rise in assessed peacekeeping costs. The FCO, DfID and MoD will allocate an additional £71 million from Departmental budgets to offset the impact of this on UK conflict prevention, stabilisation and discretionary peacekeeping activity. This will leave a total of £171 million for such activity.

The WMS contains further details of what we will continue to be able to fund under these new arrangements. Although assessed contributions to international peacekeeping are inherently volatile, these arrangements will allow us to meet our current forecast of £456 million in 2009–10. And they will also allow us to maintain current levels of activity in Afghanistan and across South Asia. But as the statement makes clear, we will need to discontinue funding in the Americas and cut funding to other regions, such as Africa.

We have come to these difficult decisions through careful prioritisation, which has allowed us to focus activity more tightly on countries where the risk and impact of conflict is greatest and where our actions will have the biggest impact. We are confident that this approach, as well as the additional £71 million which we have allocated, should allow us to maintain our significant contribution to international peacekeeping, and to fund essential conflict prevention and stabilisation activity in priority regions.

25 March 2009

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**Letter to the Chairman of the Committee from Sir Peter Ricketts KCMG, Permanent Under-Secretary,  
Foreign and Commonwealth Office**

FCO: CAPABILITY REVIEW

The Department has just undergone a re-Review by the Capability Reviewers, two years after their original report. I wanted to give you early sight of the resulting report (enclosed).<sup>4</sup>

I'm pleased to say that they found we had made real progress in all the areas for action they identified last time. They recognised our engagement with their original report and its findings and commended our enthusiasm, commitment and energy to change and improve.

Our most improved ratings were for leadership (an increase in all the categories). This tallies with our recent staff survey results which also showed that our staff think the leadership of the organisation is improving. The reviewers welcomed our clearer direction, the performance of the Board, and our campaign to make the best use of the talents of all of our staff.

On strategy, the Reviewers found that our Departmental Strategic Objectives were helping staff focus work on priority areas, and that we have built up the capacity of the Department to do strategy work. They noted that 91% of our Government partners thought we were doing a good job for them. They also recognised that working relationships between the FCO, MOD and DFID have improved noticeably, lead by Permanent Secretaries.

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<sup>3</sup> Not printed. Already in public domain. HC Deb, 25 March 2009, Col 17WS.

<sup>4</sup> Not printed. See [http://www.civilservice.gov.uk/Assets/FCO-WEB\\_tcm6-6654.PDF](http://www.civilservice.gov.uk/Assets/FCO-WEB_tcm6-6654.PDF)

On delivery, the reviewers said we had improved our tools to manage, prioritise and drive delivery, with better business plans and management information (one rating increased in this block). They were impressed with the way our network is innovating, in particular the adoption of a hub and spoke model in our Nordic/Baltic network.

Under each heading the report also sets out areas where we need to improve further. These include ensuring that our many change programmes remain coherent and mutually reinforcing, and deliver real improvements to performance; considering the implications of innovative regional networks such as the Nordic/Baltic network for the relationship between London and Posts, and linking strategic workforce planning to these innovations.

When they met the Board to tell us their findings, the reviewers encouraged us to maintain our pace of improvement and continue to think radically about our place in a changing world. But they had confidence that genuine change had begun and would continue; that our improved leadership would help deliver further change.

This is a positive message for the organisation. We were able to discuss it, at the Leadership Conference of all of our Ambassadors last week, in relation to the big issues ahead, particularly the implications of the economic crisis for foreign policy and the FCO.

We certainly don't underestimate the scale of challenges we face. But this Review gives grounds for confidence that the FCO has the capacity to adapt to a fast-changing agenda, in order to continue to deliver excellent foreign policy and services to the citizen internationally.

I would be happy to discuss the issues raised by this Review with the Committee at my next evidence session.

31 March 2009

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**Letter to the Chairman of the Committee from Sir Peter Ricketts KCMG, Permanent Under-Secretary,  
Foreign and Commonwealth Office**

FCO STRATEGIC PROGRAMME FUND

I enclose copies of the Strategic Programme Fund (SPF) Annual Report 2007–08,<sup>5</sup> highlighting the SPF's achievements in its first year. The programme followed from the Global Opportunities Fund (GOF), which was reshaped and refocused on the four new policy goals following our Strategy Refresh in 2007.

The Fund is a key tool in delivering our Departmental Strategic Objectives. Posts are encouraged to work up large, high impact, multi-year projects that can bring about transformational change and to measure the results as far as possible. Projects are fully integrated into the Country Business Planning process to ensure the right focus in each country.

I would like to get this report to Parliament more promptly in the future, and am taking steps to ensure that the 2008–09 report is published in October 2009.

The current report will also be placed in the Library of the House and on the FCO website.

1 April 2009

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**Letter to the Chairman of the Committee from Rt Hon David Miliband MP, Secretary of  
State for Foreign and Commonwealth Affairs**

SECONDMENT OF POLICE OFFICERS TO RECONSTRUCTION MISSIONS OVERSEAS

Thank you for your letter of 18 March about the secondment of police officers to reconstruction missions overseas.

You will now have seen the Written Ministerial Statement which I issued with the Secretaries of State for Defence and International Development on 25 March, and my letter to you of the same date. I was also grateful for your supportive remarks in the debate on Africa on 30 March.

The Written Ministerial Statement sets out the financial constraints under which we will be operating in 2009–10, as a consequence of the projected rise in assessed peacekeeping costs, which is due to increased peacekeeping activity and exchange rate changes. And it contains further details of what we will continue to fund under the new arrangements.

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<sup>5</sup> Not printed.

The process of course involved a series of difficult decisions. It has not proved possible to fund all areas of activity to the same level as in previous years. But we are confident that the careful prioritisation of resources we have undertaken and the additional £71 million in Departmental resources should allow us to maintain our significant contribution to international peacekeeping and to fund conflict prevention and stabilisation in priority regions.

You asked in particular about police secondments. The UK's Police and civilian secondees are regarded highly across international missions and we are determined to maintain a significant presence. We will fund a minimum of 70 secondees to civilian ESDP missions in the Financial Year 2009–10. While there have been reductions at EULEX Kosovo and EUPM Bosnia the support we provide for EUPOL Afghanistan and EUMM Georgia have been maintained at current levels. These will include continued significant police and justice expertise in Kosovo and the Mentor to the Deputy Minister of the Interior in Kabul.

We continue to support the OSCE as one of the main financial contributors to the organisation. We will have fewer secondees deployed to OSCE missions in 2009–10, but will continue to supplement numbers, particularly in key positions, where possible.

I attach a table at Annex A which sets out detailed figures for UK civilian and police secondees by mission. The figures for 2009–10 are of course subject to change during the course of the year as new priorities emerge.

5 April 2009

## Annex A

### UK CIVILIAN AND POLICE SECONDMENTS TO INTERNATIONAL MISSIONS

<i>Mission</i>	<i>Figures at end of 2008–09</i>	<i>Prioritised figures for 2009–10</i>
EULEX Kosovo	Police 45/Civilians 18	Police 17/Civilians 15
EUSR/ICO Kosovo	Police 0/Civilians 4	Police 0/Civilians 4
EUPOL Afghanistan	Police 9/Civilians 1	Police 9/Civilians 1
EUMM Georgia	Police 8/Civilians 3	Police 8/Civilians 3
EUPM Bosnia	Police 9/Civilians 0	Police 3/Civilians 0
EJUST LEX Iraq	Police 4/Civilians 0	Police 4/Civilians 0
ESDP Secretariat	Police 2/Civilians 1	Police 1/Civilians 1
EUBAM Rafah/Gaza	Police 0/Civilians 1	Police 0/Civilians 1
EUBAM Moldova	Police 0/Civilians 1	Police 0/Civilians 1
EUCOPPS Palestine	Police 0/Civilians 2	Police 0/Civilians 2
EUSEC DRC	Police 0/Civilians 1	Police 0/Civilians 1
EUSR South Caucasus	Police 0/Civilians 1	Police 0/Civilians 1
OSCE All Missions	Police 0/Civilians 15	Police 0/Civilians 6
UNAMID Sudan	Police 1/Civilians 1	Police 1/Civilians 1

### Letter to the Committee from the Parliamentary Relations Team, Foreign and Commonwealth Office

#### AUTUMN PERFORMANCE REPORT 2008

#### FCO RESPONSE TO FOREIGN AFFAIRS COMMITTEE QUESTIONS ON THE FCO AUTUMN PERFORMANCE REPORT 2008

#### 2007 CSR DSOs AND PSAs

1. *Many of the indicators within PSA 30, eg “a downward trend in the number of conflicts” are not within FCO’s power to directly control, which means it may be difficult for FCO to be held accountable for movements in these indicators. To what extent do you believe that the FCO can be held accountable for movements in these indicators?*

PSA 30 has a high level of ambition and some of the outcomes HMG is committed to delivering in the PSA will be subject to events/forces outside our control. The challenge of measuring conflict and the impact of HMG’s work in this area is real. For example, very rarely does the UK act alone, preferring instead to act as part of a coalition or under the auspices of an international institution. It is therefore often difficult to measure the impact of the UK’s contribution in isolation. Indeed, there is an explicit acknowledgement of this point in the PSA Delivery Agreement (paragraph 3.3): “Although specific attribution to UK activities is impossible, the efforts set out . . . are intended to contribute to this broad objective [ie a downward trend in the number of conflicts]”. However, we accept the need to measure the impact of our policy work as far as possible. The underlying principle in PSA 30 is that if HMG makes progress against Indicators 2 (“Reduced impact of conflict”), 3 (“More effective International Institutions”) and 4 (“More effective UK Capability to prevent, manage and resolve conflict and build peace”), it will result in a positive trend for

Indicator 1 (“A Downward Trend in the Number of Conflicts”). Although FCO is the lead government Department, DFID, MoD and the Stabilisation Unit are also responsible for delivering this PSA and so they too are accountable for delivery.

There are a number of mechanisms by which the FCO and delivery partners are held accountable for delivering commitments made in the PSA. In accordance with the PSA framework, measures of success have been agreed tri-departmentally for all of the indicators to gauge when/if targets have been met. In addition, a delivery plan has been agreed which sets out specific activities (“milestones”) which have to be delivered successfully during the course of the CSR07 period. The PSA Delivery Board (comprising Permanent Secretaries from all three Departments, chaired by Sir Peter Ricketts) must submit biannual “self-assessments” to the Prime Minister’s Delivery Unit (PMDU) to report progress in achieving the PSA, taking into account analysis of quantitative data and qualitative reporting from Posts, some of which is analysed by an external “challenge panel” of experts. After scrutinising the self-assessment, PMDU, who have overall oversight of PSA delivery, use it as the basis for their own PSA delivery report which is sent to the Prime Minister and Cabinet, who ultimately hold Departments accountable.

2. *The APR was published before the outbreak of conflict in Gaza. How will your assessment of PSA 30 (conflict reduction) and DSO 6 (Prevent and resolve conflict) be affected by this conflict?*

*What are the differences between PSA 30 (conflict reduction) and DSO 6 (prevent and resolve conflict)?*

The recent upsurge in violence in Gaza demonstrates the challenge of achieving the desired outcomes of both PSA 30 and DSO 6. As the Middle East is one of the priority regions cited in both documents, this will naturally be reflected in our assessments, and the situation on the ground will be closely monitored over the remainder of the CSR07 period. For example, under Indicator 2 of PSA 30 (“Reduced Impact of Conflict”), our most recent self-assessment takes into account the increase in “battle deaths” (one of the five quantitative measures against which progress under this indicator will be measured) and reflects the deterioration in the situation in the area.

DSO 6 is specific to this Department but its outcomes are directly linked to the commitments made in PSA 30. It is entirely consistent with it, and supports its objectives.

3. *Many of the DSO indicators especially those within DSO 4 “Support managed migration into the UK”, DSO 5 “Counter Terrorism and Weapons proliferation” and DSO 6 “Prevent and resolve conflict” appear to rely on a qualitative judgement of the FCO’s performance and do not appear to be based on an assessment of quantitative data. This is not surprising given the nature of FCO’s work. However it does mean that it is more difficult to judge whether or not the FCO is making a reasonable assessment of its performance. How does the FCO intend to involve external parties such as the NAO to ensure that its assessments are reasonable?*

The NAO will be heavily involved in the validation of the FCO’s performance framework throughout the CSR period, by assessing the data systems we use to measure our PSA/DSO objectives, on what is likely to be a yearly basis. We are awaiting the findings of the NAO’s most recent review, and will pass this onto the FAC once finalised.

4. *In the commentary within DSO 1, indicator 3 “the network remains flexible”, the APR notes that “we [the Department] have done less well on adapting our posts physical infrastructure to meet the changing needs of Partners Across Government and the FCO itself” (p 7). In what aspects has the Department not adapted posts physical infrastructure as it intended?*

*What are the consequences of this? Why have there been delays?*

This is a universal challenge, not unique to the FCO. It takes time and money to adapt physical infrastructure. And we want to do it right, ensuring that we have the right buildings for FCO staff and those from Partners Across Government (PAG), with the right facilities and security arrangements: that takes time too.

This poses problems in that in a rapidly moving world our needs and those of our PAG can often change faster than we can erect or adapt our buildings. We have sought to deal with this by bringing all stakeholders, including PAG, into the planning process at the start. DFID and UKBA, our two biggest tenants, are now represented on the FCO’s Investment Committee which makes the big decisions on new estates projects.

5. *DSO 4 (Support managed migration) indicator (2) aims for the Department to significantly increase the number of Foreign National Prisoners and Failed Asylum Seekers returned to country of origin. The APR shows progress in this indicator but the commentary does not give figures to support the assessment (p 10). What is the increase in the number of Foreign National Prisoners and Failed Asylum Seekers returned to country of origin? What is the target for this increase?*

As part of PSA 3 (controlled, fair migration) there is a target to increase the total number of removals year on year and the FCO supports the achievement of this. The Home Office Autumn Performance Report (HO APR), published in December 2008, showed that total removals for the first half of 2008–09 were 32,990, up from 31,535 for the first half of 2007–08. This total includes three removal types: Foreign National Prisoners (FNPs); Failed Asylum Seekers (FAS); and non FAS/non FNP. The total removals figure is comprised of enforced removals and voluntary departures, and removals from port and juxtaposed controls.

The UK Border Agency gave a Ministerial commitment to remove more than 5,000 Foreign National Prisoners (FNPs) in the calendar year 2008. This commitment was exceeded and, as reported in the Control of Immigration: Quarterly Statistical Summary, United Kingdom Fourth Quarter 2008, 5,395 FNPs were removed. However, it should be noted that this figure is based on management information. It has not been quality assured under National Statistics protocols, is subject to change and should be treated as provisional. It is therefore not identified separately in the published statistics on removals and voluntary departures.

There is no specific target for Failed Asylum Seeker (FAS) removals. However, removals data for the first three quarters of 2008–09 has been published in the Quarterly Statistical Summary and this shows that FAS removals now stand at 8,620. A comparison against the same period last year shows a 15% dip in the FAS element of removal performance. This is principally, but not exclusively, because of the strong focus on prioritising the removal of the most harmful immigration offenders first. It should be noted that all the UK Statistics produced on a quarterly basis are provisional and hence, subject to change.

6. *DSO 2 “Support the British economy” relates to UKTI activities. How is the UKTI adapting to meet this target, given the current economic downturn?*

UKTI’s targets cover how many businesses we plan to help over the spending review period, as agreed with Treasury. Within this target regime, the most important contribution UKTI can make is to support the UK economy through the downturn by delivering these targets in an increasingly difficult global economic environment. In direct response to the recession, UKTI has reconfigured its delivery programme to address these issues. New measures include:

- The Fiscal Compass Programme to provide targeted help for UK companies to access opportunities arising from new fiscal stimulus packages in markets overseas.
  - A new package, Gateway to Global Growth, to help experienced exporters diversify into new overseas markets.
  - A marketing push, “Take it to the World”, to encourage more UK businesses to explore opportunities overseas with courage and confidence.
  - Simplified funding rules for the Tradeshow Access Programme.
  - A targeted marketing campaign to encourage UK companies to diversify their export markets by exploring opportunities in emerging markets predicted to maintain faster growth than others.
  - A clearer focus on inward investment activity in the top markets that provide the highest investment potential by volume and value.
  - Business Ambassadors: The Business Ambassadors Network was launched on 3 October 2008. The network is an opportunity for business and academic leaders to work with Government to promote the UK’s excellence internationally and highlight trade and investment opportunities.
- The above measures don’t alter UKTI’s overarching Treasury targets, but the focus of activity has changed to help those companies worst affected, and is a direct response to the economic downturn.

*For indicator 4 “improve the UK’s reputation as the international business partner of choice”, the APR states that a benchmarking survey has been completed and the annual surveys will need to show an improvement for this indicator to be met (p 8). On what basis is the Department assessing this indicator has improved, given that it has just completed the benchmarking survey?*

The target will not be assessed until the final year of the spending review period. However, UKTI is monitoring these indicators through annual surveys. UKTI had reported “some progress” on the grounds that the measurement system has been put in place, and a benchmark has been established.

7. *The commentary within DSO 3 “Support British nationals abroad”, indicators (1) (quality of service) and (2) (professionalism of staff) suggests that although there is improvement in these indicators, the Department may not be on track to meet the targets (p 9). Is the Department on track to meet these targets? If not, why is the Department showing “strong progress” against this objective?*

We are on track to meet our Quality of Service metrics, which are currently all green on our Balanced Scorecard.

Our Professionalism of Staff metrics continue to show a positive trend throughout this financial year. There has been an improvement in the majority of the measures (we now only have one red metric as opposed to five at the start of the year) which is why we believe we are showing strong progress during the year.

Our metrics relating to staff training have been set at a target of 100%. This will inevitably mean that we will have a number of posts not meeting the green rating due to staff turnover and waiting lists for courses. However, we want to highlight the importance we are placing on staff training across our network and have therefore decided to persevere with the above target even if it means we will not achieve a green rating.

8. *The first indicator in DSO 5 “Focus our international counter terrorist work across the four Strands of the Government’s strategy” seems to be an amalgamation of the other four indicators (p 12). Why is the Department using this as a separate indicator? Has the Department considered just counting the last four indicators in its overall assessment of progress?*

We recognise the point made by the FAC that the first indicator in DSO 5 “Focus our international counter terrorist work across the four strands of the Government’s CT strategy” amalgamates the other four indicators. However, we value this separate indicator as it provides us with an overview to ensure that there are clear cross-cutting country and thematic international CT strategies in place to demonstrate progress against the 4 P’s overseas. It also helps us to monitor delivery through the FCO’s Counter Terrorism and Counter Radicalisation programme. We keep our monitoring arrangements under review to ensure they are effective management tools.

9. *The APR states that progress has been limited for DSO 8 indicators (1) “stronger capacity in international institutions” and (2) “international institutions which are more representative of the modern world” (p 17). On what basis are you saying that progress has been limited in these indicators? What are you doing to improve the performance of these indicators?*

The Autumn Performance Report is the first such report on progress against DSO 8. However the timescale for delivery of DSO 8 is over a three-year timescale. The report therefore aims to reflect that not all the performance indicators will have been delivered, or expected to have been delivered within the first six months. The indicators include UN Security Council reform, reflecting the need for more representative institutions. They also include capacity issues within the UN.

Since the Autumn Performance Report was issued, there have been some positive areas of development where there has been further Government engagement. Negotiations on UN Security Council reform started in February 2009, and the UK is playing a supportive role in those discussions. In December 2008 the UK successfully supported a new package of UN proposals relating to human resources, strengthening the Department of Political Affairs, progress on IT infrastructure and on the Administration of Justice. And in May 2008, the Commission of Eminent Persons on the Future of the IAEA produced its report. The UK has been at the forefront of discussions in Vienna on taking this forward. UK Ministers (both in FCO and MoD) are leading efforts to reform NATO structures, including working methods at NATO HQ and adapting defence planning and capability development structures, including creating links between EU and NATO processes. These changes take time, but positive steps have been made including a direct tasking from the NAC in December for NATO staff to work closely with EU on defence planning. Another example is FCO analysis and policy development in support of the OECD making its enhanced engagement initiative with major emerging economies more effective.

#### SR 2004 PSAs

10. *The APR shows that CSR04 PSA 6 sub-indicator A was partly met: “At least a 30% point increase by 2007–08 in the proportion of UK Trade and Investment trade development resources focused on new-to-export firms”. Final out-turn figures for 2007–08 show a 12% point increase in trade development resources new-to-export firms over the SR04 period. Why was the increase in trade development resources new-to-export firm far lower than target?*

As explained in the UK Trade & Investment Annual Report and Accounts 2007–08, Chapter 2, HC 851, part of a series of Departmental Reports (Cm 7391 to Cm 7408), and also in the UKTI Autumn Performance Report (Cm 7520) at the start of the SR2004 period, 31% of UKTI’s trade development resources were deployed on new-to-export firms. At July 2006, internal management accounts showed an increase of ten percentage points from this baseline over the first year of the SR2004 settlement. Thus, at the start of the second year of the settlement, April 2006, 41% of total trade development resources were being deployed on new-to-export firms. In July 2006 UKTI launched a new five year strategy, *Prosperity in a changing world*, which charted a new direction for the organisation: to lead for Government in marketing the UK internationally; work in partnership with other public and private sector organisations on trade and

investment; and focus more of its resources on high growth markets and key business sectors. This required significant organisational change and re-distribution of resources to deliver new priorities. Nevertheless, *Prosperity in a changing world* confirmed that new-to-export firms will continue to be an important client group for UKTI.

*Why is the indicator assessed as “partly met” rather than “not met”?*

The indicator was assessed as partly met, as it was on course for delivery until the change in UKTI's strategy brought about by *Prosperity in a changing world*.

*Why is this indicator not being carried forward into the 2007 CSR?*

This is because UKTI's CSR 2007 settlement reinforced the strategy set out in *Prosperity in a changing world* and agreed a new set of indicators that are relevant to measuring the delivery of this strategy. This is reflected in the Strategic Objective for UKTI over the CSR2007 period:

By 2011, deliver measurable improvement in the business performance of UK Trade & Investment's international trade customers, with an emphasis on innovative and Research and Development (R&D) active firms; increase the contribution of foreign direct investment to knowledge intensive economic activity in the UK, including R&D; and deliver a measurable improvement in the reputation of the UK in leading overseas markets as the international business partner of choice.

UKTI is now dedicating its resources to delivering this strategic objective and its indicators for the CSR 2007 period.

11. *Three of the indicators under SR 04 PSA 9 have not been met: overseas passports, birth registrations, and death registrations. What is the FCO doing to assist the posts which have not met these targets? How are these indicators being carried through into the 2007 CSR reporting round?*

We have taken a proactive approach to monitor performance across our overseas passport network and in particular to follow up progress with those Embassies, Consulates or High Commissions which have not been achieving their targets on passports by offering advice and support on how to improve their performance (eg through a combination of visits, input to regional workshops and guidance on passport policy and procedures). Incorrect reporting is also being addressed.

This approach is now paying dividends as their performance is now improving with fewer and fewer posts, attracting a red or amber rating. This is reflected in the overall green rating for passports which has been maintained since October 2008.

For posts failing their birth and death registration targets, we approached them to find out what the problems were. It was discovered that the majority of incidents were a misunderstanding of the requirements. The PSA target was for straight-forward cases, whereas posts were including those cases that they were either querying or awaiting further documentation from applicants. They should not have been included.

There is no formal monitoring of birth and death registrations within our current metrics. We are looking at ways to improve our services with a view to obtaining more accurate and precise management information. In 2009–10, facilities to do all consular birth and death registrations will become available on our consular assistance system (CompassNG). This will allow us to monitor our targets with more accuracy. We will also be able to quickly identify those posts that are not meeting the required targets and offer advice to help them improve.

## EFFICIENCY SAVINGS

### 2004 SR

12. *As part of the 2004 SR Efficiency Programme, the FCO aimed to reduce the workforce and relocate staff outside the costly south-east. The FCO's UK based staff were reduced by 512 against a target of 310. The APR also reports that the FCO remains on target to meet its relocation target of 450 staff moved out of the south east. So far 299 positions have been relocated. Which additional staff is the Department intending to relocate and where to, in order to meet its relocation target under the 2004 SR Programme?*

Most future relocations will be to the FCO's new Corporate Services Centre in central Milton Keynes. In January 2009, with the support of Treasury Ministers, we acquired a leased building (Northgate House) in the centre of Milton Keynes to house the new centre; depending on how it is configured, it can take up to 264 staff. Work is now in hand to determine the number of posts that will be transferred from London to Northgate House. Initially we expect some 30 London staff will transfer, together with 98 finance staff from Hanslope Park this summer. This will relieve pressure on our office accommodation at Hanslope Park. We expect further staff will relocate to Northgate House during 2009–10.

Separately, FCO Services, now a trading fund, has been successful in winning non-FCO business and as a result plan to create 29 new jobs in the 2009–10 financial year which will all be located at Hanslope Park. All the new posts will count towards the FCO's Lyons target.

## 2007 CSR

13. *The APR states that the FCO has delivered a forecast of £29.82 million by Q2 and it is forecast to deliver £75.49 million efficiency savings by the end of the financial year. What is the amount of efficiency savings that has been generated at the current time? Is the Department still on course to deliver £75.49m efficiency savings this financial year?*

Actual savings for 2008–09 will be published in the FCO's 2009 Departmental Report. The FCO together with BBC World Service and British Council are working to deliver the forecast saving that was outlined in the APR. Project Managers are validating the 2008–09 efficiency data so that only cashable savings that are recorded net of costs and sustainable for the next two financial years are reported in the FCO's 2009 Departmental Report.

14. *The APR breaks down the efficiency savings into different projects. Around 14% of the efficiency savings forecast in 2008–09 is to be generated through a reduction of time spent by defence attachés on non-defence projects (p 26). However by Q2 this project had yet to deliver any significant efficiency savings. What progress has been made so far on the "Defence attachés" project? What impact has the reduction of involvement of Defence attachés in non defence projects had on service delivery and the operations in the Department?*

This target is based on the figure of the cost we expect to recover from hosting DAs on our overseas platform. At the end of Q2 MoD were billed £3 million but the payment was received after the publication of the APR and therefore we claimed no savings. Costs up to the end of Q3 have been calculated as £7.9 million and based on costs to date, overall costs incurred by DAs for this FY are likely to exceed £10.5 million. For this FY we have agreed to cap the costs we recover from MoD to £10.5 million. So by recovering this amount from MoD we will meet the savings target.

The last DA Review was announced in June 2008. Implementation is still going on and will not be finished before November 2009. We will not have until summer 2009 a view of the impact of the reductions in the numbers of DAs and of the involvement of those who remain in non-defence work. In some areas at least, the withdrawal of DAs has been mitigated by an already planned redeployment of resources within the FCO towards the DSOs, including counter-terrorism, which had been conducted in part by DAs.

15. *The APR notes that the British Council's VfM Programme will generate £18.2 million of savings over the period of the 2007 Comprehensive Spending Review and that these savings are coming from a "30% grant reduction in its European operations and more widely, reductions in its physical overseas network". Efficiency savings should generally be achieved without compromising quality of service. How is the British Council ensuring that it maintains the same quality of service with a 30% reduction in grants to its European operations and reductions in the physical overseas network?*

The British Council has taken strategic decisions to shift resources from Europe both to reach priority audiences in its Central and South Asia, Middle East and Near East and North Africa regions but also to respond to changing customer needs and partner interests in Europe. South East Europe has however retained a higher level of funding compared to other parts of Europe, reflecting the context of transitional economies with reform needs.

In Europe, the British Council has closed some libraries and public access centres in response to declining membership, the high cost of running buildings and the general high levels of internet connectivity. Increasingly the British Council's 18 to 35 year-old customers want online solutions. With a shift to providing education information services through the web, there has been, as a minimum, a 500% increase in on-line hits. The British Council has also used this opportunity to realign public access around its teaching centres maintaining and improving services at no extra cost to its grant in aid funding.

In the current economic climate, the British Council, like all public bodies, needs to find ways to achieve greater impact from its public funding. By focusing on large scale multi country and cross regional projects on shared agendas, both in Europe and elsewhere, the British Council is increasingly able to lever both strong partner engagement and external funding. In Europe, the MIPEX and Open Cities projects, which focus on migration issues, have levered 50% EU funding in each case. Such projects have led to policy changes and parliamentary debate in countries such as Austria, Denmark and Germany.

The British Council is constantly reviewing how it gains impact within different geographical and geopolitical contexts; this means developing more flexible models to respond to opportunities in countries where we may not have a traditional building based presence (eg Rwanda), extending our reach through new global products in English which can be accessed on-line from anywhere in the world, running programmes in a particular country with an outreach and network strategy which may not depend on British Council physical premises but rather on working through partners (eg Libya).

16. *The APR states that the BBC World Service will achieve savings through closing the Romanian Service and restructuring the Russian and Spanish services and making reductions in the English Network (p 28). Is the Department counting the closure of services in the BBC World Service as contributing to efficiency savings? How is the Department ensuring that the closure of these services is not compromising quality of the service? How is the Department ensuring in general that it generates efficiency savings without compromising the quality of its service?*

As part of its savings plan, the BBC World Service has reprioritised resources within its language service portfolio, while aiming to maintain the level of quality.

The Russian service changes are a response to tighter media restrictions, in particular the difficulties in securing FM distribution. The major change is a greater investment in [bbcussian.com](http://bbcussian.com) as the key method of delivery for content and the strengthening of some existing areas such as news, video and interactivity on the site. The changes are intended to deliver a fresher more relevant service for audiences and to focus resources where they will have most impact. In its Spanish service, the BBC World Service has made its Spanish language news website [bbcmundo.com](http://bbcmundo.com) its core activity for audiences in Latin America and has redeployed some staff closer to the region. The English network changes are reductions in non-news programming which is not core to the BBC World Service purpose and objectives.

The Romanian service ceased broadcasting on 1 August 2008. The scale and speed of changes in the Romanian media since EU accession has been unprecedented and the declining need for a Romanian service was reflected in the steep drop in audience listening. In the year before closure (2007), listening in Romania fell to the equivalent of less than 3% of the adult population each week, or around half a million people. In the 2004 the figure was 1.4m and around 7%.

17. *The APR reports that the FCO has commissioned an audit of the VfM Programme to assess compliance with the approach and principles set out in HM Treasury guidance (p 28). What are the main findings of the audit?*

The internal audit of the CSR07 VfM Programme was completed in January 2009. Overall risk management was rated “Satisfactory” with just five recommendations—all of which were implemented at the end of March 2009.

Communication with stakeholders and monitoring of the overall programme were considered strengths. But there was scope to improve controls and evidence on individual projects. These improvements have now been made.

8 April 2009

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**Letter to the Chairman of the Committee from Sir Peter Ricketts KCMG, Permanent Under-Secretary,  
Foreign and Commonwealth Office**

I am writing to update you on the latest FCO management issues. This letter covers the first quarter of this year: January to March 2009.

**CAPABILITY REVIEW**

The latest Capability Review (March 2009) was positive about progress made in modernising the FCO. It significantly raised our overall scores and concluded:

“The FCO engaged seriously with the findings of the 2007 Capability Review. The Department has demonstrated enthusiasm and commitment to change and improvement. The Department has made considerable progress in key areas, including a better definition of its role and purpose, more strategic HR, and improved business planning and change management. Much of this is work in progress, and FCO needs to continue to think radically about its place in a changing world. Considerable improvements in leadership, along with plans that will improve strategy and delivery, give confidence that genuine change has begun and that improvements will continue.”

**STAFF SURVEY**

We received the results of our latest staff survey in January (we do these annually). I attach the full report.<sup>6</sup> The big picture is encouraging: most of our staff think our organisation is good and getting better.

We got our best ever return rate (71% of all staff) and high scores in many areas. Most of our staff:

- understand how their own work contributes to FCO/post objectives (92%) and how their own directorate/post contributes (81%);
- feel they are doing something worthwhile (88%);
- are proud to work for us (84%);

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<sup>6</sup> Not printed. See <http://www.fco.gov.uk/resources/en/pdf/feedback-survey-fco-2008.pdf>

- are able to use their skills and abilities in their current role (80%);
- feel safe and secure at work (80%);
- feel part of a team (79%);
- have good line managers: most staff (78%) say their managers consult them, praise good performance (76%), set clear objectives (73%), etc;
- say they are treated with fairness and respect (75%);
- know they are responsible for developing their own skills (86%);
- think they get good training (69%);
- say the FCO/post keeps them well informed (69%); and
- can strike the right work/life balance (68%).

And there were significantly improved scores in several areas, including leadership (70% say their senior managers show integrity, up 7% on last year, and 64% have confidence in their senior managers, up 11%); change (68% of staff understand why the FCO is changing, up 7% on last year); and diversity (73% now say the FCO/Post is actively committed to it, up 7%).

There were also areas where we need to improve. 17% of staff said they had experienced some kind of discrimination, bullying and harassment in the last year. I have reiterated to all staff our zero tolerance policy and made clear that I hold our Heads of Mission and Directors responsible for implementing it. We are also following up with Posts and Directorates where the survey suggested a significant level of unacceptable behaviour.

I take these figures, and this issue, very seriously. I think that part of the reason this score is higher than last year is that our diversity training has actively encouraged staff to speak out against unacceptable behaviour. And we know that some staff whose poor performance is being professionally tackled by their line managers are wrongly accusing their managers of bullying. But bullying, discrimination and harassment, is clearly still taking place and I am determined to stamp it out.

#### OUR CULTURE

I mentioned the Cultural Audit in the last update. This covered a much smaller sample of staff than our staff survey, but its findings have helped us to debate and define the type of culture we want to see in the organisation and how we can go about achieving this.

While retaining those aspects of our existing culture of which we are proud, including a strong commitment to excellence and public service, we want the FCO to become a more flexible, creative and innovative organisation. We've set out the kind of behaviour that we want from all our staff in the attached leaflet (*The FCO way*)<sup>7</sup> which we are circulating to all our posts and directorates.

I and my colleagues on the FCO Board have made a commitment to try to model this behaviour ourselves. I have asked all our managers and leaders to do likewise. And we have made clear that we will recognise and reward all our staff who demonstrate it themselves.

#### HUMAN RESOURCES

Improving service to our own staff in our HR function was one aspect highlighted by both the cultural audit and the recent staff survey. We are taking steps to address the problems identified. This work is focussing on customer service training and improving our online HR offering for staff.

We have also restructured the HR team and appointed a new Assistant Director for Talent and Performance Management. This appointment is part of a drive to create a more strategic HR function, able to respond to the needs of the organisation, and provide a flexible and professional service to all our staff.

#### CORPORATE SERVICES

Last December we launched the Corporate Services Programme (CSP). The goal is to provide better service for our staff and better value for the FCO and the UK taxpayer.

The CSP aims to modernise the FCO's corporate services policies, processes and tools to improve the way in which we support our people (by introducing new HR tools); run our buildings (by adopting new ways of managing our properties such as Facilities Management); and manage our money (by implementing better banking and procurement practices). For example, since December five overseas posts in Europe have switched over to a new facilities management contract for the UK and North West Europe. Two more go live on 1 May and the remaining seven by July.

The CSP has also focused on cutting out unnecessary bureaucracy through our "10,000 days" project. So far over 9,000 days of management time have been saved by simplifying processes and abolishing unnecessary management returns. So we are increasing our target, and hope to pass 15,000 days by the end of the next quarter.

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<sup>7</sup> Not printed.

Looking ahead we remain on track to open a Corporate Services Centre in Central Milton Keynes in July—for the first time we will bring corporate service support and delivery into a modern, open-plan building. With the tough economic climate in mind, the Board have also asked the CSP team to come up with proposals to save significant money from the next financial year onwards.

#### BUSINESS PLANNING/DEPARTMENTAL STRATEGIC OBJECTIVES (DSO) AND PUBLIC SERVICE AGREEMENT (PSA) MONITORING

DSO and Geographic Business Plans for 2009–10 have been agreed. Country Business Plans which cascade from these are being finalised by our overseas posts. For 2009–10 we have introduced a Balanced Scorecard, fully integrated into the Country Business Plans, for posts to complete at mid-year and end-year reviews. The scorecards will give Directors and the Board an overview of the network's all-round performance as well as being a useful management tool for posts.

Final assessments of progress made in 2008–09 against our DSOs and the PSA on which the FCO leads (Conflict Reduction) will appear in our 2009 Departmental Report. The Board will hold its internal review of 2008–09 DSO and Geographic plans in June.

#### TOP RISKS REGISTER

When updated in March, the Top Risks Register included five operational risks (physical security, resources, internal financial controls, IT systems, UK visas) and nine strategic risks (terrorist attack, Iran, Afghanistan, Iraq, Pakistan, Middle East, Zimbabwe, economic crisis, Overseas Territories and Sudan). The Board also discusses individual risks in depth at its monthly meetings, the most recent of which focused on the Horn of Africa (January) and Information Management (February).

We continue to raise awareness of risk management throughout the organisation.

#### FIVE STAR FINANCE

We have implemented a new cash flow management scheme, a key HMT requirement for the FCO, which is now classified as a large department.

In their provisional report *Financial Management in the FCO* the National Audit Office (NAO) confirmed that we have firmly reached 3.5 stars. Whilst they recognise that there is still room for improvement, they did praise the substantial improvements made within the last 12 months within the FCO. NAO commented that there is “a strong financial management culture in place at the top of the Foreign & Commonwealth Office”.

Eight new accountancy trainees (recruited through the Government Finance Profession Scheme) are now assigned to FCO departments and will undertake a series of placements in the FCO finance community during their training. We have also recruited an additional seven Government Finance Professional trainees who will be joining us in September 2009. The aim is for the FCO to “grow its own” accountants who will be equipped to occupy senior management positions in the future.

The internal Fast Stream Finance option entry scheme (aimed at up-skilling the existing finance community) was recently launched. This will bring an additional 20 officers into mainstream finance, supporting them during their studies as part of the “grow our own” agenda.

A “Finance in the FCO” course aimed at the generalist level was successfully started in January. New financial/procurement compliance seminars to help staff understand the “Procure to Pay” process and shift of control to accruals-based budgets and targets ran from January to March in the UK and overseas, equipping around 500 staff across the network to better comply. Requisitioning training was delivered successfully in the UK over the last six months and is now being rolled out regionally. A “Budgeting, Monitoring and Forecasting” course was piloted in February and regional rollout is underway as part of a strategy to increase regional availability of finance training. Additionally, a tailored, modular finance course for Board members and senior management is being scoped and due to be piloted in May. A further review of all finance training requirements is planned for May.

We are implementing Hyperion and Oracle Business Intelligence Enterprise Edition (OBIEE) to provide our people with the best in planning, budgeting and Management Information tools. We will use Hyperion/OBIEE as our single, standard, end-to-end planning and budgeting solution. Hyperion is due to be rolled out in the UK in July.

#### ESTATES

The Committee will be aware from their visit last year of existing plans by the Cayman Islands Government to provide new purpose-built office accommodation for the Governor's Office. The original plan for staff to remain in their current location until completion of new offices changed as the building's new owners are developing the building as retail space. Consequently, the Governor's Office moved to interim accommodation at the end of March. New accommodation is currently under construction and due for completion in Spring/Summer 2011. The project is funded by the Cayman Island Government.

Staff moved into our new Embassy building in Harare at the end of March. The new offices provide a modern working facility for staff from the FCO and other partners across government, and we have added staff amenities, in a secure two hectare compound.

This is a complete transformation from the Embassy's previous offices which were in two rented floors at the top of an eight storey building in central Harare. We had no control over other tenants and their visitors, little control over the basement car park, no stand-off from the pavement and were right next to a petrol station—all factors making the Embassy a highly vulnerable target. On top of that the economic decline of Zimbabwe prevented the landlord from adequately maintaining the building which resulted in frequent power cuts, people trapped in lifts, and lack of running water. The new Embassy has its own borehole, water treatment plant, sewage treatment works and full standby power making it independent of public utilities if need be. It integrates DFID staff with the rest of the Embassy, which will assist co-ordination of British support to the new unity government and the British community. The opening of the new Embassy is a powerful signal of the UK's commitment to stand by the people of Zimbabwe and help them rebuild a democratic and prosperous country.

The difficult local conditions, continuing political upheaval and economic collapse in Zimbabwe, and a range of other factors pushed up the final cost of the Embassy from our initial estimate of £17.5 million to a final total cost of £27 million. We are conducting a full review to ensure that we have received value for money from our strategic construction partner, Mace, and to establish whether those on the FCO side running the project took all possible steps to keep costs down. We are also looking at how to improve the governance and budgeting of future estates projects to ensure spend is tightly controlled and the taxpayer gets the best value for money.

Further to the FCO's response to the committee's recommendations on the FCO's; 2007–08 Departmental Report with regard to Islamabad and Karachi, I attach the final copy of the lessons learned action plan.<sup>8</sup>

I also enclose our quarterly report for properties sold in the third quarter of financial year 2008–09. No properties were purchased. None of the properties sold were the Residence of a Head of Mission.

#### FCO SERVICES

It is now a year since FCO Services made the transition to a full Trading Fund and I am pleased to report that the organisation has performed strongly in its first year.

FCO Services' change programme, intended to enable the business to operate effectively in a more competitive environment, has borne fruit and we are confident that the business has progressed well against its targets, delivering substantial benefits to the FCO.

Chris Moxey, FCO Services' Chief Executive, will report progress against FCO Services' Ministerial targets through their 2008–09 Annual Report and Accounts which will be laid before Parliament in July.

When Chris Moxey appeared before the Committee last July, I understand that some concern was expressed about FCO Services' ability to expand into wider markets under current economic conditions. I am encouraged by the past year's trading performance. Their commercial strategy is showing significantly more rapid than expected revenue growth generated from wider markets during 2008–09, with a current forecast wider market turnover for FY 2008–09 of around £23.5 million (2007–08 £12.5 million).

In the light of FCO Services' strong performance in FY 2008–09, new targets have been agreed for the FY 2009–10, as follows:

- An in-year surplus before interest and tax of at least £2.9 million.
- A Return on Capital Employed of at least 3.5%.
- Wider Market revenue growth of 10% over 2008–09 performance.
- Contribution to the FCO's Comprehensive Spending Review (CSR) efficiency commitments by delivering £6 million of cumulative cash savings over the two years 2008–09 and 2009–10.
- A utilisation rate for revenue earning staff of at least 75%.
- A customer satisfaction rating of at least 85% satisfied or very satisfied.

These targets were announced to both Houses in a Written Ministerial Statement on 30 March 2009. They are challenging. But we recognise that our interest in FCO Services goes far beyond simply the achievement of low prices and high revenue. I am pleased that the Committee has asked us to take steps to ensure that the pressure on FCO Services to meet financial targets does not compromise the quality of the work it undertakes. We will: the FCO has an ownership interest as an investor and stakeholder, and as a customer we need FCO Services to focus on value for money, guaranteed supply and quality of delivery.

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<sup>8</sup> Not printed.

### THIRD GENERATION FIRECREST (F3G)

We have begun the main overseas rollout of our new IT system, F3G, following the completion of deployment at four pilot posts. Four more posts received F3G by the end of March, and we will be increasing the rate of overseas deployment significantly over the next quarter. We expect global rollout to be complete in the first part of 2010.

Some posts have encountered technical difficulties, which we are working to resolve. But overall the feedback from posts has been largely positive: staff are benefiting from a faster and more stable system, mobile working, and the ability for locally-engaged and UK-based staff to work more closely together.

### CONSULAR

The current consular credit card payment system, which allows consular customers to pay for all consular services by credit card, either through local banks or using a centrally negotiated contract with Barclaycard has now been rolled out to a total of 49 posts with a further 14 posts having completed training and due to go "live" to customers shortly. Six further posts are earmarked for training in May.

### INTEGRATION OF THE FCO AND IDENTITY PASSPORT SERVICES (IPS) PASSPORT OPERATIONS

You will recall that we have agreed in principle to merge the overseas (FCO) and UK (IPS) passport services by 2011. Work continues on the integration plan. I and my Home Office opposite number, David Normington, signed a Memorandum of Understanding on 29 April, which represents a strong commitment by the two Departments to the project.

### UK BORDER AGENCY (UKBA)

On 1 April the UKBA became a full executive agency of the Home Office. This followed a successful year as a shadow Agency during which time it brought together the work of the former Border and Immigration Agency, customs detection and UKvisas.

The FCO and UKBA share a strong commitment to working together to deliver an effective immigration policy for the UK. This commitment is enshrined in the Agency's three-year Business Plan published last month. In the introductory foreword the Home Secretary and Foreign Secretary have committed themselves to working together "to facilitate legitimate trade and travel, so that the UK remains flexible to changing economic conditions and continues to thrive as a global hub".

### SERVICE LEVEL AGREEMENT (SLA) WITH PARTNERS ACROSS GOVERNMENT

The provision of a worldwide platform for HMG remains a high priority for the FCO. Almost all our Whitehall Partners have now signed up to the new SLA which governs the terms under which we provide support and services to them and their staff based in FCO posts. Negotiations continue with the Met Police and some others to secure signature. We have recently conducted a review of our charging mechanisms and implemented a number of initiatives to simplify and streamline the existing processes and guidelines. We will continue to look to make it attractive for other government departments to base their overseas operations on the FCO platform: together we are stronger, safer and better able to deliver for the UK taxpayer.

11 May 2009

### Annex A

#### FCO PROPERTY SALES FOR THE PERIOD 1 OCTOBER TO 31 DECEMBER 2008

<i>Date</i>	<i>Post</i>	<i>Type of Property</i>	<i>Exchange Rate to Pound Sterling</i>	<i>Gross Sales Transaction Currency</i>	<i>Receipt Sterling</i>
17-Oct-08	Ottawa	Residential	0.4997251512	CAD 705,000	352,306
17-Oct-08	Wellington	Residential	0.3718578016	NZD 555,000	206,381
17-Nov-08	Ottawa	Residential	0.5403652869	CAD 752,000	406,355
07-Nov-08	Wellington	Residential	0.3588988982	NZD 340,000	122,026
31-Dec-08	Lilongwe	Residential	0.0044379946	MWK 42,000,000	186,396
Gross sales proceeds					1,273,464

## Foreign and Commonwealth Office Main Estimate 2009–10 Memorandum

### 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, FCO Services, 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;
    - Section B: Peacekeeping and peace building activity and on associated strengthening of international and regional systems and capacity; and
    - Section C: Provision of specialist, targeted assistance in countries emerging from violent conflict.

### RfR1 MAIN ESTIMATES CHANGES

#### *Machinery of Government transfer of the Science and Innovation Network to DIUS*

2. There is a machinery of Government change comprising of £150,000 administration costs transfer to DIUS in respect of running the overseas elements of the Science and Innovation Network.

#### *Budget cover transfers*

3. There is a £1,122,000 transfer of other current from DIUS offset by a transfer of £500,000 other current to DIUS as part of the re-allocation of responsibilities for the Science and Innovation Network that were not included in the Machinery of Government change as they do not cover permanent staff transfers; a £500,000 transfer of other current from MOD for the Foreign Secretary's overseas travel costs; a £45,000 transfer of administration to the Office of Government Commerce for Sustainable Procurement; a £40,000 transfer of other current to the Cabinet Office for the Government Secure Zone; a £40,000 transfer on behalf of the British Council of other current to the Cabinet Office for the Government Secure Zone and a £18,000 transfer of administration to DIUS for the FCO's contribution to the Skill's Strategy.

### RfR2 MAIN ESTIMATES CHANGES

4. As discussed in previous correspondence with the FAC we have updated the sub-head structure of RfR2 to reflect the merger of the Global and Africa Conflict Prevention Pools and the Peacekeeping Pools in the Comprehensive Spending Review.

5. Subsequent to this the Foreign Secretary issued a Written Ministerial Statement on 25 March, announcing arrangements for conflict funding in 2009–10. DFID, FCO and MOD have set aside £627 million for conflict funding in 2009–10, £171 million of which is for discretionary conflict activity. This will fund all discretionary conflict prevention, stabilisation and Peacekeeping activity. It will be managed through five strategies: the SAF Afghanistan and CPP South Asia programmes have been merged; so too the SAF Iraq and CPP Middle East and North Africa programmes. A new Wider Europe programme funds activity in Russia/Commonwealth of Independent States and the Balkans (previously individual programmes). The Africa programme continues. A separate programme has been earmarked for thematic work, including support to international institutions. The strategies continue to be managed tri-departmentally.

6. Expenditure 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 2009–10 FCO Main Estimates is a net increase of £418,000,000. Of the above amounts we have taken on £350,000,000 for Peacekeeping (Section B), £40,000,000 for Conflict Prevention (Section A) and £28,000,000 for the Stabilisation Aid Fund (Section C).

#### RECONCILIATION OF 2009–10 MAIN ESTIMATES TO SR2004 OUTCOME

7. The Comprehensive Spending Review 2007 settlement showed the FCO Resource Budget for 2009–10 as £1,608,000,000 and the capital budget as £216,000,000. Since October 2007 there have been a small number of changes to the FCO's Departmental Expenditure Limits (DELs) which bring the current Resource DEL figure for 2009–10 to £2,028,888,000 and the Capital DEL to £216,060,000. The tables below show the main changes and reconcile the DELs with the Main Estimates figures.

Table 1  
RESOURCE 2009–10

<i>Resource DEL Baseline from CSR 2007 (£m)</i>	1,608.000
<i>Changes to Resource DEL (Chronological Order)</i>	
<i>Changes effected in Main Estimates 2009–10</i>	
Machinery of Government transfer from MoD for Defence Export Sales	2.059
Reserve claim for Peacekeeping	350.000
Transfer from DFID for Conflict Prevention	40.000
Transfer from MoD for Sustainability Aid Fund (SAF)	28.000
Transfer from MOD for Foreign Secretary travel	0.500
Machinery of Government transfer from DIUS for Science and Innovation Network	0.472
Transfer to Cabinet Office for Government Secure Zone	–0.080
Transfer to Office of Government Commerce for Sustainable Procurement	–0.045
Transfer to DIUS for Skill's Strategy	–0.018
<i>Resource DEL at 1 April 2009</i>	2,028.888
<i>Difference Between Resource DEL and Main Estimate</i>	
Remove non-Voted Expenditure in the OCS (Common Foreign Security Policy)	–3.000
Include BBCWS Capital Grant from Capital DEL (Resource in Estimates)	31.000
Include British Council Capital Grant from Capital DEL (Resource in Estimates)	7.800
Include International Subscriptions Capital Grant from Capital DEL (Resource in Estimates)	22.500
Include Voted expenditure outside budgets (Reimbursement of certain duties, taxes and licence fees)	18.000
Remove unallocated resource provision (DUP)	–17.000
Include Voted AME (impairments)	20.000
<i>2009–10 Main Estimate Resource Total</i>	2,108.188

Table 2  
CAPITAL 2009–10

<i>Capital DEL Baseline from CSR 2007 (£m)</i>	216.000
<i>Changes to Capital DEL</i>	
Machinery of Government transfer from MoD for Defence Export Sales	0.060
<i>Capital DEL at 1 April 2009</i>	216.060
<i>Difference Between Capital DEL and Main Estimate</i>	
Remove BBCWS Capital Grant from Capital DEL (Resource in Estimates)	–31.000
Remove British Council Capital Grant from Capital DEL (Resource in Estimates)	–7.800
Remove International Subscriptions Capital Grant from Capital DEL (Resource in Estimates)	–22.500
<i>2009–10 Main Estimate Capital Net Total</i>	154.760

#### DEPARTMENTAL EXPENDITURE LIMIT (DEL) AND ADMINISTRATION BUDGETS

8. The tables below show a comparison of the 2009–10 DEL (Table 3 and 3a) and Administration (Table 4) budgets with the 2003–04, 2004–05, 2005–06, 2006–07 and 2007–08 outturn, the forecast for 2008–09 and plans for 2009–10 and 2010–11.

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

	£m							
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Actual	Actual	Actual	Actual	Actual	Forecast	Budget	Plans
Resource DEL <sup>1,2</sup>	1,512.728	1,718.120	1,878.691	1,836.554	1,877,548	2,077.551	2,028.888	1,600.489
Capital DEL	86.671	116.676	131.842	160.314	226.377	216.060	216.060	205.060
Less Depreciation <sup>1,3</sup>	64.060	67.156	108.725	81.555	73.220	85.050	103.050	100.050
<b>Total</b>	<b>1,535.339</b>	<b>1,767.640</b>	<b>1,901.808</b>	<b>1,915.313</b>	<b>2,030.705</b>	<b>2,208.561</b>	<b>2,141.898</b>	<b>1,705.499</b>

<sup>1</sup> Figures for all years reflect the reclassification of impairment expenditure from DEL into AME.

<sup>2</sup> Resource DEL figures from 2009-10 onwards are understated because they do not include all of the conflict prevention expenditure, which will be subject to a Reserve claim and transferred at the time of the 2009-10 Supplementary Estimates. In addition 2005-06 included expenditure on a number of one off items (Tsunami expenditure, Efficiency Challenge Fund & G8 & EU presidencies).

<sup>3</sup> 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

	£m					
Year	Voted	Non-voted	Total DEL	Outturn <sup>1</sup>	Variance	
Resource						
2004-05	1,607.192	209.690	1,816.882	1,736.188	80.694	
2005-06	1,999.224	6.713	2,005.937	1,916.190	89.747	
2006-07	1,924.913	44.213	1,969.126	1,852.024	117.102	
2007-08	1,950.523	5.862	1,956.385	1,895.961	60.424	
Forecast outturn 2008-09	2,074.701	3.000	2,077.701	2,077.701	0	
Capital						
2004-05	101.533	1.000	102.533	71.236	31.297	
2005-06	135.697	1.000	136.697	92.959	43.738	
2006-07	157.779	1.000	158.779	160.747	- 1.968	
2007-08	243.567	—	243.567	227.973	15.594	
Forecast outturn 2008-09	216.060	—	216.060	230.060	- 14.000	

<sup>1</sup> Outturn in 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

	£m							
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Actual	Actual	Actual	Actual	Actual	Forecast	Plans	Plans
Administration budget	375.811	405.345	399.781	393.051	367.358	430.367	420.345	397.214

<sup>1</sup> Figures for all years reflect the reclassification of impairment expenditure from DEL into AME.

#### DEPARTMENTAL UNALLOCATED PROVISION (DUP) 2009-10

10. At the time of the Main Estimate, the FCO has £17,000,000 of unallocated resource.

Table 5  
2009-10 DEPARTMENTAL UNALLOCATED PROVISION

	Resource	Capital
RfR1 DUP to met unforeseen requirements arising in-year	£17.0m	£0.0m
<b>Total</b>	<b>£17.0m</b>	<b>£0.0m</b>

11. The DUP will be used to meet unforeseen pressures such as unfavourable currency exchange rate changes since CSR 2007.

## CHANGES IN ACCOUNTING POLICIES

12. We are adopting hedge accounting in respect of forward purchase of foreign currency.

## END YEAR FLEXIBILITY (EYF)

13. The Public Expenditure Outturn White Paper published in July 2008 showed a total figure of £171,931 million for carry forward of underspend into 2009-10 under the DEL EYF scheme.

14. We intend to spend resource EYF carried forward into 2009-10 on restructuring and any capital EYF on our ongoing programme to increase the security and safety of our Estate and the people using it.

Table 6  
ACCUMULATION OF EYF

	<i>£m</i>					
	<i>Administration</i>	<i>Programme</i>	<i>Total Resource</i>	<i>Of which near cash</i>	<i>Capital</i>	<i>Total</i>
Total FCO EYF Entitlement in Public Expenditure Provisional Outturn July 2008 (table 6—Cm 7419)	58.559	96.538	155.097	120.383	16.834	171.931
EYF drawn down in Winter Supplementary	—	—	—	—	—	—
EYF drawn down in Spring Supplementary	—	17.300	17.300	17.300	—	17.300
Balance of Accumulated End Year Flexibility going into 2009-10	58.559	79.238	137.797	103.083	16.834	154.631

## PUBLIC SERVICE AGREEMENTS

15. Full details of the FCO's Public Service Agreements for 2009-10 will be published in the 2008-09 Departmental Report.

15 May 2009

**Letter to Rt Hon David Miliband MP, Secretary of State for Foreign and Commonwealth Affairs,  
from the Chairman of the Committee**

## POST-LEGISLATIVE SCRUTINY OF ACTS OF PARLIAMENT

At its meeting on 14 May, the Liaison Committee discussed the operation of the new arrangements for post-legislative scrutiny of Acts of Parliament, set out in the Leader of the House's Command Paper, *Post-legislative Scrutiny: the Government's Approach* (March 2008). The Committee has previously welcomed the main thrust of the Government's proposals, in particular the publication by departments of memoranda giving information about the implementation and operation of Acts within their remit, which would then be reviewed by the appropriate departmental select committee. The Government has made clear that such memoranda should be published, in the form of Command Papers, between three and five years after Royal Assent, which means that departments should now be preparing memoranda on Acts passed in 2005.

In its 2009 report on the work of committees, the Liaison Committee commented that the success of the new arrangements would depend in part on departments publishing timely memoranda about the Acts concerned. I would be grateful if you could let me know what progress the Foreign and Commonwealth Office has made in preparing memoranda on any Acts within its remit passed in 2005, and what plans you have for publishing such memoranda in the coming months. This will help my Committee in planning its future work.

26 May 2009

**Letter to the Chairman of the Committee from the Parliamentary Relations Team,  
Foreign and Commonwealth Office**

## POST-LEGISLATIVE SCRUTINY OF ACTS OF PARLIAMENT

Thank you for your letter of 26 May to the Foreign Secretary regarding post-legislative scrutiny of Acts of Parliament. As the responsibility for post-legislative scrutiny rests with Parliamentary Relations Team I have been asked to reply on behalf of the Foreign Secretary.

We are fully aware of the new arrangements for post-legislative scrutiny of Acts of Parliament following the Leader of the House's 2008 Command Paper. The International Organisation Act 2005 is the only piece

of legislation that qualifies. Our Protocol Directorate are taking the lead in drafting the post-legislative Command Paper. They are committed to publishing on or before the required deadline of July 2010. As we get closer to this deadline we will inform the Committee of more precise timings to assist you with the planning of your future work.

9 June 2009

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**Letter to the Chairman of the Committee from Sir Peter Ricketts KCMG, Permanent Under-Secretary,  
Foreign and Commonwealth Office**

I am writing to update you on the latest FCO management issues. This letter covers the period April to June 2009.

**PASSPORT OPERATIONS**

As part of a project to reduce the running costs of our overseas passport operation, the FCO has streamlined its passport services in Australasia, North America, Western Europe and Northern Europe. Regional passport production centres (PPCs) have been established in Washington, Paris, Madrid, Dusseldorf and Wellington. Future plans in this financial year include expanding the North America centre and establishing PPCs in Southern and Eastern Africa, South East Asia and the Middle East and Gulf regions. The FCO anticipates substantial long term savings as a result of rationalisation, as well as improved customer service and greater consistency across the network.

**2008–09 RESOURCE ACCOUNTS AND DEPARTMENTAL REPORT**

On 30 June, the Resource Accounts and Departmental Report were laid before Parliament. The FCO was the first main Whitehall department to lay its accounts, for the second year running, and the first to lay a combined Departmental Report and set of accounts. In terms of the main administration and programme budget, the real achievement was a £2.4 million underspend (0.14%), which is significantly below the 1% target set by the Board at the start of the financial year. This is concrete evidence that the Five Star Finance programme is delivering sustained improvement throughout the year in our financial management.

**NATIONAL AUDIT OFFICE (NAO) REPORT ON FINANCIAL MANAGEMENT IN THE FCO**

This report was published in June. The press release stated: “The Foreign and Commonwealth Office has made good progress in its financial management, aiming to establish itself as one of the best Departments in Whitehall in this respect.” The report concluded that we have shown strong leadership in raising the profile of good financial management and that we have improved the accuracy, reliability and timeliness of internal and external financial information. In relation to the Five Star Finance programme, the NAO endorsed our assessment of three and a half stars, recognising that we face unique financial challenges because of our global operations, especially in relation to the measures we have taken to manage currency exposure, following the withdrawal of Treasury protection from exchange rate fluctuations. The report also noted a number of areas—greater professionalisation, underspend, strengthening the link between business planning and resource allocation—where we either have taken, or are taking, action.

**TOP RISKS REGISTER**

When updated in July, the Top Risks Register included five operational risks (physical security, resources, internal financial controls, IT systems, UKBA) and ten strategic risks (terrorist attack, Iran, Afghanistan, Pakistan, Middle East, global economic crisis, Horn of Africa, Overseas Territories, nuclear proliferation and Sudan). The Board also discussed individual risks in depth at its monthly meetings, most recently the global economic crisis (May) and Overseas Territories (June).

**BUSINESS PLANNING/DEPARTMENTAL STRATEGIC OBJECTIVES (DSO) AND PUBLIC SERVICE AGREEMENT (PSA) MONITORING**

Final assessments of progress in 2008–09 against our DSOs and the PSA on which the FCO leads (Conflict Reduction) were published in our 2009 Departmental Report. The Board also held its internal end-year reviews of DSO, Geographic and, for the first time, Corporate Business Plans during June. We feel this process is improving each time we do it. We agreed to keep the same format for future reviews but to look at ways to make the questions more challenging and even more focussed on metrics.

A NAO report on PSA 30 data systems was published on 10 June. The report stated that the FCO had made good progress in identifying robust systems for these indicators and that these afforded a reasonable view of performance against this PSA.

## COST RECOVERY

We have been working to improve the arrangements for charging full economic costs to other Government Departments. All have now signed up to the new Service Level Agreement which governs the terms under which we provide support and services to them and their staff based in FCO posts. Negotiations with the Metropolitan Police and some others to secure agreement are continuing.

## ACTIVITY RECORDING

100% of the fourth quarter's activity recording data was successfully collected to meet the deadlines set for the costing data and for producing the FCO Accounts for 2008–09. The accuracy of the data has improved, with fewer inconsistencies, but the system for collection on Excel spreadsheets is labour-intensive and we are looking at ways to simplify the process as much as possible.

## CORPORATE SERVICES

The Corporate Services Programme (launched in December 2008) aims to simplify, standardise and streamline our corporate policies, processes and tools. The Programme will deliver over three years in five areas: localising more of our currently UK-based management officer jobs overseas; further outsourcing of facilities management (since December, 14 overseas posts in Europe have switched over to a new facilities management contract for the UK and NW Europe); consolidating more of our corporate services functions in country and regional networks (as we have begun in the United States); and consolidating some of our corporate services in the UK at a Corporate Services Centre in central Milton Keynes to drive efficiency and better service through better technology and greater self-service for staff.

## ESTATES

On 1 June we created one unified team under the direction of a new Director of Estates, Security and Facilities Management, Alan Croney. Alan comes with many years of experience in estate management, most recently as Director of Property Services for the Metropolitan Police. His appointment, which followed an external recruitment competition, will allow us to improve the existing links between our estates, security and facilities management functions. I have asked him to take a critical look at the FCO's management of our estate and supporting functions and report back to the FCO Board in the autumn. I will keep the Committee informed.

As part of our investment in the UK estate, we have completed a reorganisation and refurbishment of the rooms occupied by the FCO Press Office, including a new room for press conferences, media briefings and similar events in the FCO Main Building. The new facility will allow us to better cater to a range of media events and meetings, both for the FCO and No. 10, allowing us to carry out our communications function in a more modern and effective way. We have also opened a new communications centre (COMCEN) for processing high classification communications with our network of Posts. The new centre replaces a much larger 1970s centre which contained a lot of redundant technology.

New offices for the Embassy in Algiers were opened on 15 June. The new Embassy is designed to meet our security standards. Sustainability was also fundamental to the design: part of the building has a green roof; and solar heating panels on the roof provide hot water. The building was designed by London-based architects John McAslan and Partners, and project managed and constructed by the FCO's Strategic Building Partner, Mace International. It sits alongside the British Ambassador's Residence.

Following the sale of part of the British Embassy compound in Bangkok in 2006 for £49.5 million, it was necessary to provide some staff housing and amenities by redeveloping part of the remaining site. A housing complex comprising 18 flats and six houses together with new amenity facilities has recently been completed.

As the Committee may recall from their visits to Moscow in 2004 and 2007, we have been undertaking an extensive refurbishment of the Ambassador's Residence following the move of the Embassy to its new site. In 2006 we began the extensive refurbishment of the main Residence. While we expected this to be completed at the end of December 2007 at a cost of £10.6 million, problems with our main contractor and the planning authorities changing requirements on this listed and historic building have led to a substantial delay and cost overrun. We are taking commercial steps against the main contractor, who completed project revised scope of works in July, and expect to complete the remaining works in late 2009 at a total project cost of just under £14 million.

We continue to look for efficiencies and savings in our management of the overseas estate. I attach at Annex A our quarterly report for properties sold and purchased for the fourth quarter of the 2008–09 financial year. None of the properties sold were the Residence of a Head of Mission. In Abidjan we successfully sold our old Embassy offices which were not fit for purpose and had been on the market for some time due to the security situation. In light of the continuing uncertainty over the future political situation in Cote d'Ivoire, we retain a Political Officer who works from the Residence. In Antalya we have purchased a new office following a request from the new owner of our current leased offices for vacant possession.

As in previous years at this time, I also attach at Annex B a full list of properties sold and purchased for financial year 2008–09.

### GREENING THE FCO

The Sustainable Development in Government (SDiG 2008) assessment gave the FCO an improved star rating against sustainable operations on the Government Estate targets (which apply only in the UK). Our far-reaching project to create an effective and energy-efficient global IT platform continues to cause an increase in our carbon emissions in the UK, despite action to mitigate some of these. We believe that these IT related issues will peak in 2010 and then decline.

The Foreign Secretary's Green Awards earlier this year recognised the innovative work being carried out by the teams across the network to reduce our carbon footprint. Sustainable measures include creating a green roof in Zagreb and connecting the Ambassador's Residence in Stockholm to ground source heating. Our new embassies in Manila and Algiers have been awarded excellent and very good ratings respectively for their sustainable design under a bespoke Building Research Establishment Environmental Assessment Method (BREEAM), and Berlin has recently received the first BREEAM in Use award for an existing building overseas. The launch of an online tool on World Environment Day will enable us to calculate our global carbon footprint for the first time later this year.

### FCO SERVICES

FCO Services has now laid before Parliament its Annual Report and Accounts for 2008–09 and I understand that you and your fellow Committee members have received copies.

In its first year of operations as a Trading Fund and in a difficult economic climate, FCO Services has produced an encouragingly strong performance. The organisation has achieved all its formal financial Ministerial KPI targets. Your Committee has previously commented on the likelihood of FCO Services' expansion into wider markets in this current climate, but I can confirm that their 2008–09 results show a 15.3% growth in wider market revenue. This is ahead of plan, exceeds their 2008–09 target of 10% and indicates that their business strategy is having a positive impact.

FCO Services has increased the efficiency of its operations over 2008–09 and this, together with its strong business performance, has enabled it to play an important role in enabling us to meet our overall efficiency saving obligations under the CSR. We are firmly focused on delivering the best possible value for the public purse and FCO Services will continue to play a key role in helping us achieve this.

In addition to its continuing attention to delivering efficiencies, FCO Services will work to embed the changes it has made over the course of the last year and build further the skills and capabilities of its workforce in order to enhance the service it delivers to customers. This is a key focus for FCO Services' business strategy for 2009–10.

### THIRD GENERATION FIRECREST (F3G)

In the UK we have made significant progress in deploying our new IT system, F3G, with the transfer of our data to new servers in June. From July to January 2010, we will be separating our "Confidential" data into a new security tier, which is isolated from the internet in accordance with Cabinet Office guidelines. We will also be introducing F3G laptops classified up to "Restricted". Overseas, we have deployed F3G to 33 Posts (as at 30 June). Staff are already seeing benefits, including the ability to work at home and on the move with the F3G laptop. We expect to increase our rate of deployment to at least four Posts a week from August, and our target is to complete the global rollout between March and May 2010.

### UK BORDER AGENCY (UKBA)

As part of the UKBA's International Group (formerly UKVisas) wider integration in the newly established Executive Agency of the Home Office, staff currently based in the FCO's King Charles Street Office will be moving to 2 Marsham Street. The move of approximately 256 staff should be complete by the end of July. The FCO and UKBA continue to work closely to deliver an effective immigration policy for the UK.

### REVIEW OF ALLOWANCES

I have commissioned an internal review of all of the allowances we pay to staff serving overseas to ensure that they provide value for money to the Department and the taxpayer, support our business needs, fit the family circumstances of FCO staff in the 21st Century, provide the right incentives to staff to serve in the places where we need them most and offer a fair and flexible package to enable staff and families to maintain a UK-level of quality of life (or compensation for it) wherever they serve. The aim is to ensure that everything we do is fully justified, including on value for money grounds.

We are consulting DfID (who are conducting a similar review), MOD and other Departments with staff serving overseas. We are keen to incorporate any lessons we can learn from their experience and share our own findings with them. The FCO Board will consider recommendations from the review in the autumn.

## EXPENSES

In common with other Whitehall Departments, we are publishing details of the business expenses (travel, transport, meals and accommodation when travelling and official entertainment) of senior FCO officials (at Director-General level and above) in the UK and overseas. The first return covering expenses for these staff during the Quarter April to June 2009 will be published on our public website by the end of July.

## STAKEHOLDER SURVEY

The FCO commissioned an independent research agency (IPSOS MORI) to question a representative sample of the UK public on their perceptions of the FCO. Its purpose was to inform our communications and engagement activity in the UK.

The enclosed presentation (Annex C)<sup>9</sup> gives you an overview of the results. IPSOS MORI found that there is a relatively low level of familiarity with the FCO.

Among those that were aware of the FCO, they were more favourable than unfavourable towards us. Respondents cited the FCO's work on "helping Brits abroad" as one of our key attributes while appearing to "let in too many foreigners" was seen as a driver for negative sentiment.

The results were used to help identify issues we needed to address in our community outreach programme during Leadership Week earlier this year. They have also been used to inform our ongoing website upgrades.

## SURVEY OF WHITEHALL PARTNERS

In June we received the results of our latest survey of Whitehall Partners (WPs). This was the biggest and most accurate survey we've done to date. A copy is enclosed (Annex D).<sup>10</sup>

Most Government Departments think the FCO is a good organisation: delivering well and getting better. The FCO reputation, knowledge, professionalism and the quality of our staff is valued, and 95% of Departments regard the relationship as critical or important for themselves.

The survey also highlights areas we need to improve: including consistency of service across the world to all WPs, and ensuring that we embrace their agendas and treat them as genuine partners.

The results of the survey will be made available to all staff, and we have asked our Directors and Heads of Mission to ensure that they do work closely with all Governments Departments. We have also established dedicated account managers for our major partners. We will repeat the survey in a year or so to track improvements.

28 July 2009

## Annex A

## FCO PROPERTY SALES FOR THE PERIOD 1 JANUARY TO 31 MARCH 2009

<i>Date</i>	<i>Post</i>	<i>Type of Property</i>	<i>Exchange Rate to Pound Sterling</i>	<i>Gross Sales Receipt Transaction Currency</i>	<i>Sterling</i>
15 January 2009	Buenos Aires	Residential	0.6873797086	USD 362,000	248,831
28 January 2009	Ottawa	Residential	0.5879931793	CAD 500,000	293,997
17 February 2009	Abidjan	Office	0.0014088436	CFA 150,000,000	211,327
31 March 2009	Montserrat	Residential	0.6976419701	USD 145,160	101,270
Gross Sales Proceeds					£855,425

## FCO PROPERTY PURCHASES FOR THE PERIOD 1 JANUARY TO 31 MARCH 2009

<i>Date</i>	<i>Post</i>	<i>Type of Property</i>	<i>Exchange Rate to Pound Sterling</i>	<i>Gross Sales Receipt Transaction Currency</i>	<i>Sterling</i>
28 January 2009	Montserrat	Residential	0.6873797086	USD 725,000	498,350
11 March 2009	Washington	Residential	0.7023951675	USD 578,000	405,984
13 March 2009	Washington	Residential	0.7023951675	USD 682,000	479,034
18 March 2009	Montserrat	Residential	0.7023951675	USD 412,500	289,738
26 March 2009	Antalya	Office	0.9267840593	EURO 420,000	389,249
27 March 2009	Panama	Residence	0.7023951675	USD 2,850,000	2,001,826
Total Purchases					4,064,181

<sup>9</sup> Not printed.

<sup>10</sup> Not printed.

## FCO PROPERTY SALES FOR THE PERIOD 1 APRIL 2008 TO 31 MARCH 2009

<i>Date</i>	<i>Post</i>	<i>Type of Property</i>	<i>Exchange Rate to Pound Sterling</i>	<i>Gross Sales Receipt Transaction Currency</i>	<i>Sterling</i>
16 May 2008	Dublin	Residence	0.7841292245	EUR 8,250,000	6,469,066
05 June 2008	Tallinn	Land	0.0501162697	EEK 12,100,020	606,408
02 June 2008	Amsterdam	Residence	0.7889546351	EUR 4,050,000	3,195,266
17 June 2008	Madrid*	Office	0.7889546351	EUR 50,500,000	39,842,209
25 June 2008	Wellington	Residential	0.3957574798	NZD 840,000	332,436
02 July 2008	Cape Town	Residence	0.0640053252	ZAR 9,000,000	576,048
08 July 2008	Wellington	Residential	0.3809378690	NZD 621,000	236,562
01 August 2008	Stockholm	Residential	0.0830509601	SEK 7,642,459	634,714
08 August 2008	Durban	Residence	0.0671415815	ZAR 2,600,000	174,568
22 August 2008	Buenos Aires	Residential	0.5259835893	USD 275,000	144,645
25 August 2008	Ottawa	Residential	0.5206977350	CAD 295,000	153,606
02 September 2008	Manila	Office	0.0118243842	PHP125,241,840	1,480,908
30 September 2008	Wellington	Residential	0.3783006734	NZD 645,000	244,004
17 October 2008	Ottawa	Residential	0.4997251512	CAD 705,000	352,306
17 October 2008	Wellington	Residential	0.3718578016	NZD 555,000	206,381
07 November 2008	Wellington	Residential	0.3588988982	NZD 340,000	122,026
17 November 2008	Ottawa	Residential	0.5403652869	CAD 752,000	406,355
31 December 2008	Lilongwe	Residential	0.0044379946	MWK 42,000,000	186,396
15 January 2009	Buenos Aires	Residential	0.6873797086	USD 362,000	248,831
28 January 2009	Ottawa	Residential	0.5879931793	CAD 500,000	293,997
17 February 2009	Abidjan	Office	0.0014088436	CFA 150,000,000	211,327
31 March 2009	Montserrat	Residential	0.6976419701	USD 145,160	101,270
Gross Sales Proceeds					56,219,329

\* Note: This is a forward sale with vacation delayed until early autumn 2009

## FCO PROPERTY PURCHASES FOR THE PERIOD 1 APRIL 2008 TO 31 MARCH 2009

<i>Date</i>	<i>Post</i>	<i>Type of Property</i>	<i>Exchange Rate to Pound Sterling</i>	<i>Gross Purchase Expenditure Transaction Currency</i>	<i>Sterling</i>
26 June 2008	Dushanbe	Land	0.5048465267	USD 91,350	46,118
28 January 2009	Montserrat	Residential	0.6873797086	USD 725,000	498,350
11 March 2009	Washington	Residential	0.7023951675	USD 578,000	405,984
13 March 2009	Washington	Residential	0.7023951675	USD 682,000	479,034
18 March 2009	Montserrat	Residential	0.7023951675	USD 412,500	289,738
26 March 2009	Antalya	Office	0.9267840593	EURO 420,000	389,249
27 March 2009	Panama	Residence	0.7023951675	USD 2,850,000	2,001,826
Total Gross Purchase					4,110,299

**Letter to the Committee Specialist from the Parliamentary Relations Team, Foreign and Commonwealth Office**

GOVERNMENT RESPONSE TO FOREIGN AFFAIRS COMMITTEE REPORT ON THE FCO'S DEPARTMENTAL REPORT 2007-08

Thank you for your letter of 27 July in which you requested further information on issues covered in the FCO's response to the Committee's Report on the FCO's Departmental Report of 2007-08 (Command Paper No 7585 of April 2009).

The additional information you sought is provided below. The points are addressed in the same sequence you raised them in your letter.

*Recommendation 2: In its Response to the Committee's Report, the FCO acknowledged that "there is a question mark over the future of the Drugs and Crime Programme (DCP) beyond March 2011" as a consequence of the decision to transfer lead responsibility for HMG's international work on drugs and crime to the Home Office. The Committee would like an update on the FCO's discussions with the Home Office on funding for the DCP beyond March 2011.*

The FCO and Home Office will bid jointly in the next review of Government spending for a pooled programme budget for capacity building against organised crime overseas. This was announced in the Government's new Serious Organised Crime Strategy—*Extending Our Reach: A Comprehensive Approach to Tackling Serious Organised Crime* (Cm 7665), presented to Parliament on 13 July.

*Recommendation 4: The FCO has announced today (27 July) the appointment of Professor David Clary FRS as its first Chief Scientific Adviser. In its Response to the Committee's Report, the FCO did not accede to the Committee's request to "clarify and justify" the role of its planned new scientific adviser, on the grounds that the appointment would be made only in summer 2009 and would therefore be evaluated in the FCO's Annual Report 2009–10. At this stage, the Committee would like the FCO to outline the process that led to Professor Clary's appointment; and his terms of reference for the position, including the hours which it is planned that he will work, and an explanation for the fact that Professor Clary will, it appears, work as scientific adviser only for the FCO, rather than being shared with another Department, as Sir Peter Ricketts indicated was the most likely outcome when he gave evidence to the Committee last October. The Committee would also like to be informed of the evaluation process to which the role of FCO Chief Scientific Adviser will be subject in the run-up to publication of the FCO's Annual Report 2009–10.*

The FCO's new Chief Scientific Adviser (CSA) Professor David Clary was selected for this appointment on merit on the basis of fair and open competition. The position was advertised in the national and scientific media. The selection panel was chaired by a Civil Service Commissioner (Dame Alexandra Burslem) and included Sir Peter Ricketts, Permanent Under-Secretary, Professor John Beddington, Government Chief Scientific Adviser, and Vicky Bowman and Deborah Bronnert, FCO Directors, Global and Economic Issues. Professor Clary has been appointed on a part-time (40%) basis on a three year fixed term contract from August 2009.

The role of the FCO's CSA will be to ensure that the FCO's policies and operations, and its contribution to wider Government issues, are underpinned by excellent science, technology and innovation advice. The CSA will do this through providing advice to the Foreign Secretary, Ministers and officials on science, technology and innovation; engaging actively with the cross-Government community of senior science advisers; building partnerships with stakeholders across the UK and international science and engineering community; promoting the FCO's public science messages alongside the Government CSA; and strengthening scientific and engineering capacity in the FCO. The postholder will report formally to the Permanent Under-Secretary, will have the right of access to the Secretary of State, and will maintain his professional independence.

We initially considered that the position of FCO CSA might be combined with another departmental CSA. However, after a review of current practice elsewhere and consultation with Professor Beddington, we decided to advertise the position on a part-time basis and fill it through open competition. We were very pleased to have attracted a number of high calibre candidates, and are delighted that Professor Clary has now taken up the position. We will conduct an evaluation of the role after eight months (which coincides with our business planning/annual appraisal cycle), and share our conclusions with the Committee.

*Recommendation 5: The Committee would like an update on the impact on the Science and Innovation Network and the Government's international science and innovation work of the recent merger of the former Department of Innovation, Universities and Skills and Department of Business, Enterprise and Regulatory Reform to form the new Department for Business, Innovation and Skills.*

We are confident that the creation of the Department for Business, Innovation and Skills (BIS) will enhance the Government's international science and innovation work. BIS combines the strengths and capabilities of DIUS and BERR, making the UK best able to compete in the global economy and helping to secure its economic future. BIS continues to invest in the UK's world class science base and develop strategies for commercialising more of that science.

The UK's strategy for investing in science and innovation is set out in the document *10 Year Framework for Science and Innovation 2004–2014*, and BIS has allocated £3.4 billion to the UK Research Councils in 2009–10 to fund basic and applied research. BIS also funds the Technology Strategy Board to support nearer market research, development and demonstration, with a budget of £761 million in 2008–11. The Government has just announced the creation of the UK Innovation Investment Fund to support technology-based businesses dependent on equity-based finance. This will have a cornerstone investment of £150 million from the Government, with the aim of creating a fund worth £1 billion over 10 years.

Following the merger, the transition has been seamless for the Science and Innovation Network. The Network, which is funded and managed jointly by FCO and BIS, continues to support UK science and innovation to a high standard identifying key and new opportunities.

These opportunities are in a variety of areas. Clean technologies, renewable energy and other climate change-related research areas have seen positive collaborative activity, giving benefits to the UK from the Network's contact with foreign researchers and their work.

The Network also has the opportunity to influence. A typical example of this saw the science team in Houston produce a report for policymakers on the impact of climate change on Texas, and co-ordinate a visit to the UK by a bi-partisan delegation of Texas state Senators on climate change and energy. Results included a marked shift in the Senators' positions and the filing of eight pieces of legislation aimed at reducing Green House Gas emissions in the state.

The Network collaborates internationally in other areas of UK excellence such as life sciences and nanotechnology. Work with a variety of partners on degenerative illness, infectious diseases and extensive stem cell research has all been made possible through the efforts of the Network at home and overseas.

The Network co-operates closely with UKTI to ensure attendance at the annual UK Nanotech event by those currently at the cutting edge of nanotechnology science and innovation. The Network also keeps the UK sector informed about the latest international activity, through both regular reporting and staging or facilitating attendance at internationally-focused nanotechnology events.

The Network also uses opportunities to work with Whitehall Partners to secure UK engagement where it can be of greatest benefit to the UK. For example in Brazil the Network facilitated a DEFRA-funded joint research programme on second generation biofuels in 2008 and early 2009. The Network has worked with leading scientists and policy makers in Europe and the UK Department of Health in the field of tackling obesity. And it has provided essential support to Help the Aged and its affiliated research arm to identify and engage foreign partners active in addressing the challenges of ageing communities.

*Recommendation 12: The Committee would like an update on the FCO's development and rollout of new software to collect activity data, to replace the use of spreadsheets.*

The FCO Board took the decision in May 2009 to continue using spreadsheets to collect activity recording data, there being no funds currently available for the development and rollout of a new software solution. At the same time, the FCO Board asked if the method of data collection by spreadsheets could be simplified by radically reducing the number of activity categories. Discussion with the owners of these codes continues and a paper is due to be presented to the FCO Board in October 2009.

Looking further ahead, it may be possible to include staff activity recording on the FCO's current Prism software. It will only be possible to look at this solution once all locally-engaged staff have been entered on to the system (target date December 2009) and once the FCO's F3G computer hardware has been installed at all overseas posts (target date Spring 2010).

*Recommendation 13: In its Response, the FCO states that the changes implemented to its overseas network have resulted in the elimination of 77 policy jobs in European posts and the creation of 172 new policy jobs elsewhere. The Committee would like the FCO to explain how the two figures tally, perhaps by specifying the geographical distribution of the new posts.*

Staff costs vary from location to location. The savings in Europe were part of a wider shift of resources which included the deletion of policy jobs in London and the Americas. Together, these freed up the resources to enable us to create 172 new policy jobs. The geographical distribution of those new posts was provided in the Foreign Secretary's response to Parliamentary Question 246268 (28 January 2009 Column 598W). The FCO continuously reviews the deployment of its resources and aligns them flexibly in line with UK interests to the benefit of the British taxpayer.

*Recommendation 24: In its Response, the FCO said that it would shortly be writing to the Committee about progress on the implementation of the Whitehead Review following the theft of blank passports in July 2008. The Committee would welcome an early update on this matter.*

We will provide the Committee with an update on this issue in a separate letter.

*Recommendation 25: In its Response, the FCO notes a number of examples which it says show the benefits of the Defence and Security Organisation (DSO) having access to the full UKTI network. However, in its Annual Report 2008–09, the FCO does not appear to fulfil the Committee's request for a "clear picture" of the extent of these benefits for the UK defence and security sector. In its Response, the FCO promises that data will be available for the 2009–10 financial year, generated by the UKTI Performance Impact and Monitoring Survey, showing the impact of DSO services for SMEs; and that the DSO will also seek to develop a system to track the benefits which it generates for long-term high-value campaigns. The Committee would welcome any data which the FCO could make available now showing the impact of the DSO's work in the 2008–09 financial year; and an update on the development of data systems to track the impact of the DSO's work from the 2009–10 financial year onwards. The Committee would also like to know how the FCO plans to ensure that data on the impact of the DSO's work following its integration into UKTI in 2008 will be comparable with earlier data on the impact of the work of the former Defence Export Services Organisation.*

For the period covering financial year 2008–09, UKTI DSO measured its activities in terms of the UK's position in the global defence export market. On average UK companies win a 20% share of the annual world defence export market. In 2008–09 the UK was the second most successful global defence exporter, after the USA, achieving sales of £4.2 billion. First results for UKTI DSO from UKTI's Performance and Impact Monitoring Survey (PIMS) will be available at the end of December 2009, with quarterly updates available thereafter. PIMS results at the end of December 2009 will cover support provided during the first quarter of financial year 2009–10.

The FAC also asks how the FCO plans to ensure that data on the impact of the DSO's work following its integration into UKTI in 2008 will be comparable with earlier data on the impact of the work of the former Defence Export Services Organisation. The Defence Export Services Organisation measured its activities in terms of the UK's performance in the global defence export market (see earlier data mentioned above). UKTI DSO will continue to publish this defence exports data in a form which is expected to be

comparable with earlier published data, with, in due course, the provision of specific Security Sector data, once collated and verified. When available the PIMS data will enhance our knowledge as to how DSO's services are impacting on UK industry.

*Recommendation 30: The Committee would welcome an update on the steps which the FCO is taking to reform its HR Directorate in order to address the problems identified in the Cultural Audit.*

The Directorate continues to work on improving its performance, and especially its customer service. For example, the Directorate's work to overhaul its intranet pages has received very positive feedback from staff at all levels in the organisation, both those based in the UK and overseas.

In July this year we launched a new FCO People Strategy, with customer service and strategic flexibility at its heart. The Strategy has three key aims:

- (i) To build, equip and reward a dynamic, professional and flexible workforce to achieve the objectives of the FCO of today and tomorrow. To foster a culture in which our staff exemplify the behaviours we want; our traditional values of public service, honesty, professionalism, teamwork and integrity; together with greater ambition, creativity and confidence, and the right attitude to risk.
- (ii) To be a good employer to all our staff, providing a healthy and safe workplace where inclusion is the norm and in which every member of staff can realise his/her full potential.
- (iii) To provide a professional and efficient HR service to staff and managers in support of business needs, making full use of our IT systems.

Some of the key baselines the HR Directorate has in place for measuring aim (iii) are:

- Outreach to all Directorates General through its HR Managers who both know their clients well and are fully integrated into HR structures.
- Better management information which is more easily accessible to support decision making and workforce planning.
- Flexible, business orientated application of HR guidelines.
- Ensuring all staff have access to professional HR support when they need it.

I attach a copy of the People Strategy with this letter.<sup>11</sup> All staff in HR Directorate, along with staff and managers throughout the FCO, are responsible for the successful delivery of the strategy and HR Directorate will be held to account through the annual business plans which are in place for each of the four teams in the directorate.

*Recommendation 32: The Committee would welcome an update on the implementation of the Local Staff Strategy; and on progress on the harmonisation of pay and conditions for locally-engaged staff of the FCO and DfID where the two organisations are co-located in overseas Posts.*

We have made good progress in meeting the targets in the Local Staff Strategy:

- Through redistribution of existing learning and development funds we are investing a further £5 million in the Regional Training Centres (RTC) network. New training programmes and management courses are being rolled out in this financial year based on training needs analysis. The training opportunities we offer to our local staff are an important part of showing our commitment to "One Team".
- Since April 2009 local staff with a security clearance of restricted or above have had unescorted access to all FCO buildings. Local staff visiting UK now benefit from a tailored electronic "Welcome to London" guide and can register with the Local Staff Visits forum to become involved in public diplomacy events.
- A member of local staff from Brasilia has taken up a six month attachment with the Diversity Strategy Unit in London. Americas Directorate is planning seven attachments within the region, four of which will be completed before the end of 2009. Work is underway to facilitate attachments for local staff who are visa nationals as part of the Government Authorised Exchange Programme.
- A declassification project has made the FCO's information management system more easily available to all staff, the next stage is to increase report functionality by including details of all local staff on the system.
- The new FCO corporate identity launched in March has underlined the one team concept. Increasing the number of regional teleconferences has given local staff the opportunity to enter into more direct dialogue with senior management.
- Heads of Mission have been given advice and authority to make more overseas slots available to either UK based or local staff, depending on the prevailing circumstances. The FCO external website links to overseas posts' websites, where local staff vacancies are advertised. The internal local staff vacancy forum has attracted over 6,500 hits.

<sup>11</sup> Not printed.

The FCO/DfID harmonisation exercise is well underway. Three posts (Addis Ababa, Kinshasa and New Delhi) are acting as pilots. Addis Ababa and Kinshasa are nearing completion of their joint pay reviews. Ten more posts have already started the process which, although time consuming for everyone involved, is providing a valuable opportunity for clarification and verification that local staff are paid in accordance with local law and good employer practice. It is also eliminating most of the differences between FCO and DfID local staff reward packages. Full harmonisation may take several years but the essential first steps have been taken. The aim is for all FCO/DfID co-located posts to have completed their joint pay reviews by mid 2010.

*Recommendation 39: The Committee maintains its recommendation that the FCO should share with it in confidence the Top Risks Register. The Committee is not persuaded by the FCO's reasons for not doing so. If, however, the FCO continues to decline the Committee's request for sight of the Top Risks Register, the Committee requests the FCO to set out the specific concerns which have led it to take this position since 2006 and which did not apply when the Committee was given sight of the Top Risks Register in confidence in that year.*

The Permanent Under-Secretary (PUS) has considered this issue again with the Foreign Secretary. The Top Risks Register is an internal management tool. The Committee were shown an example of the Register in 2006 to enable members to see how we approach risk management. The Foreign Secretary and the PUS still feel that, due to the operational nature of the content and the importance of ensuring staff feel able to be candid, we cannot give you a full copy. The PUS includes the list of subjects that appear on the Register in his quarterly letters to you.

*Recommendation 43: The FCO's Annual Report 2008–09 does not appear to include the details on the operation and impact of the new unified Communications Directorate which the FCO promised in its Response to the Committee's Report. The Committee therefore again requests the FCO to provide the requested information.*

The 2008–09 Departmental Report included a section (in “The FCO Change Programme” chapter, pages 54–57) about the changes in the way the FCO is now communicating via its new global web platform and how it uses modern, web-based communication tools to meet its public diplomacy and engagement objectives. This is a reflection of the new unified Communication Directorate which brings together all the main elements of the FCO's communication activity.

The FCO's Communication Directorate now consists of five groups:

- Public Diplomacy Group, which includes overseeing our relations with BBC World Service, Wilton Park, Scholarships and the FCO's role in the London Olympics.
- Digital Diplomacy Group, which oversees our global web platform and our digital engagement activity.
- Corporate Communication Group, which includes internal communications, stakeholder relations and corporate identity.
- Strategic Campaigns Group, which including our research and evaluation activity.
- Press Office which continues to work with journalists around the world on a 24/7 basis.

This structure enables us to engage more systematically and collectively with the public at home and overseas, with Whitehall Partners, and with FCO staff in the UK and across the overseas network. Feedback through our stakeholder and staff surveys indicates that this approach is working. If the Committee would like any more detailed information about the work of any of the Groups in Communication Directorate, I will be happy to provide it.

*Recommendation 44: Having noted that the FCO accepted its recommendation as regards the Department's website, the Committee would like to know when the FCO plans to have included there a chronological archive of FCO press releases. The Committee would also like to know whether the FCO has commissioned any research on users' evaluation of the redesigned FCO website, or plans to do so.*

We have begun our enhanced search project and plan to have dramatically improved search across all of the FCO's websites by the end of December 2009 at the latest. This will include an easily accessible archive of FCO press releases responding to the Committee's recommendation. The FCO commissioned extensive usability and accessibility testing on the present design of FCO websites before their launch in 2008. The FCO is now redesigning all its websites incorporating feedback we have received.

*Recommendation 45: The FCO's Annual Report 2008–09 does not appear to include the information which the Committee requested in its Report, and which the FCO promised in its Response, on progress which the FCO has made towards the creation of a new framework for evaluating public diplomacy activities. Given the timing which the FCO outlined in its Response for completion of the joint FCO/British Council review of the pilot projects in this area ie autumn 2009, the Committee would welcome an assurance that it will receive copies of the report of the review as soon as possible, and an indication of when this is likely to be.*

The FAC will receive copies of the Public Diplomacy Pilot Review report. We are on track to complete this by 30 September 2009.

*Recommendation 51: The Committee would welcome an update on the pursuit of a Cultural Centres Agreement with Russia.*

There has been no change in the situation on the Cultural Centres Agreement. The Council continues to undertake important cultural work from its Moscow office. One example is the support the Council gave in arranging a major exhibition of JMW Turner's work in Moscow earlier this year. It received over 100,000 visitors and was named the "Exhibition of the Year" by Russian critics.

17 September 2009

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**Letter to the Committee Specialist from the Parliamentary Relations Team,  
Foreign and Commonwealth Office**

Thank you for your letter of 3 August in which you requested further information on issues covered in the FCO's Departmental Report 2008–09. I am sorry for the delay in replying.

The additional information you sought is provided below. The points are addressed in the same sequence you raised them in your letter.

**PRESENTATION**

1. *This is the first year that the FCO has published its resource accounts alongside the Departmental Report. What advantages has the FCO found from doing this? Is the FCO intending to produce a combined document for 2009–10 too?*

Presenting a range of financial data in one publication provides a clear focus to ensure reporting consistency, and that relevant disclosures and supporting information support or supplement other information on wider FCO strategic priorities. Furthermore, we have been able to remove some content overlap between the previously individual Departmental Report and Resource Accounts publications. In line with the wider thrust of the Clear Line of Sight Alignment Project, and the March 2009 Treasury Memorandum to Parliament (Cm 7567) regarding "publication events", we intend to produce a combined document in future years.

2. *What was the purpose of presenting the 2008–09 Departmental Report in two volumes?*

We wanted to keep Volume One as short as possible (60 pages) so that it can be used as a briefing tool for those external stakeholders who are less interested in the detailed financial and other resource information in Volume Two. This enabled us to produce a larger quantity of Volume One for wider distribution.

The Permanent Under-Secretary (PUS) will write to you separately about the structure and design of next year's Departmental Report.

**PUBLIC ACCOUNTS COMMITTEE (PAC) RECOMMENDATIONS**

3. *Treasury guidance states that "Reporting in the 2009 DRs should include information on the action that they [Departments] and their arm's length bodies have taken in response to all current and outstanding PAC recommendations" (PES(2008)17). Where is this information in the FCO's 2008–09 Departmental Report?*

There are no current or outstanding PAC recommendations in respect of the FCO or its arm's length bodies. In future, we will include a new table about PAC recommendations in the Core Tables section.

**2007 CSR DSOs AND PSAs**

4. *In the 2008–09 Departmental Report, the FCO reports improvement against 2 out of 4 indicators for PSA 30, "Global Conflict" (Vol 2, p 45). In the 2008 Autumn Performance Report the FCO reported improvement against only 1 of the 4 indicators. It appears that in both documents the FCO regarded progress as being made on indicator 4, and that its view of indicator 3 changed between the two documents such that in the Departmental Report this indicator was also reported as one where progress was occurring. What is the basis for this improvement in assessment?*

Progress made on the delivery of PSA 30 is measured twice during the financial year. The first mid-year assessment was conducted in September 2008 and was used to inform the Autumn Performance Report; the other was conducted in March 2009 at the end of the financial year and was reflected in the 2008–09 Departmental Report. The data used to measure indicator 3 "more effective international institutions" is drawn from reporting from posts. However, since the 2008 mid-year assessment, we have also introduced a "challenge panel" of external experts to offer an independent view of our analysis. We have also agreed with DFID and MoD two success measures per institution, so that the targets set match the ambition of the PSA.

The improved assessment in the Departmental Report is mainly as a result of a more upbeat assessment of progress made in the African Union (AU), the EU and NATO. For example, during the first six months of the financial year 2008–09, the AU's performance was judged to have worsened. During the second half of the financial year, posts reported that the AU's Continental Early Warning System had developed at a greater pace and, although its peace support operations were not yet as effective as hoped, the AU had

demonstrated during this period that it was able to deploy and sustain troops quickly into dangerous situations eg Somalia. As regards the EU, its willingness to tackle emerging threats, eg piracy and significant developments such as the agreement for a civilian/military Strategic Planning Directorate, also contributed to a more positive assessment. Finally, as mentioned in the Departmental Report, advances were made in the use of a Comprehensive Approach by NATO.

5. *For DSO 6, “Preventing and resolving conflict”, in the 2008 Autumn Performance Report the FCO reported improvement against 2 out of 5 indicators. In the 2008–09 Departmental Report it reports improvement against 4 of the 5 indicators (Vol 2, p 66). What happened between publication of the Autumn Performance Report and publication of the Departmental Report to warrant an assessment of improved performance on these indicators?*

In the six-month period between the Autumn Performance Report and the Departmental Report, we assessed that there had been a marginal improvement in two more of the indicators. These were indicator 1 (“better early warning and early action to prevent conflict, and its resources”) and indicator 4 (“improved capability to tackle the long-term and structural causes of conflict”), giving an overall total of progress in 4 out of the 5 indicators. On indicator 1, for example, we saw a welcome emphasis on prevention and capacity building in the UN Secretary-General’s Report on Responsibility to Protect (R2P). Equally, on indicator 4, there was the new UK initiative to develop a cross-pillar EU consensus on democracy, with the potential to refocus EU aid more towards strategically transformational countries significant to UK interests. However, although these improvements brought about an overall score of progress in 4 out of 5 indicators—and thus meriting an overall rating of “strong” progress in strict accordance with Treasury guidelines—we did not feel that the situation had changed so significantly since the time of the Autumn Performance Report to warrant such a positive, improved assessment. We therefore inserted the annotated note in the DSO 6 Section of the Departmental Report stating that we felt that only “some” progress had been achieved (the same assessment we gave ourselves in the Autumn Performance Report).

6. *For the indicators used to underpin its overall PSA and DSO performance assessments, in the case of each overall target the FCO states the number of indicators where there has been progress, but it does not systematically provide quantified or summary assessments for performance on each of the indicators individually. Does the FCO consider that its performance assessments would be clearer if it did so?*

The Departmental Report does provide a summary assessment on performance on each of the indicators individually. Each DSO and PSA states the number of indicators where progress has been made (ie Strong Progress (improvement against 4–5 indicators)), followed by a short narrative on the overall assessment of the DSO. A performance assessment is then provided against each of the target indicators which includes data indicators used for each target indicator. However, if the FAC would find it helpful, we can state explicitly which indicators have progressed.

7. *In its Report on the FCO’s 2007–08 Departmental Report, the Committee recommended that, where relevant, the FCO should in future specify in its Departmental Report why assessments of performance against targets had changed in-year (recommendation 7, para 43). The FCO accepted this recommendation. Between the 2008 Autumn Performance Report and the 2008–09 Departmental Report, there were no changes in the assessments of performance for PSA 30 or the DSOs overall, but there were changes in the assessments of performance on particular indicators. In future Departmental Reports, does the FCO plan to specify why assessments of performance on particular indicators have changed in-year?*

Assessments of performance, either overall or against particular indicators, can and sometimes do change in-year. If the FAC would find it helpful, we can make it clearer which assessments have changed and why. This could be implemented in the Autumn Performance Report this year.

8. *The NAO has conducted a review of the data systems underpinning PSA 30 (NAO, “PSA 30: ‘Reduce the impact of conflict through enhanced UK and international efforts’: A review of the data systems underpinning the Public Service Agreement led by the Foreign and Commonwealth Office under the Comprehensive Spending Review 2007”, 2009). For indicator 4, the NAO recommended that the Department develop “more measures of progress towards the achievement of the outcomes set out in the delivery plan from stated baselines” (para 43). What has the FCO done to implement this recommendation?*

We are in the process of refreshing the delivery plan for PSA 30, including to reflect the recommendations in the NAO review. As stated in its introduction, the plan is a living document that will be revised over the course of the CSR period. We will therefore be seeking to address the NAO’s recommendation during the current refresh.

9. *In its Response to the Committee's Report on the FCO Departmental Report 2007–08, the FCO said that it "continue[d] to strengthen the data systems that measure our new Departmental Strategic Objectives, and the PSA on reducing the impact of conflict" and that it would "share the findings" of an NAO review/which was to "determine progress made" on this front/with the Committee. We have already referred to the NAO review of the data systems underpinning measurement of performance on PSA 30, which the NAO has published. Has the NAO carried out any work on validation of the data systems used to measure performance on the FCO's DSOs? If so, does the FCO plan to share the results of this work with the Committee?*

The NAO conducted an assessment of the FCO's DSO data systems in Autumn 2008. The report, to which we have responded, was passed to the FCO in draft in June 2009. According to the NAO the report was intended primarily as a management tool and for internal use only. Also, the findings of the report were outdated when received by the FCO and had been largely overtaken by improvements made to our data systems at the start of the 2009–10 business planning cycle. With those two caveats, we would be prepared to share the report with the FAC if that would be helpful.

10. *As well as leading on PSA 30, the FCO contributes to other PSAs, namely those involving delivery on migration (PSA 3), international terrorism (PSA 26), climate change (PSA 27) and the reduction of poverty (PSA 29). What institutional mechanisms are in place for the FCO's coordination with other Departments in the delivery of these PSAs? Is the FCO responsible for delivering any sub-targets within these PSAs?*

#### PSA 3 (Migration)

The FCO is a key delivery partner for international aspects of PSA 3. "Supporting managed migration for Britain". (DSO 4) is one of the FCO's eight Departmental Strategic Objectives. The business plan underpinning it is aligned with both the UK Border Agency's strategic objectives, and the outcomes anticipated under PSA 3. The FCO's Migration Directorate is staffed by a cross-departmental team (FCO, UKBA, DfID and others) which enhances our capacity to coordinate with other departments in the delivery of PSA 3.

Aside from FCO business planning processes (which support consultation with key stakeholders), UKBA has developed, in consultation with the FCO, "Country Plans" for their top priority countries. These set out the key objectives for each country, underpinned by actions to aid delivery. There are designated Country Coordinators (from within the FCO's Migration Directorate as well as UKBA), who liaise with each other and key stakeholders on implementation.

The FCO is represented on the Domestic Affairs (Borders and Migration) Cabinet Committee, ensuring cross-Government understanding of policies and implications for other Government departments' objectives. A number of other vehicles have also been established to support close coordination and cooperation between the FCO and UKBA, some extending to DfID and the Ministry of Justice, the other key partners for delivering elements of PSA 3.

#### PSA 26 (International Terrorism)

Since 2003, the Government has had a comprehensive whole-of-Government strategy (CONTEST) in place to counter the threat to this country and to our interests overseas from international terrorism. Delivery of CONTEST and its associated PSA is overseen by the CONTEST Board, chaired by the Director-General of the Office for Security and Counter Terrorism (OSCT), and on which the FCO sits.

The work of departments and agencies overseas on counter-terrorism, including overseas aspects of PSA 26, is coordinated through the Overseas CONTEST Group (OCG), chaired by the FCO. Its membership includes OSCT, the agencies, MoD, DfID, Ministry of Justice, Transec (DfT), the Department for Communities and Local Government (DCLG), British Council, Cabinet Office, and the Treasury. The OCG also oversees the work of the International Pursue, International Protect and Prepare, and Overseas Prevent Groups.

The Overseas Prevent Group is chaired by the FCO and, in cooperation with the British Council and DfID, is responsible for delivering outcome 3 of PSA 26: "A positive UK contribution to the resilience of priority countries to violent extremism". The Group includes representatives from OSCT, MoD, the Office of the National Special Branch Coordinator, DCLG, and the Department for Children, Schools and Families (DCSF).

#### PSA 27 (Climate Change)

The FCO invites senior members of the Department for Energy and Climate Change (DECC) and DfID to sit on its programme board which is chaired at Director level and meets bi-annually to review progress against the FCO's business plan. In addition, both departments send representatives to the FCO's Strategic Programme Fund meetings which again meet bi-annually and determine where the FCO commits its programme funds on both climate change, energy and its wider economic engagement. The FCO also attends the Delivery and Strategy High (DASH) Board Meetings at Director level which are chaired by DECC and include all relevant Government departments working on these objectives at an international and domestic level.

Though the FCO is not directly responsible for the sub-targets within PSA 27, it continues to act as the international delivery arm for cross-Whitehall effort on climate change. We provide information on the international context to help formulate policy in London, provide intelligence and lobbying within the EU and UN, and continue to build the necessary social, economic and political conditions and mobilise key constituencies to influence the major emitters.

#### PSA 29 (Reduction of Poverty)

DfID holds a quarterly PSA 29 Delivery Board, chaired by its Permanent Under-Secretary. The FCO is normally represented by its Director for Global and Economic Issues. The PSA 29 Delivery Board discusses progress against PSA 29 and agrees on the necessary actions by DfID and other delivery partners, including the FCO, during the next quarter. The Delivery Board also examines the main risks against PSA 29 delivery and seeks to identify steps to mitigate these risks.

Success against PSA 29 is measured by progress against the Millennium Development Goals (MDGs). There are not separate sub-targets by department. However the FCO's key responsibilities are set out within the PSA as: to help build support for UK development objectives through engagement with host governments, international institutions, the private sector and civil society; to strengthen policy (including country governance analysis) and delivery through political analysis using its overseas and domestic network; and to lead on work to promote human rights and democratic values and principles that DfID recognises as an important component to the promotion of poverty reduction. The FCO's objective of increased international commitment to achieve the MDGs is also stated within its Departmental Strategic Objectives (DSO 7, Outcome 5) and evaluated as part of internal business performance processes.

There are also a range of informal mechanisms and activities to ensure that the FCO contributes effectively towards PSA 29. These include regular meetings between DfID's international director and the FCO's Global and Economic Issues director, provision of training in international development to FCO staff and joint communications to FCO posts and DfID Country Offices. In the past year, DfID Permanent Secretary, Minouche Shafik, has presented to FCO staff on the Government's priorities on international development and Sir Peter Ricketts has presented to DfID staff on the Government's foreign policy priorities. In some countries, we have established joint FCO-DfID teams working on the major global issues, such as climate change.

#### CONFLICT PREVENTION

11. *The accounts show that operating costs allocated to DSO 6 ("Preventing and resolving conflict") fell from £619 million in 2007–08 to £599 million in 2008–09 (Vol 2, p 115). What is the reason for this decrease, given that this is an important Government priority? How did the composition of the Department's spending on conflict prevention in 2008–09 differ from that of 2007–08?*

Conflict prevention and resolution sit at the heart of the FCO's policy framework, with the FCO leading on the tri-departmental Public Service Agreement on conflict (PSA 30—"to reduce the impact of conflict through enhanced UK and international efforts").

DSO 6 is a streamlined strategic priority introduced in April 2008 as part of the FCO Strategy Refresh. It replaced Strategic Priority 3 (2007–08) but the objectives (and therefore the figures quoted in your question) cannot be compared directly. Activity recording data (staff time recorded against specific objectives) differs across the two years due to these changes. Therefore, the relatively small difference in the FCO's operating costs between the two financial years represents a sharpening of focus rather than any change in the importance the FCO places on preventing and resolving conflict.

Furthermore, programme costs allocated to DSO 6 in 2008–09 actually increased to £554,736,000 from the £471,400,000 allocated to SP3 in 2007–08 (as indicated in Vol 2, p 143, Note 23 of the Departmental Report).

The composition of the FCO's spending on conflict prevention changed considerably from 2007–08 to 2008–09. Our work focussed on fewer, larger regional strategies where the UK could make the biggest difference. For example, more funding was made available for South Asia (mainly the Pakistan-Afghanistan border) and the Middle East (mainly Israel-Palestine). In 2007–08, the UK delivered its conflict prevention activity through the tri-departmental Global Conflict Prevention Pool (GCPP), which consisted of 15 strategies, and the Africa Conflict Prevention Pool (ACPP). In 2008–09, the UK delivered its conflict prevention activity through the tri-departmental Conflict Prevention Pool (CPP), a merger of the GCPP and ACPP, which consisted of six regional and two thematic strategies. Stabilisation activity in Afghanistan and Iraq was funded through the tri-departmental Stabilisation Aid Fund (SAF) in 2008–09. Details of allocations and final spend against these strategies can be found in the following tables (where available—we will provide 2008–09 figures at a later date):

<i>GCPP 2007–08</i>	<i>Allocation (£)</i>	<i>Amount Spent (£)</i>
Afghanistan—Main	18,200,000	18,867,147
Afghanistan—Counter Narcotics	10,000,000	9,852,551
Balkans	7,500,000	5,982,205
Caribbean	750,000	752,996
India—Pakistan	750,000	502,812
Indonesia—East Timor	500,000	362,730
Iraq (inc MOD/DFID top-ups)	15,732,000	15,730,363
Latin America	750,000	675,079
Middle East/North Africa	3,000,000	3,041,590
Nepal	2,300,000	2,306,466
Russia/CIS	5,100,000	4,713,228
Security Sector Reform (SSR)	5,907,233	5,757,923
Small Arms and Light Weapons	3,250,000	2,849,760
Sri Lanka (inc DFID top-up)	2,000,000	2,043,483
United Nations	7,400,000	5,426,312
<i>GCPP Total</i>	<i>83,139,233</i>	<i>78,864,644</i>
<i>ACPP Total</i>	<i>64,500,000</i>	<i>60,083,208</i>

<i>CPP 2008–09</i>	<i>Allocation (£)</i>	<i>Amount Spent (£)</i>
Africa	62,500,000	Figures for spend 2008–09 not yet finalised.
South Asia	8,400,000	
The Balkans	7,850,000	
The Middle East and North Africa	4,900,000	
Russia/CIS	4,470,000	
The Americas	1,750,000	
Security and Small Arms Control	9,400,000	
International Capacity Building	7,120,000	
<i>CPP Total</i>	<i>£106,390,000</i>	

<i>SAF 2008–09</i>	<i>Allocation (£)</i>	<i>Amount Spent (£)</i>
Afghanistan (inc top ups of £5.7 million)	53,700,000	Figures for spend 2008–09 not yet finalised.
Iraq	19,300,000	
<i>SAF Total</i>	<i>£73,000,000</i>	

12. *The 2008–09 Departmental Report states that “the year saw several high-profile failures for conflict prevention, eg Gaza and Georgia, but the UN, NATO and the EU became increasingly aware of the need to gear up their ability to address conflict” (Vol 2, p 66). What is the evidence that the UN, NATO and the EU have become “increasingly aware of the need to gear up their ability to address conflict”? What are these organisations doing to meet this need?*

UN

The UN Secretary General’s Report on peace building in the immediate aftermath of conflict issued in July 2009, setting a framework for more effective post-conflict stabilisation efforts within the UN. The Report highlights the need to improve leadership; strategy; roles and responsibilities; civilian capacity; and financing. It also makes recommendations on how the UN can implement this work. In addition, the UK and France have been working with partners since the start of 2009 to ensure that UN peacekeeping is more effective. The UN and its Member States have increasingly acknowledged the challenges faced in UN peacekeeping, in part as a result of the UK/French initiative. To this end the UN Department of Peacekeeping Operations (DPKO) presented a paper known as the New Horizons report to Member States in July 2009. This paper identified recommendations to improve the UN’s peacekeeping partnership. To ensure a focus for this work, the UK chaired a Security Council debate in August to determine a way ahead on the challenges identified.

The UN has also made progress in strengthening a number of its departments, including the Department of Political Affairs’ (DPA) capacity for preventative diplomacy. The General Assembly’s Fifth Committee agreed a package of support consisting of an additional 49 new posts. This represents a 25% increase and includes seven new Mediation Support and 17 new Africa posts (to be filled in 2009). In addition, the DPA has also established two regional offices in West Africa and Central Asia. Following EU lobbying in the Special Committee on Peacekeeping (C34), the Fifth Committee also agreed a significant increase in the capacity of the Office of Military Affairs in the Department of Peacekeeping Operations (DPKO).

## NATO

At the Bucharest Summit in April 2008, NATO leaders endorsed a Comprehensive Approach to address security challenges, strengthening NATO's ability to work with partner countries, international organisations, NGOs and local authorities. NATO is promoting the sharing of lessons learned and offering joint training of civilian and military personnel to ensure practical cooperation at all levels in the planning and conduct of operations. The September 2008 NATO-UN Declaration has committed both organisations to work together more closely and establish a framework for consultation and cooperation, and reaffirmed their willingness to provide assistance to regional and sub-regional organisations as requested. NATO is establishing a civilian liaison at the UN HQ in New York to improve coordination between the two organisations.

In Afghanistan, the adoption at the Bucharest Summit of a pol-mil plan is improving NATO's delivery of its peace support operation, and planning is becoming more outcome-driven. The number of European support helicopters deployed in Afghanistan increased from 35 to 50; work is also continuing in establishing NATO multinational Mi-type helicopter unit. The Multinational Helicopter Initiative (MHI), established by the UK and France, is continuing to make good progress with €28 million pledged from 14 nations, and assistance in kind offered from others (eg flying training). We expect the first deployments of helicopters benefitting from the MHI to enter theatre in late 2009/early 2010.

Finally, both NATO and the EU have adopted a "capability based" approach to defence planning. A new NATO Defence Planning Process (NDPP) was endorsed by Defence Ministers in June 2009 the ongoing meetings of the NATO-EU Capability Group aim to ensure that the efforts of the two organisations are coherent NATO and the EU are working together on planning a joint crisis management exercise in 2010.

## EU

The EU has demonstrated willingness to tackle threats as they emerge eg through the EU's first maritime operation "Atalanta" to counter piracy off the Horn of Africa. In its first months, "Atalanta" has achieved considerable success in building regional and operational coordination networks, and in providing escort to over 250,000 tonnes of WFP humanitarian aide (and AU Mission to Somalia (AMISOM) ships) and disrupting pirate attacks. Extensive UK/France/Germany negotiations underpinned delivery of the December 2008 European Council endorsement of plans for a new directorate for comprehensive civil/military strategic-level planning, the Crisis Management Planning Directorate (CMPD). The new directorate will improve the EU's ability to plan for multi-faceted crises by bringing together existing civilian and military planners, and will constitute a significant contribution to continuing international efforts to achieve the Comprehensive Approach.

## LOW CARBON ECONOMY

13. *The accounts show that operating costs for DSO 7 ("Promoting a low carbon, high growth, global economy") fell from £150 million in 2007-08 to £120 million in 2008-09 (Vol 2, p 115). Did this reflect a reduction in the importance of this objective? If not, what was the cause of the decrease?*

The figures in the Accounts do not in any way reflect a decrease in the importance that the FCO attaches to DSO 7 ("promoting a low carbon, high growth, global economy"). In fact, over the period in question, more staff and resources were devoted to climate change and energy security than previously. We believe that the apparent decrease is due to changes in the way activity by FCO staff is recorded and the change from the Strategic Priorities (SPs) to Departmental Strategic Objectives (DSOs). In particular, we think that the introduction of DSO 1 ("a flexible global network serving the whole of the British Government") has meant that some activity that would, for example, previously have been attributed to the global economy or poverty reduction SPs have, given the clear policy interest of the Treasury and DfID, been classified under DSO 1 rather than DSO 7.

## VALUE FOR MONEY SAVINGS

14. *The Departmental Report shows that by the end of 2008-09, the FCO had delivered £84.48 million in value for money savings (Vol 2, p 4). This is significantly higher (by around 12%) than the £75.49 million forecast in the Autumn Performance Report (p 26). In what areas of the Department are these efficiency savings mainly being made? To what extent are these areas under pressure as a result? Is the Department having to generate more efficiency savings as a result of financial pressures arising from exchange rate fluctuations?*

The FCO's CSR07 Value for Money efficiency savings come from a number of individual VFM projects (see Vol 2, p 4, Table 1). These are areas where potential for efficiency savings was identified to enable the FCO to live within its CSR07 settlement. Whilst this put some pressure on these activities, it was expected that we could deliver these efficiencies while continuing to deliver on FCO priorities. Financial pressures arising from exchange rate fluctuations and other factors have meant that some efficiency project managers are having to find additional efficiencies to deliver their targets. The FCO continues to work to stay within its settlement and maintain delivery of its DSO, PSA and efficiency targets.

15. *Allocative efficiencies of £34 million reported in the 2008–09 Departmental Report were around £10 million higher than forecast in the Autumn Performance Report. The Departmental Report says that “allocative efficiencies in CSR07 are generated from moving resources from lower-priority areas, thus allowing savings to be released and invested in higher priority areas”. Programme allocations for 2008–09 were reduced, for example, for Chevening scholarships (by £6.57 million), drugs and international crime (£2.14 million) and science and innovation (£0.5 million) (Vol 2 pp 6–7). As regards the programmes which have seen their programme allocations reduced in 2008–09, what concrete changes have been made to these programmes as a result of the reductions?*

Following the FCO Strategy Refresh launched by David Miliband in July 2007, we adjusted our programme portfolio to focus on the new Departmental Strategic Objectives. The rationale for the allocative efficiencies in CSR07 was to allow resources to be moved from lower priority areas to higher ones, to deliver better outcomes in total. It was recognised that some processes and policies might be cut or scaled back as a result in order to continue to improve higher value areas.

The FCO and DIUS (now the Department for Business, Innovation and Skills (BIS)) agreed to maintain and jointly fund the Science and Innovation Network over the CSR07 period (2008–11) at its current size. As part of the agreement, project work previously funded from the FCO’s Strategic Programme Fund (SPF) for Science and Innovation will now be funded from the new BIS Global Partnership Fund. The FCO met all project work costs in 2008–09 (approx £1 million). Together with the FCO programme team, DIUS worked to bring spend down to the reduced allocation of £1 million by delaying some project activities to 2009–10. For 2009–10 the FCO transferred £500,000 to BIS. No FCO contribution will be made in 2010–11.

The Strategy Refresh concluded that other Whitehall partners were better placed to lead on the Government’s international strategy on Sustainable Development, though the FCO would continue to contribute to sustainable development, including through work on the new policy priority of promoting a low-carbon, high growth, global economy. The FCO’s Sustainable Development programme funding was accordingly wound down, with no new projects approved in 2008–09, funding only continuing for ongoing projects to which it was already committed. All projects under the FCO’s Sustainable Development programme were completed by April 2009.

The SPF *Drugs and Crime Programme* (DCP) was also reviewed as part of the Strategy Refresh. DCP funds are now targeted at reducing harm to the UK from Class A drugs (heroin and cocaine) and associated financial crime. We give priority to projects in the Caribbean, Latin American, South Asian and West African regions. Actual spend in 2007–08, the last year before Strategy Refresh, was £5.7 million on projects in 36 countries; in 2008–09 it was £4 million in 23 countries. The FCO also contributes to the fight against drugs and crime from other sources, such as the Afghan Drugs Inter-Departmental Unit and our posts’ bilateral funds.

Funding for scholarships was reduced from £36.1 million in 2007–08 to an outturn of £28.35 million in 2008–09. The allocation for 2009–10 has been further reduced to £25.6 million. This has been achieved through a reduction in the number of Chevening scholars to just under 1,000 per academic year while maintaining a global programme, and withdrawal of FCO financial support to Commonwealth scholarships. Savings in this area support increased spend on the SPF for Low Carbon, High Growth.

16. *The Departmental Report states that the FCO is on track to exceed the target of 450 relocations of positions set by the Lyons relocation programme by March 2010, with the current forecast being 472 (pp 9–10). How much in cost savings has the relocation programme generated to date? What does the FCO perceive as the other benefits of the relocation programme, if any?*

In terms of our estates management, annual ongoing savings of £1.2 million resulted from the vacation of two leased properties: one floor in 89 Albert Embankment in 2005 (£450,000) and five floors in Apollo House, Croydon in 2007 (£750,000). Additionally we estimate that we are achieving direct cost savings of £3,900 per person employed at Hanslope Park compared with London.

Lyons has been a catalyst obliging the FCO to think critically about its UK estate and allowing us to introduce a range of modern working practices through provision of open plan accommodation, hot-desking and limited home working. While some of these steps would have been taken anyway, Lyons has been a useful external driver, helping us deal with the inevitable human and organisational barriers to change. We judge that the floor space area allocated per person reduced from more than 20 m<sup>2</sup> in 2004 to below 10 m<sup>2</sup> right across the UK estate, helping improve the overall efficiency and effectiveness of the organisation.

## CO-LOCATION WITH DFID

17. *In June 2007 the Department told the Committee: “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” (letter of 13 June 2007, response 12ii). In April 2008, the Department told the Committee that under current planning assumptions, the offices of Abuja, Bridgetown, Dhaka, Harare, Jerusalem, Kampala, New Delhi and Pretoria would become co-located by the end of the CSR07 period, and that proposals for co-locating in Beijing were being considered (letter of 3 April 2008, response 15). What progress has been made on the FCO/DfID Shared Service Delivery Plan? What offices have become shared between the FCO and DfID? What efficiencies will this generate?*

There has been some progress in the FCO/DfID Shared Service Delivery Plan. Pilot projects to harmonise pay and conditions for local staff are near completion. On procurement, both FCO and DfID intend to join the new Government Air Travel Programme operated by the Office of Government Commerce and we are exploring collaborative procurement opportunities such as in our network of posts in India where we have recently undertaken a review of our procurement options. We are also working together on a replacement overseas voice and communications network (Echo).

Restructuring in DfID has led to the closure of DfID offices in several countries and therefore a reduction in co-location opportunities. However, since the beginning of the CSR07 period additional co-locations have taken place at our posts in Brasilia, Georgetown, Harare, Kampala, and Lilongwe. Work has recently begun on a new DfID building on our compound in Dhaka, and we continue to work with DfID on plans for co-locating in New Delhi and Jerusalem. Under current planning assumptions co-location opportunities in Abuja, Beijing, Bridgetown and Pretoria will now be considered in the next CSR period.

Co-location can lead to efficiency savings for the Government as a whole by avoiding duplication while also making efficient use of office space. It also enables much more effective joint working across Departments. As we have previously indicated to the Committee, to calculate these savings would require other Departments to calculate what they would have spent had they not been co-located. The potential savings that arise from co-locating in FCO premises are one of the issues to consider in any decision to co-locate on our platform.

## RESTRUCTURING

18. *In the Spring Supplementary Estimate, the Estimate Memorandum reported that £10.8 million of End-Year Flexibility was taken up in respect of restructuring. How was this amount spent?*

The FCO spent £14.325 million of Provisions on staff early departure and other compensation costs. This provision included the £10.8 million restructuring End-Year Flexibility, as set out in Note 19 of the FCO's Annual Resource Accounts.

The early departure expenditure comprises:

### Senior Management Structure (SMS)/Senior Civil Service (SCS)

We approved early retirement settlements for 21 senior staff who had been unable to find new positions in the FCO at the end of their tours of duty. 15 of these staff left in 2008–09. Six have departed during the current financial year (2009–10); but the costs of their departure fall to the 2008–09 accounts, because their departures were authorised in the 2008–09 financial year. The total resource accounting cost to the FCO of these decisions was £5,955,799.

All settlements agreed for staff taking early retirement have been calculated and paid in strict accordance with the terms of the current Civil Service Compensation Schemes.

### Delegated Grades

A total of 66 staff in the delegated grades took early retirement with compensation (some ad hoc departures on health or compassionate grounds and some as a result of a short-term restructuring exercise). 61 of these left the FCO during 2008–09. Five will depart during 2009–10; but their costs appear in the 2008–09 accounts, because their departures were authorised then. The total resource accounting cost to the FCO of these decisions was £5,031,200.

All settlements agreed for staff taking early retirement have been calculated and paid in strict accordance with the terms of the current Civil Service Compensation Schemes.

We have no discretion over early retirement packages under the present scheme. The sums quoted are not what the individuals receive. They are the total lifetime cost to the FCO of bringing the departures forward.

## SALES TARGET

19. *The FCO Board decided in July 2008 to increase the FCO's sales target for 2008–09. What was the FCO's performance against its sales target for 2008–09, and what is the FCO's sales target for 2009–10? Has the increase in the sales target for 2008–09 made any difference to the FCO's management of its estate?*

In the CSR07 Settlement the Treasury set the FCO an asset disposal target of a minimum of £54 million over the three year period and expected us to deliver more in order to fund the modernisation and investment our estate required. Disposal of land and buildings generated £61.512 million in 2008–09 of which almost £40 million came from the sale of the British Embassy site in Madrid.

We do not expect to achieve similar levels in the last years of the CSR but will continue to look for cost-effective asset disposals. Achieving these sales targets releases capital tied up in our estate to reinvest in new capital projects elsewhere. 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.

## STAFF NUMBERS

20. *Staff numbers have fallen by 26% between 2003–04 and 2008–09 (Vol 2, p 21, Table 8). However, payroll bill in administration has increased by 27% over the same period (Vol 2, p 22, Table 9). Why has the payroll bill in administration increased by 27% between 2003–04 and 2008–09? By how much has the total pay bill increased over the same period?*

The outturns on staff numbers shown at Table 8 are actual figures for UK based staff. The note to Table 8 explains that from 2008–09 FCO Services and UKvisas staff have been removed. They have not been removed from years prior to 2008–09.

Pay bill information attempts to be a consistent set of data across all years and so adjustments are made to prior years to take account of Machinery of Government and classification changes such as the transfer of UKvisas to the UK Border Agency of the Home Office, the move of FCO Services to trading fund status and the reclassification of pay bill out of administration budgets and into front line programme expenditure. Essentially, the increase in pay is on a “steady state” model that is adjusted to take out the effect of the above changes. It also includes the pay of locally engaged staff. Inevitably this does mean that direct comparison with staff numbers in Table 8, particularly for back years, is potentially misleading.

The pay settlement data supplied below may give a more accurate picture of total FCO pay increases between 2003–04 and 2008–09:

	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09
Delegated grades	4.50%	4.00%	4.44%	4.06%	3.62%	3.50%
Senior management	4.50%	3.50%	4.20%	3.25%	2.60%	2.50%

The larger increase for 2005–06 reflects the significant increase in National Insurance Contributions that year.

21. *Note 1 to Table 9 in the Core Tables shows that “around £400 million of costs associated with front-line staff were reclassified in CSR07 from administration budgets into programme expenditure” (Vol 2, p 23). Note 7 in the accounts indicates that only £4 million of staff costs were allocated to programme expenditure (Vol 2, p 125). Why have only £4 million of staff costs been allocated to programme expenditure in the accounts, when £400 million of costs associated with front-line staff have been reclassified from administration budgets into programme expenditure? What does the £400 million of costs associated with front-line staff comprise?*

The £4 million figure at Note 7 shows only the staff costs that were permitted to be charged directly to specific programmes as agreed with the Treasury. We reallocated £421 million to programme, as shown in Note 8, reflecting other net administration costs allocated to general programme costs reflecting front-line service delivery. This includes consular and other front-line service delivery staff costs not charged directly to specific programmes along with associated spending on goods and services. It also includes the FCO's non-cash costs that are associated with front-line overseas assets.

## CONSULTANT COSTS

22. *The 2008–09 Departmental Report shows that expenditure on consultants is expected to rise from £30 million in 2007–08 to £63.6 million in 2008–09 (Vol 2, p 39, Table 19). What are the reasons for this increase? Is expenditure on consultants expected to increase in future years?*

The estimated figure of £63.6 million overstated the amount of consultancy work expected to be purchased by the FCO. That figure included estimated costs of managed service delivery and other professional services, which are not classed as “consultancy” spend by the Office of Government Commerce (OGC). We are now changing our Chart of Accounts to distinguish between consultancy and other professional services. As a result, we expect actual expenditure on consultancy for 2008–09 to be approximately the same as in previous years. We shall provide this information to the Committee when available and will publish the actual spend figure in our next Departmental Report.

Future spend on consultancy depends on our business requirements and on whether or not relevant specialist knowledge or expertise is already available to us. But we are implementing an OGC Consultancy Value Programme to help us improve the way we manage our consultancy spend and to ensure that we are taking appropriate measures to bear down on these costs.

#### INTERNATIONAL SUBSCRIPTIONS AND CONSULAR PREMIUMS

23. (i) *The funds requested in the Spring Supplementary Estimate for consular premiums and the International Subscriptions Cost-Sharing Agreement have increased in the last two years. In 2008–09, the Department requested additional funding amounting to £24.5 million in respect of consular premiums and £24 million in respect of the International Subscriptions Cost-Sharing Agreement. In 2007–08, the FCO made Reserve Claims of £16.5 million for consular premiums collected in the UK and £18.5 million for International Subscriptions Cost-Sharing Agreements. In the 2006–07 Spring Supplementary, the equivalent figures were £14.6 million for consular premiums and £12.8 million for International Subscriptions Cost-Sharing Agreements. Why have these reserve claims increased year on year?*

The increase in the reserve in 2008–09 is explained partly by fluctuations in exchange rates (which made our subscriptions more expensive) and partly by the Treasury's agreement to fund 60% of international subscriptions costs above a baseline of £102 million as part of the CSR07 settlement with the FCO. Prior to this CSR period, the Treasury funded only 50% of the costs above the £102 million baseline.

The Consular Premium is that part of the UK passport fee that funds consular assistance services and is collected in two ways: by the Identity and Passport Service (IPS) for passports issued in the UK and by the FCO for passports issued overseas. The FCO receives a historically set baseline allocation of expected income from this Premium at the start of each Financial Year. A supplementary claim is required at the end of the Financial Year for the balance between the baseline and actual income. The call on the reserve will vary depending on the number of passports sold in the UK and the rate at which the Consular Premium is set. This income has gone up from 2006–07 to 2008–09 in line with the planned investment in raising the professionalism of consular staff and other improvements in service delivery set out in the 2007–10 Consular Strategy, so our claim for the balance between the baseline and actual income has also increased.

(ii) *In a letter to the Committee of 18 May 2008, the FCO stated: "Reserve claims arising [...] from the International Subscriptions Cost Sharing Agreement (both in RfR1) were [...] exempt from recoup until the 2007 Comprehensive Spending Review that [...] removed the recoup exemption from the cost sharing agreement". Does this mean that the FCO will have to pay back to the Treasury, from future under-spends, the additional £24 million in respect of international subscriptions? If so, to what extent does this mean that there is additional pressure on other areas of spending in the Department?*

The Treasury has not required any pay back from the FCO in respect of this.

24. *In its Response to the Committee's Report on the FCO Departmental Report 2007–08, the Department reported an agreement that "the costs of international subscriptions in excess of £102 million would be shared by the Treasury and FCO in the ratio 60:40" (Cm 7585, response to recommendation 41). Could the Department provide more details about this agreement—for example, why was it reached and when did it come into effect? How does it compare with previous arrangements in this area? Does the agreement still stand? What effect did it have in 2008–09 and, if relevant, what effect is it expected to have in 2009–10?*

The agreement came into effect at the start of this CSR period. Under the previous arrangement, effective from 2003–04, the Treasury provided 50% of costs above the baseline of £102 million. In 2002–03 the baseline was £96 million. The change was introduced as part of the whole package agreed under the FCO's CSR07 settlement.

The FCO received just under £30 million from the Treasury for this in 2008–09. One of the advantages of this arrangement is that the risks of rising subscriptions and exchange rate losses are shared between the FCO and the Treasury. It is too early to say what the effect will be in 2009–10 but we expect to have to call again on this facility.

25. *The Departmental Report states that international subscriptions, comprised of contributions to NATO and UN capital projects, will increase significantly from 2009–10 (Vol 2, p 19, Note 3). Why is this? By how much will these subscriptions increase?*

The increase in NATO subscriptions is partly due to the UK's share of the new NATO HQ project. The total cost of the project remains approximately €1.18 billion, of which the UK pays 12.92% of common costs which comes to some €139 million. In 2007 the proposed cost of the project was £98 million (including contingencies). The cost now stands at £129 million (including a 5% contingency). This is due principally to the fall in the exchange rate between sterling and the euro during 2008. It is now estimated that the additional cost to the UK will be around £30 million over the life of the project if exchange rates stay broadly similar to today.

The cost to the FCO of the UN Capital Master Plan is US\$22.9 million per annum (fixed in dollar terms). Again, the sterling value of this figure depends on exchange rates and could change as a result of further fluctuations in exchange rates.

## EXCHANGE RATE FLUCTUATIONS

26. *The NAO report “Financial Management in the Foreign and Commonwealth Office” (HC 289, June 2009) noted that “the Department has taken over from the Treasury the responsibility for managing the impact on its budgets of movements in exchange rates. [...] The Department should ensure that it has the technical skills in place within the Finance Team to deal with forward exchange rate fluctuations” (p 7). What technical skills does the FCO have in place within the Finance Team to manage the risk to the budget from exchange rate fluctuations?*

Historically, the FCO managed changes in exchange rates and overseas inflation that affected the local budget of its posts, through the Overseas Price Movements (OPM) mechanism. The technical skills to run this model exist in the Finance Directorate. Our foreign exchange needs were underwritten by the Treasury as part of the overall Government requirement for foreign currency. The change from 2008–09 onwards was that the purchasing power of FCO’s settlement was no longer maintained through adjustments to FCO’s sterling allocation (increases when sterling weakens and reductions when sterling strengthens) by the Treasury and they allowed us to purchase our dollar/euro/yen foreign currency requirements in advance.

We have also developed the technical skills needed to forward purchase our foreign currency requirements which it was agreed we would begin doing in this CSR. We continue to develop our expertise in what is a complicated technical subject. Our forward purchase operating procedures are agreed by the Treasury, the FCO’s Finance Committee and Board, and have been designed to ensure that we do not speculate on currency movements. We used Bank of England and other independent expert financial advice to develop the operating principles and also the expertise of those responsible for placing our forward contracts. The over-riding principles are that we are trying to achieve cost certainty and do not speculate on future currency movements. Cost certainty means that we can purchase a known sum of foreign exchange on a specific date in the future for a pre-agreed price. The operating principles we developed to avoid currency speculation do not allow the Department to choose to postpone or delay our monthly forward currency purchase if there is an unfavourable movement in rates of exchange.

We can however only manage the risk; significant exchange rate movements continue to put extreme pressures on FCO resources that technical management cannot eliminate.

27. *What are the advantages and disadvantages to the Department of the fact that it, rather than the Treasury, now manages its foreign exchange risk?*

The decision to move from the Treasury to the FCO management of the risk of changes in exchange and inflation rates on FCO posts’ local budgets happened as part of CSR07. One of the results has been that FCO awareness of foreign currency movements and their impact on resources has increased both at posts and in London. There are some circumstances where there could be a financial gain from the change. For example the FCO could benefit from additional foreign currency purchasing power if sterling were to remain consistently above the rate at which our CSR settlement was agreed (£1 = \$2.0143 and Euro 1.4578). The corollary of course was that when sterling fell below that settlement figure, our purchasing power was reduced. The Treasury did offer the FCO £15 million in End Year Flexibility in 2008–09 to help with exchange rate pressures. In 2008–09 we benefited from some forward purchases at high rates so we did not need to take the full amount.

The disadvantages of the decision for the FCO were that, from within one of the smallest Departmental Expenditure Limits in Government, we have to manage a risk that is neither foreseeable nor regular in its impact across the network. Over half the Department’s budget is spent in foreign currencies. Exchange rate movements can consequently impact on our ability to deliver in our priority foreign policy areas. The timing of the decision meant that we had only a short time to build up the technical skills to implement an operation to forward purchase our foreign currency requirements and we are still improving the skills required. We also incurred additional costs from the need to build and buy in exchange rate management capacity at short notice. By the time we had developed sufficient skills and agreed how to operate, sterling had started to decline from the levels it had occupied in 2007. CSR07 imposed significant efficiency targets on the FCO, and although the forward purchasing strategy we developed for US Dollar/Euro/Japanese Yen helped us plan our activity in these currencies around our known costs, it has done nothing to help us manage the long term impact of, and the additional costs generated by, sterling’s collapse in the autumn of 2008 against nearly all currencies. This fall in the purchasing power of sterling—by a third against the dollar and a quarter against the euro—has had a major impact on our resources which will continue through 2009–10 and 2010–11. Forward purchasing cannot solve this.

28. *In its letter to the Committee of 30 January 2009, responding to questions on the Winter Supplementary Estimate, the FCO said that, “unless sterling strengthens from its present low levels, the FCO will need to find significant amounts of additional savings, possibly up to £95 million, in each of 2009–10 and in 2010–11” (response 2iii). The FCO also stated that it is “forecasting unrealised gains on contracts already secured for 2009–10 and 2010–11 amounting to some £90 million in total”, which could potentially reduce the amount of savings the Department has to find (response 2iii). Has the Department changed its estimate of either the unrealised gain from the contracts, or the savings it will need to generate in 2009–10 and 2010–11 to compensate for increased costs due to the fall in sterling? How does the Department intend to generate the savings needed to compensate for the fall in sterling?*

The FCO forward purchasing principles are to purchase foreign currency in relatively small amounts each month up to two years ahead (The MoD buy forward up to five years). In order to avoid currency speculation we do not bring forward, delay, cancel or change the amounts of currency purchased in response to favourable/unfavourable exchange rates; currencies are purchased monthly. But the catch-up contracts we purchased during sterling's recent lowest value (c\$1.45 in December and January) are impacting FCO's budget now and next year too. If the value of sterling improves and it is more favourable than the rate of forward purchase, the FCO will make an exchange loss. The current (1 October) forecast net gain over the two years is £19.3 million compared to the forecast gains amounting to £90 million (the figure in the accounts was £89.4 million), reflecting the strengthening of sterling since the end of March against the rates in our purchased forward contracts. Foreign currency previously purchased at lower rates means that if sterling strengthens by the time the contract matures then losses will increase; if sterling weakens from the contract rate then losses will decrease.

The forward purchasing also includes an element for Peacekeeping. This is a fixed dollar/euro cost and if sterling costs rise as a result of exchange rate falls, then the difference has to be funded from the element intended for discretionary activities within the overall fixed sterling budget.

Additionally we will have to continue to manage the exchange and inflation rate pressures on our posts' local budgets. In FY 2009–10 this is around £81 million. There is also additional exchange rate pressure of £6.8 million on rents and rates which we have funded. We are seeking to generate savings and efficiencies to help manage the reduction in the purchasing power of our sterling settlement. This is made more difficult by the fact that many of our costs are fixed and not easily cut in the short term, as well as the sheer size of the risk we have had to manage. In his letter of 22 November 2007 to the Foreign Secretary, the Chief Secretary to the Treasury said that "if there were a sudden and extreme pressure on the FCO relating from exchange rate fluctuations, the CST would consider a Reserve claim if the alternative would be that the FCO would breach its DEL and Estimates." Ministers will have to take decisions on this contingency.

The value of forecast gain on exchange shown in the Resource Accounts (£89.4 million) reflected exchange rates as at 31 March 2009 on the three currencies we forward purchase. Based on the FCO Central exchange rates on 1 October (US\$1.5881, €1.0856, and Y142.087 = £1), our latest forecast of the potential loss/gain from forward purchases for 2009–10 and 2010–11 is as follows:

2009–10	Gain £36.4 million
2010–11	Loss £17.1 million

29. *The Spring Supplementary Estimate included a significant movement of £80 million, which is described as relating to "financial instruments" or "FRS26". Can the Department provide more details to explain why the adoption of the standards means that there is an unrealised gain with an offsetting debit in impairments?*

The estimate of the unrealised gain on forward currency purchases was £80 million at the time of the Spring Supplementary. The unrealised gain at 31 March 2009 was £89 million. We followed the example set by the MoD in their Winter Supplementary by impairing this unrealised gain. This allowed us to show the gain whilst not presenting a negative estimate. However, following further discussion with the NAO the forward purchases were reflected as hedging transactions and therefore balance sheet items in the Resource Accounts rather than being taken through the Operating Costs Statement.

#### FINANCIAL MANAGEMENT

30. *The NAO Report on the FCO's Financial Management observed that "The Department's Five Star Finance project will have run its course by July 2010, and the Department is currently considering how to consolidate the project's achievements" (p 6). In its Response to the Committee's Report on the 2007–08 Departmental Report, the FCO said that it had put back by several months the target date for progression to Five Star status, following "a rigorous internal review and external assessments". What is the FCO's current rating in the Five Star Finance project? Does the FCO expect this to improve by the end of the project? Did the internal review and external assessments of the Five Star Finance project reveal any serious obstacles to the project's successful conclusion? How is the FCO intending to build on the achievements of the Five Star Finance Project?*

In its report on Financial Management in the FCO published on 3 June 2009, the National Audit Office (NAO) endorsed the assessment that the FCO had reached 3.5\* on its journey to 5\*.

A strategic review of the Five Star Finance Programme was carried out in April 2009 to assess the scope and timeline for the Programme. The FCO Board agreed the review's recommendations of maintaining the 5\* timeline of July 2010; updating and rationalising the list of projects being measured; articulating the outcomes more clearly; and, in recognition that financial management is something that needs to be done well by all budget holders and budget users, driving the Change Programme beyond the specialist finance community and out into the wider FCO and the network. Membership of the Five Star Programme Board was then revised and extended to include overseas representatives from different regions on a rolling basis, a wider selection of representatives from non-finance departments in the FCO, and a representative of the NAO as an observer.

The Five Star Finance Programme now has the following scope:

— 4\*: Firm Finance Facts *September 2009*

Senior leadership in the UK can access, understand and take responsibility for reliable financial information, from which the end-of-year position can be identified in time to inform action to address new issues arising.

— 4.5\*: Far-flung Finance *January 2010*

Good financial management practices are adopted throughout the FCO's global network. Posts have access to reliable financial management systems and are able to use them effectively.

— 5\*: Fully functioning Finance *July 2010*

Financial competency is embedded in the organisation and is a key aspect in the chain of approval. Allocation of resources is based on ability to deliver outcomes in line with DSOs, and can be re-prioritised effectively in response to changing conditions.

In the current economic climate, the need to prioritise use of resources is the most significant challenge to full delivery. However, the clarity of the new approach has assisted in prioritisation and intensified the momentum of the Programme which is well on track to reach 4\* in September. Progress at 4\* will be self-assessed and at 4.5\* will be assessed by the NAO.

As the Programme moves through the 4.5\* phase and into the 5\* phase, a transition plan will be drawn up to move the transformation in financial management performance from being a step change programme activity to being an on-going business development activity within the FCO's normal scope of business. Consideration will be given at that point as to whether there is a need for further intensive activity through a new transformation programme to build on the progress made through the Five Star Programme.

31. *The NAO Report on the FCO's Financial Management stated that "by the time budget holders declare under-spending in February/March of the financial year there is insufficient time to secure best value by applying resources elsewhere and under-spending for the Department becomes inevitable" (p 23). When do budget holders now declare their under-spending?*

Budget holders revise their forecast of spend for the year on a monthly basis using the FCO's budget management tool.

These forecasts are aggregated at Directorate level and reported monthly to the FCO Board in the Key Performance Report and are signed off by Directors General or their nominees. In addition rigorous quarterly reviews are held at the end of the 1st, 2nd and 3rd quarters when Finance Directorate representatives meet with all Directors to review their forecast of outturn for the year.

All Directors are now required to submit a Statement of Strategic Flexibilities. This lists activities which can be switched on at short notice in an underspend situation or switched off in the face of a potential overspend. Strategic Flexibilities are discussed with Directors as part of the quarterly reviews.

32. *The NAO Report on the FCO's Financial Management noted that "as at October 2008 [...] the proportion of qualified staff within the Department's finance function is 8%, which is below central government's average of 14% in 2007" (p 17). Does the FCO aim to increase the proportion of qualified accountants in the finance function, and if so, by how much?*

We are committed to ensuring that we have the right people with the right skills and qualifications doing the right jobs. As such, we aim to increase the proportion of qualified accountants in the finance function but cannot specify our end target as the requirements for professional qualifications to carry out each job are still being identified.

33. *The NAO Report on the FCO's Financial Management recommended that "The Department should set targets for the reduction in use of contractors and consultants [in the finance department] and monitor progress against them" (p 6). Have such targets been set and if so, what are they?*

We undertook an external specialist recruitment campaign in September/November 2008 which would enable us to reduce the number of contractors by around 50% as against the contractor headcount at that point. The requirements for security clearing the new recruits have extended the timeframe within which we have been able to bring them on stream. We anticipate completing this entry by the end of 2009. We continue to look for other ways to reduce the use of contractors and consultants, with both VFM and effectiveness in mind, within this Financial Year.

## CAPABILITY REVIEW

34. *The FCO Capability Review stated that “a number of stakeholders noted that FCO underperforms when required to run programmes and projects” and that “there is now a need to ensure that staff understand the importance of good programme and project management skills and apply them to deliver work on the ground” (p 12). What is the FCO doing to improve the project management skills of staff?*

We are actively engaged with the Office of Government Commerce (OGC) and their Programme Management Council. The FCO Board met senior representatives of the OGC in July and have since commissioned an action plan for improving the FCO’s Programme and Project Management (PPM) capability, including on skills and developing a portfolio approach. Since the Capability Review we have launched a PPM toolkit on our intranet to give staff access to better tools and techniques, lessons learned and good practice from elsewhere in FCO. We are in the process of revising our standard PPM training to make use of external best practice and are further developing our existing bespoke courses related to delivering foreign policy programmes. We have ensured the PPM approach is included in a wider review of international policy skills that is being carried out by our Strategy Unit and HR Directorate. We have also brought in some PPM expertise through external recruitment and will continue to do this when necessary. The Board champion for PPM and Head of Profession continue to reinforce the importance of good programme and project management.

## PROCUREMENT CAPABILITY REVIEW

35. *Please could the FCO provide an update of progress against each target in the Procurement Capability Review Improvement Plan?*

The Improvement Plan has 39 elements for delivery by February 2011 across four themes:

- Leadership, Organisation and Governance;
- People and Skills;
- Intelligent Client Capability and Supplier Management; and
- Systems and Process (and Management Information).

At the end of August 2009, 19 of these elements had been completed, nine are on track to be completed in the original timescale and 11 are slipping or have slipped. Highlights of those successfully completed are:

- Commercial Director (CD) appointed and took up post on 18 August 2009;
- New Commercial Strategy agreed by the FCO Board on 3 April 2009;
- Commercial Risk Register and Key Performance Report including monthly supplier risk reporting;
- Supplier Relationship Management and Contract Management, on which the FCO is leading the way in Government;
- Supplier rationalisation;
- Consultancy Value Programme Strategy agreed and now being implemented; and
- Spendtrak expenditure analysis tool operational.

Of the 11 milestones which are slipping, seven relate to Organisation and Governance changes which require the input and approval of the new Commercial Director (CD) who arrived in mid-August. The new CD is reviewing and reporting on how the current FCO Procurement Organisation needs to change to meet the requirements of both the FCO Business and the Procurement Capability Review. This work will not be complete until November 2009. Of the remaining four:

- one relates to the Government Procurement Card (GPC) which is now part of a wider global credit card consolidation project being led by the FCO Corporate Services Programme; and
- three tasks relate to supplier rationalisation which is partly completed with new processes for supplier adoption expected to issue by the end of September 2009.

## CORPORATE SERVICES

36. In 2008 the FCO decided to end the shared services programme and initiate a Corporate Services Programme instead.

- (i) What progress has been made in simplifying, standardising and streamlining the FCO's corporate services, particularly in the areas of finance and human resources?
- (ii) What progress has been made in developing the UK Processing Centre into a UK Shared Services Centre?
- (iii) What progress has been made in setting the corporate framework for, and providing support to deliver, more joint working on corporate services among groups of Embassies in particular regions?

The Corporate Services Programme has made good progress in changing a number of business processes such as stopping or reducing the number of mandatory returns from overseas posts, simplifying our cheque signatory procedures worldwide and amending some of our financial management checks. All of these will help reduce the amount of time staff spend on these processes without compromising the integrity of our checks and balances.

The new UK Corporate Services Centre in central Milton Keynes opens for business in September. A new, more efficient business operating model for the Centre is being designed with the aim of rolling it out during the first six months of 2010.

The Programme is also working with Regional Directors to consolidate management services in sovereign posts and reduce the management burden in subordinate posts by March 2011.

## FCO SERVICES

37. In its Response to the Committee's Report on the 2007–08 Departmental Annual Report, the FCO stated that more stretching financial targets would be established for FCO Services, including: "a more challenging internal target for ROCE [...] based on the forecast net surplus expressed as a percentage of the forecast average net assets"; "an individual profitability target [for each business area] [which] [...] will comprise a target net contribution (surplus before the allocation of corporate overheads) expressed as a percentage of revenue for each business area"; and, "at a corporate level, a target net surplus, expressed as a percentage of revenue [...] which will implicitly drive control of the level of corporate overheads" (Cm 7585, response to recommendation 26). What was FCO Services' performance against these targets for 2008–09? Why has this not been published in FCO Services' Annual Report?

The Return on Capital Employed (ROCE) financial target is one of the external measures of profitability for FCO Services. Given that FCO Services is a service based non-capital intensive business the Treasury universal target of 3.5% is too low to adequately benchmark our performance. It was agreed that from 2009–10 more demanding internal ROCE targets be set. For the financial year 2009–10 the internal ROCE has been set at 13% and is based on achieving the planned surplus for the year expressed as a percentage of the forecast average net assets uplifted by the planned capital spend for the year.

It was also agreed that for 2009–10 onwards, the three business areas within FCO Services would be set individual internal targets for contributions to corporate overheads and targets for individual contributions as a percentage of revenue. Achievements of these targets are monitored monthly against actual performance.

The first year for the revised ROCE and individual business targets is for the financial year 2009–10 and details are consequently not available for 2008–09. As internally-set Key Performance Indicators they will not be published in FCO Services' future Annual Reports.

38. FCO Services has not met its customer satisfaction target. Why is this, and what is FCO Services doing to meet its customer satisfaction target in future?

In the last financial year, FCO Services' annual independent survey showed that 80% of its customers were either satisfied or very satisfied with its service. This was a positive result in its first year's operations as a Trading Fund but was indeed 5% below its formal target. 85% was a stretch target and FCO Services' performance indicates that, as it begins to operate as an increasingly more commercial organisation, its customers' expectations have also naturally become higher. Nonetheless, FCO Services remains committed to raising its performance to meet customers' expectations.

Since the survey in 2008, FCO Services' customers have told it that they have seen significant improvements in a number of important areas such as the effectiveness of its communications of the services it provides, the quality and timeliness of proposals and the accuracy and timeliness of invoices. FCO Services recognises that it still has more to do. Improving its customers' experience and their overall satisfaction with its service continues to be a key focus. FCO Services has put in place a number of initiatives to raise its performance further.

There are three major strands to FCO Services' work: centrally co-ordinated projects are underway to resolve specific issues highlighted by its customers; local customer-centric change projects are also taking place in different parts of the business to enhance its customers' experience; and it is strengthening its approach to managing its relationships with customers. A director or senior manager from FCO Services is

now leading each major customer relationship on behalf of the whole organisation, creating strategies for continually improving the value it delivers, co-ordinating activity across FCO Services and systematically addressing its customers' concerns.

Through these and other activities, FCO Services aims to enhance the quality and consistency of the service it delivers to its customers.

39. *The Procurement Review undertaken by the Office of Government Commerce stated that the FCO has still got "some way to go before it makes its relationship [with FCO Services] a success", and that it should consider a separation of ownership and management at board level for FCO Services (pp 2, 20). Why did the OGC make these observations? What is the FCO doing to improve its relationship with FCO Services?*

Since the setting up of FCO Services as a trading fund it has taken some time to reach the position of an arm's length relationship with the FCO. This was in the main due to the complex interdependency that historically existed between the two organisations.

The FCO has set up a commercial relationship forum that has key representation from both the delivery side of FCO Services and the internal customer side of the FCO. This forum will be responsible for the relationship. Its principal objectives are to oversee service level agreements, drive performance improvements, benchmark costs and quality with the wider supply market, and actively seek efficiencies and new ways of working. The forum will be run on a collaborative basis utilising the FCO's newly developed supplier relationship approach.

Shareholder/stakeholder issues are now the focus of a separate joint Finance Steering Group that is chaired by the FCO Finance Director.

#### UKTI

40. *The 2008–09 Departmental Report claims that "every £1 UKTI spends generates £16 of benefits" (Vol 1, p 13). This claim appears to be based on the results of "independent customer research" in which UKTI users were asked what benefit, if any, was attributable to UKTI's help. Could the Department provide more details about the basis for its "1:16" claim? How was a monetary value assigned to the benefits attributed to UKTI help?*

A full explanation regarding the calculation of this ratio can be found in Annex A—Technical Note on Measurement of Financial Benefits Generated by UKTI Trade Services, pages 118–120 of the UKTI Departmental Report and Resource Accounts 2008–09. The link to the full UKTI Departmental report is here.

[https://www.uktradeinvest.gov.uk/ukti/fileDownload/UKTI\\_Departmental\\_Report.pdf?cid=434284](https://www.uktradeinvest.gov.uk/ukti/fileDownload/UKTI_Departmental_Report.pdf?cid=434284)

Please note that there was one factual typographical error in Volume Two of the 2008–09 Departmental Report. In Table 20 on p 40, the value of the corporate sponsorship received from AquaPark Poprad in Bratislava was £5,000, not £50,000.

I hope the above information will be helpful to the Committee.

5 October 2009

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#### **Letter to the Chairman of the Committee from Rt Hon David Miliband MP, Secretary of State for Foreign and Commonwealth Affairs**

STRATEGIC PROGRAMME FUND (SPF) ANNUAL REPORT FOR 2008–09

I have pleasure in enclosing copies of the Strategic Programme Fund (SPF) Annual Report for 2008–09.<sup>12</sup>

The Strategic Programme Fund is a key tool for supporting delivery of our Departmental Strategic Objectives. The report illustrates how relatively small funds can help us to make a real impact on policy delivery, enabling us to work with a wide range of people around the world in pursuit of British interests and foreign policy objectives.

Our overseas Posts have continued to look for opportunities to fund larger, multi-year projects that might bring about transformational change, and to measure the results as far as possible. Projects are fully integrated into the Country Business Planning process to ensure the right focus in each country and to form part of the programme of work for each Post.

The report will be laid before Parliament as a Command Paper on 13 October and placed in the Library of the House. It will also be published on the FCO website.

9 October 2009

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<sup>12</sup> Not printed

\*\*\* Asterisks denote that part of the written evidence below that has not been reported because it was provided to the Committee in confidence.

**Letter to the Chairman of the Committee from Chris Bryant MP, Parliamentary Under-Secretary of State, Foreign and Commonwealth Office**

PUBLIC DIPLOMACY AND FCO STRATEGIC COMMUNICATIONS

1. I am writing to update the Committee on the FCO's work in public diplomacy and strategic communications and the structures that govern both. In response to a short section on these matters in the FCO Departmental Report (2008–09), the Committee has said that it would welcome further information.

2. The key historical point of reference is the review of Public Diplomacy completed by Lord Carter of Coles in 2005, which led to the establishment of a re-vamped Public Diplomacy Board. The idea behind the PD Board was to create a ministerially led body which would set the strategic direction of UK public diplomacy; monitor and evaluate its outcomes and make recommendations on resource allocation. The Carter Review also led to the creation of a number of pilot projects (the PD Pilots) designed to explore more effective and ambitious ways of cross-working, especially between the FCO and the British Council.

3. When the current Foreign Secretary took office in July 2007, he built upon this work, setting out the case for an integrated campaigning approach to communications, based upon using a full range of modern communications technologies and techniques to engage publics around the world and applying these across the FCO's diplomatic priorities. He told the FCO Leadership Conference in March 2008: "Our global networks, and London, need to focus not just on government relations but business, media and citizen relations. Sometimes we need to use public diplomacy to shape a debate and build consensus. At other times it may have a more disruptive role challenging conventional wisdom." The Foreign Secretary also urged the FCO to design more ambitious engagement with UK citizens ("Bringing Foreign Policy Home") and to adopt a parallel approach to the use of integrated communications techniques within the FCO.

4. Against this background, the FCO appointed a new Director of Strategic Communications in June 2008, with a mission to implement the approach set out by the Foreign Secretary. Ian Hargreaves, the Director, brought to this task a wide experience of journalism across print, broadcast and online media, as well as substantial experience of corporate communications and the academic debate which informs these issues. He joined the FCO on a fixed term, two-year contract.

5. In the 16 months since the new Director took office, the FCO has reviewed all aspects of its approach to communications and public diplomacy and made a number of far-reaching changes, some of them quite recent. The key developments, in rough date order, have been:

- A newly co-ordinated and converged structure for FCO communications activities, (announced September 2008) bringing together the following elements: a strengthened Press Office; a strong, global digital diplomacy team to exploit the FCO's 40-language web platform; a new "strategic campaigns" unit, headed by an experienced Cabinet Office specialist in cross-government campaigns; a re-shaped corporate communications team, with responsibility for internal communications and relationships with FCO stakeholders in the UK; a smaller public diplomacy unit, with a tighter focus upon the work of the FCO's public diplomacy partnerships, including those directly funded by the FCO (BBC World Service, British Council, Wilton Park, scholarships and British Satellite News). The public diplomacy team is also responsible for servicing the governance machinery of the FCO's public diplomacy activities. These changes were planned and are being delivered on a cost neutral basis.
- Internal reviews of public diplomacy partners. These have led, so far, to a major strategy refresh and strengthening of governance for Wilton Park and the closure (on September 30, 2009) of British Satellite News. Wilton Park, an Executive Agency, is now governed by a board, chaired for the first time by a figure external to the FCO: Iain Ferguson (former Chief Executive of Tate and Lyle) and with a new chief executive (Richard Burge) also recruited from outside the FCO. BSN was established in 1992 to provide UK news content to international broadcasters. The demand for "newsreel" material delivered in this manner has significantly diminished in recent years and BSN was not cost-effective as a provider of video material for use on the internet. This change should produce annual savings of up to £1 million per annum. The FCO is already enjoying the benefits of a more flexible, web-focused approach to video, currently supplied by the Central Office of Information. The FCO focus with our other two funded public diplomacy partners, British Council and BBC World Service, has been on achieving a clear alignment with our strategic public diplomacy goals, whilst not trespassing upon the legitimate operational (or in the BBC's case editorial) autonomy of either organisation. In the case of the British Council, there has been successful joint working on complex global issues such as climate change, counter terrorism and global economic recovery (for example at the time of the G20 London Summit). The FCO is also working closely with the Council on major projects such as the Shanghai Expo in 2010 and in the approach to the 2012 London Olympics.
- Meanwhile the British Council has also pursued significant re-shaping of its "back office" to reduce costs and to allow for growth in its language teaching services. With regard to BBCWS, investment in the BBC Arabic television service and BBC Persian TV have been widely acknowledged as important interventions in strategically challenging information markets. This is all part of a

significant programme of geographic re-focusing by BBCWS, which continues in the context of structural decline of listening to short-wave radio and significant growth potential in television and on-line audiences in some markets.

- Replacement of the Public Diplomacy Board by a Strategic Communications and Public Diplomacy Forum, chaired by the Foreign Secretary. The Foreign Secretary has agreed to adjust the governance for public diplomacy within the FCO. Ministerial oversight of public diplomacy and strategic communications will be the responsibility of a new forum, chaired by the Foreign Secretary. The Minister with Responsibility for Public Diplomacy (currently Chris Bryant, Parliamentary Under-Secretary) will focus on providing specific ministerial supervision of the relationship between the FCO and its directly funded partners: especially BBCWS and the British Council. The Foreign Secretary's new Strategic Communications and Public Diplomacy Forum, which meets twice a year, is also supported at the working-level by an increasingly active and effective Public Diplomacy Partners Group, which meets at roughly six-week intervals, under FCO chairmanship, and which is currently addressing cross-cutting topics such as education, sport, science and events such as the Shanghai Expo and London 2012 Olympics/Paralympics. On a daily basis, FCO media, digital, public diplomacy, corporate and strategic campaigns now meet to deliver an integrated approach to the FCO's communications priorities.

6. These new arrangements are designed to capture, on the one hand, the breadth of the integrated communications work of the FCO, supervised by the new Forum, and the more specific governance of directly funded PD partners. In short, I believe that we have now succeeded in responding to Lord Carter's assessment that the FCO needed to become more strategic and resource-conscious in its pursuit of a more ambitious public diplomacy agenda. Our campaigns currently extend across a very substantial and ambitious range of the FCO's work, including: Afghanistan and Pakistan; the low carbon economy; global economic recovery; Burma; UK reputation in the Middle East; nuclear counter-proliferation; the Olympics; the Commonwealth (in the run-up to CHOGM); the Arms Trade Treaty; conflict prevention; Europe and international institutional reform; along with a substantial programme of work within the UK, some of it aimed at diaspora communities and embraced within the "Bringing Foreign Policy Home" framework led by the Foreign Secretary. A number of our campaigns involve working very closely with other Government departments; the Act on Copenhagen campaign, for example, is led by DECC.

The fact that our cross-government, converged approach has proved of such interest to other foreign ministries is testament to its growing reputation.

7. \*\*\*

8. \*\*\*

9. I am confident that the approach we have now adopted is the right one. It enables us to deploy our campaigns across the full range of media platforms, including the latest digital channels; it enables us to plan in a converged and strategic way both in the short and longer term; and it enables us to manage our relationship with our many public diplomacy partners, but especially those we fund directly, in a way which maximises the benefit of those relationships. We would be happy to brief the Committee in more detail on any of these matters.

22 October 2009

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**Letter to the Chairman of the Committee from Rt Hon David Miliband MP, Secretary of State  
for Foreign and Commonwealth Affairs**

Thank you for your letter of 22 October about the FCO Ministerial Team.

As you know, Ministerial appointments are at the discretion of the Prime Minister. There have been many different arrangements of Ministerial portfolios among FCO Ministers. The Minister dealing with EU and European matters has often had responsibilities for other subjects as well. I and my Ministerial team are confident of our capacity to discharge our responsibilities to Parliament and to provide Ministerial leadership of the Department.

29 October 2009

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**Letter to the Chairman of the Committee from Victoria Bowman, Global Economic Issues Director,  
Foreign and Commonwealth Office, and Rear Admiral Alan Richard, ACDS Strategy  
and Plans, Ministry of Defence**

As part of the Government's efforts to tackle climate change, the FCO and MOD have been working closely together on the security implications of climate change and are seeking to promote an understanding of the climate security debate amongst the international defence and security community.

The Government position on this issue was summarised in the second version of the National Security Strategy that stated, "Globally, climate change will increasingly be a wide-ranging driver of insecurity because it acts as a 'threat multiplier', exacerbating existing weaknesses and tensions around the world. It presents a challenge that goes far beyond the physical disruption to the environment."

The FCO and MOD have appointed, on a trial basis, Rear Admiral Neil Morisetti as their Climate and Energy Security Envoy. We would like to offer to your Members a briefing by RAdm Morisetti on the security implications of climate change and consequences for the international defence and security policy.

RAdm Morisetti's role is threefold; firstly to be the UK voice globally on climate security to broaden and deepen the debate on these issues, secondly to integrate the policy implications stemming from climate security across Whitehall and, thirdly to help embed the MOD's climate strategy across the organisation.

The international community will come together in Copenhagen in December to negotiate what the UK Government is strongly advocating will be an ambitious deal to limit the dangerous consequences of climate change and set us on the path to a low carbon future. The focus of our work this autumn is trying to create the right political conditions for an international deal in Copenhagen and RAdm Morisetti's role is key to achieving this.

5 November 2009

**Foreign and Commonwealth Office Winter Supplementary Estimate 2009–10 Memorandum**

**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, FCO Services, 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 liabilities in relation to staff leave; 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;
    - Section B: Peacekeeping and peace building activity and on associated strengthening of international and regional systems and capacity; and
    - Section C: Provision of specialist, targeted assistance in countries emerging from violent conflict.

**RfR1 WINTER SUPPLEMENTARY ESTIMATES CHANGES**

**TAKE UP OF END YEAR FLEXIBILITY (EYF)**

2. We have taken up £13,000,000 DEL EYF, of which £2,000,000 administration costs and £11,000,000 other current costs, in respect of FCO Capital charges (non-cash).

*Claims on the DEL Reserve*

3. We have made a claim on the DEL Reserve of £8,000,000 other current in respect of modernisation of the FCO Corporate Services.

*Take up of Departmental Unallocated Provision*

4. We have taken up all of our £17,000,000 administration DUP to offset adverse exchange rate movements.

*Transfers of Budgetary Cover*

5. Transfers of budgetary cover include:

- Transfer of £6,000,000 other current programme from DFID in respect of the Returns and Reintegration Fund to increase the number of foreign national prisoners and failed asylum seekers who return to their countries of origin and to ensure that those who return voluntarily are effectively re-integrated.
- Transfer of £500,000 other current programme to DFID in respect of the Stabilisation Unit.

6. The Stabilisation Unit is a UK Government inter-Departmental unit that helps improve the UK's ability to support countries emerging from violent conflict. It is jointly owned by the Department for International Development (DFID), Foreign and Commonwealth Office (FCO) and Ministry of Defence (MOD)—it's three "parent departments".

Stabilisation is support to countries emerging from violent conflict, to:

- *Prevent* or reduce violence.
- *Protect* people and key institutions.
- *Promote* political processes which lead to greater stability.
- *Prepare* for longer term non-violent politics & development.

7. No FCO activities are expected to be reduced as a result of the above transfers. Transfers between government departments such as these are a routine occurrence and are therefore incorporated in the normal budgeting process.

*Other Changes*

8. We have received a transfer of £250,000 capital from DFID as the 1st tranche of their contribution to the modernisation of New Delhi shared office accommodation. The total transfer over three years will amount to £9,000,000.

*International Financial Reporting Standards (IFRS) Adoption*

9. There has been an increase of £2,735,000 other current AME expenditure in respect of the impact of the adoption of International Financial Reporting Standards (IFRS) on FCO staff costs for accrued leave.

10. There has been an increase of £4,500,000 administration costs and £22,500,000 other current costs in respect of the impact of the adoption of International Financial Reporting Standards (IFRS) on FCO Capital charges (non-cash).

**RfR2 WINTER SUPPLEMENTARY ESTIMATES CHANGES**

*Claims on the DEL Reserve*

11. A claim on the DEL reserve of £3,430,000 will be used to meet the UK's share of assessed (obligatory) costs for UN, EU and OSCE peacekeeping operations and the secondments of UK military, policing and civilian personnel to a range of international peacekeeping operations. This makes up the balance of Peacekeeping funds from the Reserve.

*Transfers of Budgetary Cover*

12. Transfers of budgetary cover include:

- Transfer of £15,465,000 from DFID for conflict prevention activities.
- Transfer of £14,000,000 from MOD for the 2nd tranche of Stabilisation work in Afghanistan.
- Transfer of £11,500,000 from DFID for their share of the Helmand uplift for Stabilisation activities.
- Transfer of £6,500,000 from MOD for their share of the Helmand uplift for Stabilisation activities.
- Transfer of £1,500,000 from DFID for conflict prevention activities in Sri Lanka.
- Transfer of £1,150,000 to the Security and Intelligence Agencies for expansion and capability.

13. The above transfers reflect the revised structure of RfR2. Conflict prevention activities are now managed through five strategies: the SAF Afghanistan and CPP South Asia programmes have been merged; so too the SAF Iraq and CPP Middle East and North Africa programmes. A new Wider Europe programme funds activity in Russia/Commonwealth of Independent States and the Balkans (previously individual programmes). The Africa programme continues. A separate programme has been earmarked for thematic work, including support to international institutions. The Strategies continue to be managed tri-departmentally.

14. As with the RfR1 transfers no FCO activities are expected to be reduced as a result of the above transfers. Transfers between government departments such as these are a routine occurrence and are therefore incorporated in the normal budgeting process.

Table 1  
DETAILED EXPLANATION OF CHANGES

Transfers from non-voted Departmental Unallocated Provision		
17.000	RfR1	Section A1 take-up administration DUP to offset adverse exchange rate movements
Transfers from Other Government Departments		
15.465	RfR2	Section A3 grants transfer from DFID for Stabilisation and Conflict Prevention
14.000	RfR2	Section C3 grants transfer from MOD for Stabilisation and Conflict Prevention
11.500	RfR2	Section C3 grants transfer from DFID for Helmand uplift
6.500	RfR2	Section C3 grants transfer from MOD for Helmand uplift
6.000	RfR1	Section A2 programme transfer from DFID for Returns and Reintegration Fund
1.500	RfR2	Section A3 grants transfer from DFID for Conflict Prevention in Sri Lanka
54.965	Resource	Total Change to DEL
0.250	RfR1	Section A7 capital from DFID for New Delhi restack
Transfers to Other Government Departments		
-1.150	RfR2	Section A3 programme transfer to the Security and Intelligence Agencies for expansion and capability
-0.500	RfR1	Section A2 programme transfer to DFID for Stabilisation Unit
-1.650	Resource	Total Change to DEL
Transfers from Central Funds		
22.500	RfR1	Section A2 programme increase for adoption of IFRS Capital charges (non cash)
11.000	RfR1	Section A2 programme EYF for FCO Capital charges (non cash)
8.000	RfR1	Section A2 DEL Reserve claim for modernisation of FCO Corporate Services
4.500	RfR1	Section A1 administration increase for adoption of IFRS Capital charges (non cash)
2.000	RfR1	Section A1 administration EYF for FCO Capital charges (non cash)
3.430	RfR2	Section B3 Resource Reserve claim for peacekeeping funds
51.430	Resource	Total Change to DEL
104.745		Net total change to Resource DEL
0.250		Net total change to Capital DEL

#### DEPARTMENTAL EXPENDITURE LIMIT (DEL) AND ADMINISTRATION BUDGETS

15. The tables below show a comparison of the 2010–11 DEL (Table 2 and 2a) and Administration (Table 3) budgets with the 2003–04, 2004–05, 2005–06, 2006–07, 2007–08 and 2008–09 outturn, the forecast for 2009–10 and plans for 2010–11.

16. Table 2a 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 2 that are on a consistent basis year on year, including reclassification by Treasury of expenditure across all years of the Public Expenditure cycle.

Table 2  
DEL COMPARISON

	£m							
	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Forecast</i>	<i>Plans</i>
Resource DEL <sup>1,2</sup>	1,512.728	1,718.120	1,878.691	1,836.554	1,877.548	2,085.310	2,133.633	1,640.489
Capital DEL	86.671	116.676	131.842	160.314	226.377	229.080	216.310	205.060
Less Depreciation <sup>1,3</sup>	64.060	67.156	108.725	81.555	73.220	81.684	103.050	100.050
Total	1,535.339	1,767.640	1,901.808	1,915.313	2,030.705	2,232.706	2,246.893	1,745.499

<sup>1</sup> Figures for all years reflect the reclassification of impairment expenditure from DEL into AME.

<sup>2</sup> Resource DEL figures for 2010–11 are understated because they do not include all of the conflict prevention expenditure, which will be transferred at the time of the relevant Main and Supplementary Estimates. In addition 2005–06 included expenditure on a number of one off items (Tsunami expenditure, Efficiency Challenge Fund & G8 & EU presidencies).

<sup>3</sup> 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 2a

## PREVIOUS YEARS' EXPENDITURE AGAINST DEPARTMENTAL EXPENDITURE LIMITS

		<i>£m</i>				
<i>Year</i>		<i>Voted</i>	<i>Non-voted</i>	<i>Total DEL</i>	<i>Outturn<sup>1</sup></i>	<i>Variance</i>
<b>Resource</b>						
	2004–05	1,607.192	209.690	1,816.882	1,736.188	80.694
	2005–06	1,999.224	6.713	2,005.937	1,916.190	89.747
	2006–07	1,924.913	44.213	1,969.126	1,852.024	117.102
	2007–08	1,950.523	5.862	1,956.385	1,895.961	60.424
	Final outturn 2008–09	2,074.701	3.000	2,077.701	2,085.310	– 7.609
<b>Capital</b>						
	2004–05	101.533	1.000	102.533	71.236	31.297
	2005–06	135.697	1.000	136.697	92.959	43.738
	2006–07	157.779	1.000	158.779	160.747	– 1.968
	2007–08	243.567	—	243.567	227.973	15.594
	Final outturn 2008–09	216.060	—	216.060	229.080	– 13.020

<sup>1</sup> Outturn in is based on the definition of DEL in the relevant year and so is not consistent with the outturn in Table 2 that includes subsequent classification changes effective across all years.

Table 3

## ADMINISTRATION BUDGET COMPARISON

								<i>£m</i>
	<i>2003–04</i>	<i>2004–05</i>	<i>2005–06</i>	<i>2006–07</i>	<i>2007–08</i>	<i>2008–09</i>	<i>2009–10</i>	<i>2010–11</i>
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Forecast</i>	<i>Plans</i>	<i>Plans</i>
Administration budget	375.811	405.345	399.781	393.051	367.358	412.805	426.845	403.714

<sup>1</sup> Figures for all years reflect the reclassification of impairment expenditure from DEL into AME.

## DEPARTMENTAL UNALLOCATED PROVISION (DUP) 2008–09

17. All FCO provision has been allocated in the Winter Supplementary Estimate.

Table 4

## 2009–10 DEPARTMENTAL UNALLOCATED PROVISION

	<i>Resource</i>	<i>Capital</i>
RfR1 DUP to met unforeseen requirements arising in-year	£0.0m	£0.0m
Total	£0.0m	£0.0m

18. We have taken up £17,000,000 DUP to offset adverse exchange rate movements.

## END YEAR FLEXIBILITY (EYF)

19. The Public Expenditure Outturn White Paper published in July 2009 showed a total figure of £134.002 million for carry forward of underspend into 2009–10 under the DEL EYF scheme.

20. We have taken up £13,000,000 DEL EYF, of which £2,000,000 administration costs and £11,000,000 other current costs, in respect of FCO Capital charges (non-cash).

21. In the Spring Supplementary Estimate we may take up resource EYF for restructuring and capital EYF for our ongoing programme to increase the security and safety of our Estate and the people using it.

Table 5

## ACCUMULATION OF EYF

							<i>£m</i>
	<i>Administration</i>	<i>Programme</i>	<i>Total Resource</i>	<i>Of which near cash</i>	<i>Capital</i>	<i>Total</i>	
Total FCO EYF Entitlement in Public Expenditure Provisional Outturn July 2009 (table 6—Cm 7606)	76.271	53.917	130.188	100.552	3.814	134.002	
EYF drawn down in Winter Supplementary	2.000	11.000	13.000	—	—	13.000	
Balance of Accumulated End Year Flexibility going into 2009–10	74.271	42.917	117.188	100.552	3.814	121.002	

## PUBLIC SERVICE AGREEMENTS

22. The bulk of the increase in expenditure in this Supplementary Estimate is take-up monies for peacekeeping to further the conflict reduction PSA on which we are the lead department. The up-take of Modernisation funding, International Financial Reporting Standards (IFRS) budget cover and EYF for cost of capital charges underpins delivery against all of the FCO's Departmental Strategic Objectives and PSA targets. We have also had transferred £6 million from DFID to facilitate work in furtherance of the shared migration PSA.

*12 November 2009*

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**Letter to the Chairman of the Committee from Sir Peter Ricketts KCMG, Permanent Under-Secretary,  
Foreign and Commonwealth Office**

## FCO DEPARTMENTAL REPORT 2009–10

In his letter of 5 October to the Committee Specialist about the FCO Departmental Report 2008–09, the Head of our Parliamentary Relations Team, said that I would write separately about the structure and design of next year's Departmental Report (DR). I am now in a position to let you know what we are proposing.

We worked very hard on our 2008–09 Report. We improved the visual illustration of our work, to complement our narrative of the year, and it included our annual Resource Accounts for the first time. Despite the challenges in producing a combined document for the first time, we still managed to lay it before Parliament on 30 June—the first large Whitehall department to do so.

Producing the DR in this way and distributing copies to the whole FCO network and our stakeholders came at a price: not far short of £50,000 (not including FCO staff resource). Frankly, it did not stimulate much interest in the press or wider public. I do not believe that we can justify that sort of expenditure again in these difficult times. The Foreign Secretary agrees with me.

So, for the 2009–10 DR, we are proposing to produce—for laying and publication on 30 June 2010—a few hundred paper copies of a simpler DR with limited design features. The coverage of the document will be the same as this year's, albeit in one volume, and there will be no reduction in the quality of the content. These paper copies will meet all statutory requirements of Parliament, and of the FAC and the publishers (The Stationery Office). To meet the requirements of the Parliament website, there will also be a fully accessible online PDF version which will be exactly the same as this hard copy version which we lay before Parliament. The content in the DR which covers our Departmental Strategic Objectives (DSOs) will, as now, be used to update the DSO sections of the FCO website and will be updated throughout the year following publication of the DR, using news features, speeches, photos etc.

We are still working out the detailed costs but, with some of the money we will save, we are proposing to produce one or two short online videos (of three or four minutes duration) to illustrate the highlights of the year that will complement the DR. This will be placed on our website and will also be used in other events, such as recruitment fairs and post events.

This proposal will be cheaper—we aim to save £20,000 with this new approach—and greener as we will save on printing and distribution to all corners of the world. We hope the short video(s) will help to bring to life for the public what we do in Britain and around the world.

As I said, the FAC will see no change in the content of the printed version of the DR and it will still contain all the information you require to hold us to account. So I hope you will agree that this is the right way to go in the future.

*19 November 2009*

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**Letter to the Chairman of the Committee from Sir Peter Ricketts KCMG, Permanent Under-Secretary,  
Foreign and Commonwealth Office**

## ORAL EVIDENCE SESSION 9 DECEMBER—FCO MANAGEMENT ISSUES ROUND-UP

In advance of appearing before the Committee to give oral evidence on our 2008–09 Annual Report on 9 December I am writing to update you on a number of management issues:

## 2009 FCO STAFF SURVEY

We have just received the headline results for this year's all-staff survey. These are enclosed.<sup>13</sup> We do these surveys annually. They capture the views of all our workforce (UK and Local Staff) at home and abroad. This year, for the first time, we ran the exercise as part of a new Whitehall-wide staff survey, using the same basic questions for each department.

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<sup>13</sup> Not printed.

Overall the results are good. The response rate was the highest ever: 85% of our worldwide staff. This was the highest turnout of any large UK government department.

Most of the scores were positive. The highest of all were:

- “I am interested in my work”: 94%
- “I have the skills I need to do my job effectively”: 90%
- “In my job I’m clear what is expected of me”: 87%
- “I understand how my work contributes to the FCO/Post’s objectives”: 85%
- “I am treated with respect by the people I work with”: 85%

Other significant high scores included: “the people in my team can be relied on to help when things get difficult” (82%), “I am sufficiently challenged by my work” (81%), and “my work gives me a sense of personal accomplishment” (81%).

The majority of scores have improved compared with previous years. Where we asked questions which were the same or very similar to last year, most scores went up. The most significant rises were in two areas:

*HR and leadership:*

- “my manager motivates me to be more effective in my job”: up 7 to 70%
- “I have confidence in the decisions made by my manager” : up 7 to 71%
- “I receive regular feedback on my performance”: up 5 to 66%
- “learning and development has improved my performance”: up 12 to 67%
- “the FCO/post is managed well”: up 9 to 58%
- “poor performance is dealt with effectively”: up 7 to 53%.

*Diversity and inclusion:*

- “I am treated with respect” went up 10 to 85%
- “the FCO/post respects individual difference” went up 3 to 74%
- “I feel valued for the work I do”: up 19 to 72%
- “I achieve a good work/life balance”: up 3 to 71%

But there were also some low or declining scores, in three areas in particular:

*Pay and benefits:* only 30% of our staff said their pay was reasonable compared to other organisations (down 6% on last year), only 36% thought their pay adequately reflected their performance, and only 39% were satisfied with the total benefits package.

*Change:* only 41% agreed that when changes are made they are for the better (37% weren’t sure). Those saying change is managed well stayed the same as last year, at 47%: this is well above average for large organisations, but we would have liked it higher. Most of our staff do, however, now understand why the FCO is changing (up 2 to 70%).

*Bullying:* 16% said they’d experienced bullying, harassment or discrimination. That is a slight drop on last year’s headline figure of 17%. But it’s still far too high. We’ve put a lot of effort into tackling this issue over the last 12 months. We will be considering what more we can do in future. Our policy is and will remain zero tolerance.

Our engagement scores, which express how attached people feel to the FCO, went down somewhat (perhaps not very surprising in current circumstances):

- 79% of our staff are proud to work for us, down 5% on last year
- 64% feel a strong attachment to the FCO, down 2%
- 63% would recommend the FCO as good place to work, down 7%.

Despite these falls, 87% of our staff said they wanted to carry on working for us at least for the next 12 months (63% want to stay for at least the next *three* years).

We have shared the results with all our staff. We are now doing further analysis of the data in order to work up an action plan in response to the main findings. The Cabinet Office plan to publish the headline scores for each government department in February, and have asked us not to put our own results into the public domain until then. I should be grateful therefore if the Committee could treat this information in confidence for now.

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#### SENIOR STAFF EXPENSES

Permanent Secretaries agreed in the summer that all Whitehall Departments should publish details on the business expenses of Permanent Secretaries and Directors General. The FCO published these for Q1 on 3 November, and I enclose a copy of the expense sheets for your information.<sup>14</sup> From now on we will publish expenses details quarterly on our website (link below).

<http://www.fco.gov.uk/en/about-us/publications-and-documents/publications1/annual-reports/senior-staff-expenses/>

#### HOSPITALITY RETURN

In February 2008 the Cabinet Office published the first collective details of hospitality received by Whitehall Departments, which covered January to December 2007. The Cabinet Office has now requested that individual Whitehall Departments publish the hospitality details on a quarterly basis. The FCO is due to publish these for the first two quarters of this financial year and I enclose an advance copy for your information.<sup>15</sup> Subsequent quarter details will be published on a regular basis.

#### REVIEW OF ALLOWANCES

We have carried out a detailed review of overseas allowances and travel arrangements for our staff overseas. The review recommended a number of changes, including:

- reduced access to business class air fares;
- less extra leave overseas;
- changes to education allowances; and
- the abolition, simplification or consolidation of a number of financial allowances.

We have opened negotiations with the trade unions on these recommendations and hope to implement many of them by April 2010.

The review should result in a set of allowances which are fit for purpose, firmly based on the actual extra costs or hardships of living and working overseas, and simple to understand and administer. Our travel funding will also be determined by the business need and purpose of each journey rather than by staff or grade entitlements. I will write to the committee with updates following the negotiations in my quarterly management letter.

#### MOSCOW RESIDENCE

In my July management issues letter I updated the committee on the refurbishment of the Ambassador's Residence in Moscow. We remain on track to complete the project within £14 million. However, for operational reasons, it has been agreed with the Ambassador that the move to the building will now be phased across February to March 2010.

Since completing their work on site, the main contractor, Metis (a Turkish company), are in the process for filing for protection from bankruptcy. This process has not been initiated by the FCO. We are assessing what impact this may have on reaching a financial settlement in respect of the final account with them.

I look forward to seeing you next week when I will of course be content to provide further details you may require on all these issues.

*3 December 2009*

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#### **Letter to the Committee Specialist from the Parliamentary Relations Team, Foreign and Commonwealth Office**

Following my letter of 5 October in response to your letter of 3 August, in which you requested some further information on issues covered in the FCO's Departmental Report 2008–09, please find below the updated figures for Conflict Prevention Pool (CPP) and Stabilisation Aid Fund (SAF) spend in 2008–09 (under question 11).

Updated information can be found in italics against the original response below.

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<sup>14</sup> Not printed.

<sup>15</sup> Not printed.

*Question 11 (Conflict Prevention)—The accounts show that operating costs allocated to DSO 6 (“Preventing and resolving conflict”) fell from £619 million in 2007–08 to £599 million in 2008–09 (Vol 2, p 115). What is the reason for this decrease, given that this is an important Government priority? How did the composition of the Department’s spending on conflict prevention in 2008–09 differ from that of 2007–08?*

Conflict prevention and resolution sit at the heart of the FCO’s policy framework, with the FCO leading on the tri-departmental Public Service Agreement on conflict (PSA 30—“to reduce the impact of conflict through enhanced UK and international efforts”).

DSO 6 is a streamlined strategic priority introduced in April 2008 as part of the FCO Strategy Refresh. It replaced Strategic Priority 3 (2007–08) but the objectives (and therefore the figures quoted in your question) cannot be compared directly. Activity recording data (staff time recorded against specific objectives) differs across the two years due to these changes. Therefore, the relatively small difference in the FCO’s operating costs between the two financial years represents a sharpening of focus rather than any change in the importance the FCO places on preventing and resolving conflict.

Furthermore, programme costs allocated to DSO 6 in 2008–09 actually increased to £554,736,000 from the £471,400,000 allocated to SP3 in 2007–08 (as indicated in Vol 2, p 143, Note 23 of the Departmental Report).

The composition of the FCO’s spending on conflict prevention changed considerably from 2007–08 to 2008–09. Our work focussed on fewer, larger regional strategies where the UK could make the biggest difference. For example, more funding was made available for South Asia (mainly the Pakistan-Afghanistan border) and the Middle East (mainly Israel-Palestine). In 2007–08, the UK delivered its conflict prevention activity through the tri-departmental Global Conflict Prevention Pool (GCPP), which consisted of 15 strategies, and the Africa Conflict Prevention Pool (ACPP). In 2008–09, the UK delivered its conflict prevention activity through the tri-departmental Conflict Prevention Pool (CPP), a merger of the GCPP and ACPP, which consisted of six regional and two thematic strategies. Stabilisation activity in Afghanistan and Iraq was funded through the tri-departmental Stabilisation Aid Fund (SAF) in 2008–09. Details of allocations and final spend against these strategies can be found in the following tables (where available—we will provide 2008–09 figures at a later date):

<i>GCPP 2007–08</i>	<i>Allocation (£)</i>	<i>Amount Spent (£)</i>
Afghanistan—Main	18,200,000	18,867,147
Afghanistan—Counter Narcotics	10,000,000	9,852,551
Balkans	7,500,000	5,982,205
Caribbean	750,000	752,996
India—Pakistan	750,000	502,812
Indonesia—East Timor	500,000	362,730
Iraq (inc MOD/DFID top-ups)	15,732,000	15,730,363
Latin America	750,000	675,079
Middle East/North Africa	3,000,000	3,041,590
Nepal	2,300,000	2,306,466
Russia/CIS	5,100,000	4,713,228
Security Sector Reform (SSR)	5,907,233	5,757,923
Small Arms and Light Weapons	3,250,000	2,849,760
Sri Lanka (inc DFID top-up)	2,000,000	2,043,483
United Nations	7,400,000	5,426,312
GCPP Total	83,139,233	78,864,644
ACPP Total	64,500,000	60,083,208

<i>CPP 2008–09</i>	<i>Allocation (£)</i>	<i>Amount Spent (£)</i>
Africa	62,500,000	Figures for spend
South Asia	8,400,000	2009–09 not yet
The Balkans	7,850,000	finalised
The Middle East and North Africa	4,900,000	
Russia/CIS	4,470,000	
The Americas	1,750,000	
Security and Small Arms Control	9,400,000	
International Capacity Building	7,120,000	
CPP Total	£106,390,000	

<i>SAF 2008–09</i>	<i>Allocation (£)</i>	<i>Amount Spent (£)</i>
Afghanistan (inc top ups of £5.7 million)	53,700,000	Figures for spend 2008–09 not yet finalised
Iraq	19,300,000	
<b>SAF Total</b>	<b>£73,000,000</b>	

<i>CPP</i>	<i>Original Allocation</i>	<i>Final Allocation*</i>	<i>Spend against Allocation</i>
<i>Africa</i>	<i>£62.5m</i>	<i>£68.53m</i>	<i>£68.7m</i>
<i>South Asia</i>	<i>£8.4m</i>	<i>£8.4m</i>	<i>£8.59m</i>
<i>Balkans</i>	<i>£7.85m</i>	<i>£8.8m</i>	<i>£8.42m</i>
<i>MENA</i>	<i>£4.9m</i>	<i>£5.9m</i>	<i>£5.82m</i>
<i>Russia/CIS</i>	<i>47m</i>	<i>£4.47m</i>	<i>7m</i>
<i>Americas</i>	<i>£1.75m</i>	<i>£1.75m</i>	<i>£1.8m</i>
<i>SSAC</i>	<i>£9.4m</i>	<i>£8.22m</i>	<i>£8.9m</i>
<i>ICB</i>	<i>£7.12m</i>	<i>£7.12m</i>	<i>£7.08m</i>
<i>Reserve</i>	<i>£5.5m</i>	<i>0</i>	<i>0</i>
<i>Total</i>	<i>£112m</i>	<i>£113.2m</i>	<i>£114m</i>

<i>SAF</i>	<i>Original Allocation</i>	<i>Final Allocation</i>	<i>Spend against Allocation</i>
<i>Afghanistan</i>	<i>£48m</i>	<i>£53.7m</i>	<i>£52.5m</i>
<i>Iraq</i>	<i>£15m</i>	<i>£19.3m</i>	<i>£19.1m</i>
<i>Reserve</i>	<i>£10m</i>	<i>0</i>	<i>0</i>
<i>Total</i>	<i>£73m</i>	<i>£73m</i>	<i>£71.6m</i>

\* *Final allocations are a result of reserve funding and/or money reallocated from/to other programmes.*

3 December 2009

#### **Letter to the Committee Specialist from the Parliamentary Relations Team, Foreign and Commonwealth Office**

FCO DEPARTMENTAL REPORT 2008–09: PETER RICKETTS' EVIDENCE SESSION AT THE FAC: TEN FOLLOW UP QUESTIONS

In response to your e-mail request of 18 December I have the following answers to the questions you raised following the recent oral evidence session on the FCO Annual Report. Your original questions are shown in italics.

*Q29 What other groups of posts are adopting the 'Nordic Network' model, or considering doing so—in particular in the Middle East?*

Response: We are encouraging the development of regional networks (of embassies and teams) where it makes sense to do so. Our 10 posts in the Arabian Peninsula (Doha, Abu Dhabi, Dubai, Riyadh, Jeddah, Al-Khobar, Muscat, Kuwait, Bahrain and Sana'a) are starting to work more closely on the delivery of our Departmental Strategic Objectives (DSOs), particularly regional security issues and trade and investment work, with a view to creating an Arabian Peninsula Network this year. As with the Nordic Baltic Network, each post will remain sovereign within the country to which it is accredited, and will carry out its bilateral business with the host government. But a networked approach will integrate the FCO's resources more effectively, providing the FCO and our Whitehall partners with better, consolidated advice on policy and other issues.

Elsewhere, our posts in the Levant, and in North Africa, are also looking at ways of more closely integrating their work on strategic policy and operations. Our three posts in the Indian Ocean (Port Louis, Victoria and a small British Interests Section in Antananarivo) are operating as a single network, and our posts in the South Pacific are moving towards a similar model. The High Commission in Bridgetown acts as a hub for the Eastern Caribbean. In the Iberian Peninsula and Benelux countries our consular and trade and investment teams function as networks. And we have well-established thematic networks for climate change and economic work in both South America and South East Asia.

In addition, the Europe network is working on developing a regional approach to the provision of corporate services (Finance, HR and other support functions) in the Nordic/Baltics, Iberia, Benelux, Central Europe and the Eastern Mediterranean region.

*Q55 Please provide final details of the completion of the renovation project on the Moscow Residence when you have them, including the costs (compared to original estimates) and any implications of the Turkish contractor filing for bankruptcy.*

Response: The Committee will recall that the Moscow Residence is an historic mansion, and housed the Embassy offices during the Cold War years. It therefore needed comprehensive and sensitive refurbishment. The building is leased from the Russians under a reciprocal arrangement that includes their Embassy in London. The project is now very close to completion and the house will be ready for occupation by the Ambassador, Dame Anne Pringle, in February.

We would have liked to have commenced the project soon after the office moved out in 2000 but funds in our estate programme could not be stretched to cover it. We did, however, refurbish the two Wing Blocks of the Residence, for use as staff accommodation, in 2003 at a cost of £2.7 million. The 2004 cost estimate for refurbishing the main house, prepared for the outline business case, was £10.6 million, based partly on experience with the Wing Blocks. The project budget estimate can be summarised as: £6.0 million for the main contract; £1.1 million for specialist restoration work; £2.7 million for project management and design consultants; and £0.8 million contingency fund.

In 2005 we were able to programme funds for the main project to commence in 2006, and the final business case was approved by the FCO's Investment Committee in February 2006. After competitive tendering and a careful assessment of their competence by our consultant project managers, the main construction contract, was let to Metis, a large Turkey-based international contractor with previous experience of historic building refurbishment in Moscow and a good track record on projects for the US State Department in the Middle East. Work started in early 2006 and was due for completion in the spring of 2008. This programme was, however, critically dependent on keeping external roof and masonry repairs on schedule, because the extremes of the Russian climate prevent such operations taking place during the winter. This meant that there was a high risk that a minor slippage could quickly translate into a significant delay.

In the event Metis got off to a slow start and immediately fell behind schedule. They encountered a delay in securing a licence to work on the historic building. They also experienced difficulties in engaging specialist local subcontractors within the budgets they had estimated in their tender. The Metis delays were compounded by our own difficulties in getting design approvals from the local historic building authority (the equivalent of English Heritage), who unexpectedly insisted on approving design details step by step as work proceeded, adopting a far more stringent approach than had been the case with the Wing Blocks. It quickly became apparent that the authorities were insisting on an authentic historic restoration, rather than just the repair and updating necessary to provide a functional Residence. In some cases, work had to be postponed while we negotiated the detail of what was to be done. These factors, compounded by the harsh climate, quickly led to a slippage in the completion date. This in turn drove up the cost because it was the FCO's responsibility to secure the planning consents and, as a result, we were unable contractually to hold Metis to the tendered price. We were obliged to grant them an extension of time to December 2008. Our current estimate of the final outturn cost is £13.8 million, but we are still some way from agreeing the final account with Metis and cannot do so until disputed items are resolved.

Metis applied for protection from their creditors in September 2009. This was granted on a provisional basis pending a full hearing, which has yet to take place. Meanwhile, Metis continue to trade. We are assessing the implication of this with advice from our own specialist construction legal advisors and Turkish lawyers.

*Q63 Please set out the FCO understanding of the position regarding the acquisition of diplomatic immunity by locally engaged staff under the Vienna Convention. How would the kind of immunity potentially available to locally engaged staff differ from the "normal" diplomatic immunity enjoyed by UK-based staff? How would such immunity be conferred? Has the FCO ever tried to get it conferred or would it consider doing so? Have the recent experiences of local staff in Russia and Iran affected FCO thinking on this? Particularly in light of the Committee's planned visit to the region again in February, it would also be helpful to receive any updated information you have on whether the FCO has pressed Israel specifically on the issue of improved access to the Consulate-General in East Jerusalem for locally engaged Palestinian staff there.*

Response: These issues are governed by the Vienna Convention on Diplomatic Relations 1961 (VCDR). Immunity is not conferred as such: under Article 7 of the Convention, the sending State (in this case, the UK) may freely appoint the members of staff of its missions. But there is a clear difference in the way in which the VCDR treats staff appointed from the sending State and those recruited locally. This means that UK-based diplomatic agents, once appointed, enjoy immunities and privileges accorded under Article 31(1) of the VCDR, for example, immunity from the criminal jurisdiction of the receiving State and from its civil and administrative jurisdiction, subject to limited exceptions. However, the consent of the receiving State is required in order to appoint as diplomatic agents any locally-engaged staff who are nationals or residents

of that State and this consent can be withdrawn at any time under Article 8 of the VCDR. Our locally engaged staff are either nationals or residents of the receiving State. It should also be noted that under Article 38 of the VCDR: (i) locally engaged staff who are accredited as diplomatic agents enjoy immunity from jurisdiction only in respect of official acts performed in the exercise of their functions and; (ii) locally-engaged staff may enjoy privileges and immunities only to the extent admitted by the receiving State. The VCDR therefore gives the receiving state—Russia or Iran are the examples cited—the right to withdraw any (limited) immunity afforded to locally-engaged staff at will. We therefore do not see this as a viable means of affording any substantive additional protection to our staff in those countries where relations with the host government are sometimes strained.

There is no central record on the appointment of local staff as diplomatic agents as a result of devolution of responsibility for local staff and accreditation issues to Heads of Mission overseas. We do not object to Heads of Mission seeking consent to appoint locally-engaged members of staff as diplomatic agents when this is appropriate and would not cause further difficulties for the individuals concerned. But, as explained above, this cannot be done without the consent of the receiving State. This confirms the position set out in the reply to Sir John Stanley's parliamentary question of 21 July 2009. <http://www.parliament.the-stationery-office.co.uk/pa/cm200809/cmhansrd/cm090721/text/90721w0030.htm£09072269000020>

On the issue of improved access to the Consulate-General in East Jerusalem for locally-engaged Palestinian staff there, we raise regularly with the Israelis the question of movement and access, including for West Bank Palestinians to East Jerusalem. We have pressed the Israelis (unsuccessfully) to allow West Bank Identity Document-holding LE staff to travel to the UK via Ben Gurion airport and to ease travel to Jordan via Allenby Bridge; and to allow the families of two members of staff from Gaza to leave the Gaza Strip and travel for a break in Jordan.

*Q79 How many formal grievances about bullying, harassment or discrimination have been raised by FCO staff in 2008–09, compared to previous year(s) if possible? Does the FCO keep any record or figures about cases where an individual raises a problem but decides not to take it to a formal grievance procedure?*

Response: The number of formal grievances raised by FCO staff for bullying, harassment and discrimination are:

2008 = 16 (9 x bullying, 2 x harassment and 7 x discrimination. NB 1 grievance was for both bullying and discrimination and 1 was for both bullying and harassment.)

2009 = 5 (4 x bullying and 1 x discrimination)

Previous two years' figures are:

2007 = 3 (3 x bullying, 1 x harassment and 1 x discrimination. NB 1 grievance was for bullying, harassment and discrimination.)

2006 = 7 (4 x bullying, 2 x harassment and 1 x discrimination)

These figures are for UK-based staff only. We do not keep central records for locally employed staff.

The FCO does not keep any record or figures about cases where an individual raises a problem but decides not to take it to a formal grievance procedure.

*Qq87–93, esp 91 It would be helpful to receive any information the FCO could give us now about the Government's ideas for the detailed structure and functioning of the European External Action Service (EEAS), and the detailed procedures it envisages will operate for the recruitment of UK national staff into it. For example, how, if at all, will arrangements for UK secondments into the EEAS differ from those that exist already for secondments into the EU institutions? How does the FCO plan to manage the fact that national secondees into the EEAS are likely to be employed on EU terms and conditions, which will differ from those of the FCO? Does the FCO envisage that Whitehall staff other than from the FCO will be seconded into the EEAS, in which case will each Department handle its secondments separately? Some comment on the issue of foreign language requirements for the EEAS and how these might affect UK secondees would also be useful.*

Response: The detailed organisation and functioning of the EEAS will be decided by the Member States by unanimity on the basis of a recommendation (Decision) from the High Representative. In December 2009 the European Council agreed that this Decision should be adopted by the end of April 2010 at the latest. We will be working closely with the High Representative in supporting her in the preparation of her draft Decision. The High Representative will oversee setting up the recruitment process for the EEAS. A Presidency report for the European Council in October 2009 gave Member States' views on a number of key issues including that all the staff in the EEAS should have the same status, including in senior positions in Brussels and, as appropriate, Union delegations. Member State secondees should therefore be Temporary Agents, in order to have the same status within the EEAS as either Council or Commission fonctionnaires, and—as for Commission and Council staff seconded to the EEAS—draw their pay and benefits from the EEAS's central budget.

In the UK's view, appointments to the EEAS should be based on skills and merit, not nationality. The procedures should include appropriate evidence of skills and experience, for example foreign language skills relevant for those serving in delegations overseas. So, the candidates might not necessarily need to speak, for example, several Community languages if the skills required were a thorough knowledge of a particular region of the world or specific policy issue.

The creation of the EEAS will give us an opportunity to boost UK secondment numbers and we have a good number of members of staff who would be keen to go on secondment and who would contribute effectively to the formulation and delivery of EU external policy. If they are recruited by the EEAS, they would go on Special Unpaid Leave (SUPL) and would become part of the EEAS as Temporary Agents. We expect that the arrangements for UK secondments into the EEAS will be similar to those that exist already for secondments into the EU institutions. For example, FCO staff on secondment to the Council Secretariat are there as Temporary Agents on SUPL from the FCO. We will need to look into the details of the secondments to the EEAS as they emerge, but being attached to an EU institution on SUPL should not mean that UK secondees have any less favourable terms and conditions to colleagues in the FCO.

We do envisage Whitehall staff other than from the FCO being seconded into the EEAS at some point. For example it might make sense for someone from DfID with a particular development background to be in an EU Delegation in a country where development assistance plays a key role in the relationship with that country. How we will handle these secondments needs to be worked through with the Departments in question but we would expect the FCO EU Secondments Unit to help with the process in close co-ordination with those Departments providing secondees. FCO colleagues dealing with EEAS staffing issues already have close contact with their key Whitehall counterparts.

*At Q46, Keith Luck appeared to say that, as a result of trying to pass on to other Departments "excluding the UK Border Agency" the extra costs arising from Sterling weakness, the FCO had recovered some £37 million. The Committee would like clarification on why UKBA was excluded.*

Response: UKBA is a Home Office organisation. But UKBA's International Group (IG) aims to have a workforce made up of 40% Home Office staff, 40% FCO staff and 20% from Other Government Departments (OGDs).

The figure quoted by Keith Luck is the total amount forecast to be recovered by the FCO from other Departments, excluding UKBA, in 2009–10. These are not additional charges relating to adverse exchange rate movements, but are the total central charges for overhead costs (such as rent and FCO staff support). The forecast recovery from UKBA in 2009–10 is £161 million.

Costs directly incurred by the FCO at overseas posts on behalf of other Departments are passed on to those Departments at the daily exchange rate and the other Departments therefore bear the exchange rate risk for these costs. Centrally levied charges for overheads are not so directly linked to the prevailing exchange rates and as such the FCO carries some of the risk for these costs. These charges have not been increased for the reasons outlined by Keith Luck in the second sentence of his reply at the evidence session: "But actually they are under the same sort of financial pressures and are finding it difficult to find additional resources to cover the exchange rate losses and the impact of the loss of the OPM that we are suffering as well."

*Question: Is the FCO in a position yet to let the Committee know how it thinks the new FCO governance structures for public diplomacy are working? How and when does the FCO plan to assess their effectiveness?*

Response: Further to Chris Bryant's letter to the FAC of 22 October explaining the changes to our public diplomacy governance, it is still too early to make an authoritative assessment of the effectiveness of the new arrangements. The Public Diplomacy Partners group has been meeting on a six-weekly basis, focussing on key strategic themes of education, sport, science and the economy. The first meeting of the new Strategic Communications (SC) Forum chaired by the Foreign Secretary was on 11 January. The principle of evaluating effectiveness of outcomes and not just input of activity is well registered and we are applying the lessons learnt from the PD pilots to our new project-management and capacity-building programmes. We will further review progress at the next SC Forum proposed for July 2010 and will report further to the FAC after that.

*Question: At whom is the FCO targeting its website? How does the FCO plan to measure the effectiveness of the resources which it is devoting to public communication through the website and other new media?*

Response: The FCO web platform hosts over 250 websites in 40 languages. These websites include the main FCO website at [www.fco.gov.uk](http://www.fco.gov.uk), Arabic and Urdu versions of the main website, the UKvisas website, the FCO Freedom of Information website, and over 230 Embassy, High Commission and Special Mission websites. These sites are viewed by 35 million visitors a year (2008–09 statistics).

On an average day:

- about 120,000 visitors come to our sites and view 700,000 pages.
- 45% of visitors go to the websites of our Embassies and High Commissions overseas, many of which are targeted at local-language audiences.
- 30% go to our main website <http://www.fco.gov.uk>
- 25% go for visa content.
- 10% of all traffic to all our sites is for travel advice.

Our off platform sites on YouTube, Flickr, and Twitter, also attract significant numbers of visitors. For our main site, [www.fco.gov.uk](http://www.fco.gov.uk), the majority (about two-thirds) of visitors come for our “Travel & living overseas” content. However, on most days, our feature stories are about the foreign policy issues that make up the bulk of our work. Increasingly we are publishing these foreign policy features in real-time, drawing the attention of the global media.

The FCO leads government in measuring the effectiveness of the resources devoted to its web presence. Our approach is to measure the effectiveness of:

- *individual policy campaigns on the web*, such as our digital support of the G20 London Summit in April 2009. Uniquely across government we published the results of our London Summit evaluation: [www.londonsummit.gov.uk/en/about1/evaluation-kpi/](http://www.londonsummit.gov.uk/en/about1/evaluation-kpi/). We have also published our evaluation of elements of our [www.actoncopenhagen.gov.uk](http://www.actoncopenhagen.gov.uk) campaign which we would be happy to share.
- *event-based campaigns and longer-term web projects*, such as our campaign to raise global support for the release of Aung San Suu Kyi, or our Twitter channel targeted at British citizens abroad. These case-studies are published on our digital diplomacy website: [www.digitaldiplomacy.fco.gov.uk/en/about/case-studies/](http://www.digitaldiplomacy.fco.gov.uk/en/about/case-studies/)
- *our individual web presences*, most of which are hosted by our posts overseas. We measure the effectiveness of these as part of our annual Web Review, with the results published in time for the annual gathering of all our Heads of Mission. The annual review rewards web presences that are performing well; shares best practice; identifies common problems to improve our guidance and training; and tackles performance issues. Full details are published and can be found at [www.digitaldiplomacy.fco.gov.uk/en/guidance/review/](http://www.digitaldiplomacy.fco.gov.uk/en/guidance/review/).

Question: *I'd be grateful if you could confirm whether we are able to refer to the existence of the new parliamentary engagement strategy, or whether even its existence remains in confidence. If we are able to refer to it, the Committee would be grateful to know what prompted the FCO to develop the strategy and, again, how and when its effectiveness will be assessed.*

Response: We are happy for the Committee to refer to the new Parliamentary engagement strategy. We developed it in summer 2009 in order to help FCO staff deliver a better service to Ministers and Parliament. It involves staff knowing better how Parliament works and how best to work with it; improving understanding of our policy in Parliament; and delivering our Parliamentary business on time and to the highest standard. We are monitoring the strategy's effectiveness and will review it for the next Parliament. However, there has already been significant improvement in our performance in answering PQs on time. In January 2009, just 20% of Written Answers, 15% of Named Day PQs and 34% of Lords Questions were answered on time. In December, the figures rose to 89%, 75% and 70% respectively.

We are seeking to measure the strategy's effectiveness in qualitative terms as well. In particular, we take any comments or feedback in the course of business by the Committee as being very important in assessing our progress.

Question: *What was the FCO's involvement in the making of Jim Naughtie's pair of Radio 4 programmes "The New Art of Diplomacy"?*

(<http://www.bbc.co.uk/programmes/b00p8dzj>)

Response: The BBC approached the FCO about an idea for a documentary on the FCO. We did our best to facilitate that documentary, not least by giving the production team access to the work of our Embassy in New Delhi and to the Foreign Office in London.

I hope you find these responses useful and we look forward to seeing your report.

19 January 2010

## Letter to the Committee Specialist from the Parliamentary Relations Team, Foreign and Commonwealth Office

### FURTHER QUESTIONS ON THE DEPARTMENTAL ANNUAL REPORT 2008–09

Thank you for your letter of 12 January requesting further information on our 2008–09 Departmental Report and our 2009 Autumn Performance Report. For ease of reference I repeat your questions in italics with our responses below.

#### FCO BUDGET

1. *In their evidence to the Committee in December, both the Foreign Secretary and Sir Peter Ricketts spoke about the steps that the Department is taking to try to remain within its budget for 2009–10, given the fall in sterling (cuts to programme spending and to spending on hospitality, training, travel, allowances and salary costs have all been mentioned). Given that this is a current and changing situation which has arisen largely in 2009–10 rather than 2008–09, and that the Committee has received some information anecdotally as well as in formal evidence, the Committee would appreciate a brief summary overview from the Department of these steps, as of late 2009/start of 2010. In particular, is the FCO making cuts only at overseas posts, or in the UK too; and how uniform across the network are the kinds of cuts that the Committee has heard about at some Posts, in the course of its recent programme of visits (e.g. to local staff working in the US, and to hospitality spending in Europe)?*

2. *The FCO Board minutes for December 2009 make reference to a budget for 2010–11 that is likely to be 8–9% lower than in 2009–10. On what basis does the FCO derive this figure?*

As we have said in Parliament and to both the PAC and FAC the fall in the value of Sterling has had significant impact on our available funds. We have taken action by reprioritisation within our budget and we have sought to protect our overseas network and highest priority frontline work as far as possible. But to manage our reduced purchasing power FCO has reduced the planned increases in activity and concentrated on key objectives. The figure in the Board minutes was indicative of the likely reductions in planned spending needed to stay within our Parliamentary Control totals and CSR Settlement in the light of our exchange rate pressures. The Foreign Secretary has been in discussion with the Chancellor about how to manage these pressures.

#### INTERNATIONAL SUBSCRIPTIONS

3. *The Committee would like to see, in a single table if possible, Sterling figures for the UK's subscriptions to international organisations over recent and forthcoming years (broken down by organisation) which show, if possible, what share of the increase is attributable to the fall in Sterling and what share would be due in any case.*

See Table at Annex A which shows the actual payments made in the relevant currencies for each organisation and how these have converted to sterling payments.

#### PSA30: CONFLICT-RELATED ISSUES

4. *The Autumn Performance Report noted that “continuing pressure on international and UK resources could affect delivery [of PSA 30], particularly of indicators 2, 3 and 4”. What risk to the delivery of these indicators does the FCO currently see arising from a lack of resources? What is the FCO doing to try to manage this risk?*

As noted in the 2009 Autumn Performance Report on DSO 6 (“Prevent and Resolve Conflict”), there is a risk that the global economic crisis will endanger national and international capacity to act in relation to conflict, even where political will exists. For the UK, the greatest risks to delivery of PSA 30 remain another significant rise in our assessed (obligatory) contributions to international peacekeeping missions (e.g. the UN and EU) and further unfavourable exchange rate changes, since HMG is billed by the UN and EU in US Dollars and Euros. To mitigate against such eventualities, we have implemented—following the Foreign Secretary’s Written Statement in March 2009—changes to our conflict funding structures for 2009–10 and set out allocations for both the UN Peacekeeping Budget and the tri-departmental (FCO, MOD, DFID) Conflict Pool. Further, we negotiated a reduction in the projected growth of the UN Peacekeeping Budget at the UN’s Fifth Committee in June and expect to be able to meet our assessed costs and to fund in full our discretionary conflict programme this year. The FCO has developed systems to record, monitor and profile expenditure, and quantify risks. A tri-departmental Director-level Steering Board considers these assessments and the resulting risks to delivery at regular intervals. Planning for 2010–11 is already underway. In the absence of agreed budgets for international institutions, we are using innovative techniques to identify peacekeeping trends and assess how they can be used to predict costs across years. At the same time, we continue to focus activity more tightly on countries where the risk and impact of conflict is greatest, and therefore allocations are kept under regular review.

5. On 16 December, DfID announced the launch by the Stabilisation Unit of the 1,000-strong Civilian Stabilisation Capacity (CSC). DfID said in its Written Ministerial Statement that the launch of the CSC would enable the Unit to “increase the number of civilians deployed at any one time up to 200 if required”. As you know, the Committee has taken a close interest in the cuts which have been made in 2009 to the numbers of UK secondees in some international post-conflict missions. What difference, if any, does the FCO expect the launch of the CSC to make to the numbers of UK secondments to such missions which can be funded in future? Would it be correct to understand that the launch of the CSC increases the pool of individuals potentially available for such overseas secondments, but does not necessarily make available more funding for such posts?

The launch of the new 1,000-strong Civilian Stabilisation Group (CSG) will mean that we have a higher number of well-trained and readily deployable individuals, allowing us to deploy up to 200 at any one time to post-conflict stabilisation and peace building missions. The Stabilisation Unit has itself also been enhanced so that it is fully able to provide the support needed for these additional secondments. Funding arrangements remain the same as previously, which is to say that they are funded from discretionary monies in the Conflict Pool. So, while it is true to say that the launch of the CSG does not actually make additional funding available for such posts, the Stabilisation Unit’s enhancement ensures that we are well placed to make effective and targeted use of available funds and, should a crisis arise, that we have the capacity to respond swiftly.

6. The 2008–09 Departmental Report and Resource Accounts show that no spending on conflict prevention is expected in the FCO budget for 2010–11 (p 16). This would appear to be the main factor behind the annual drop of over 20% expected in the Department’s Resource DEL for that year. What is the explanation for the expected disappearance of conflict prevention funding from the FCO’s Resource DEL budget in 2010–11?

No spending for conflict prevention is indicated in the FCO budget for 2010–11 (p 16 of Volume 2, Departmental Report 2008–09) because allocations have not, as yet, been confirmed. The funding for conflict prevention—namely, the Conflict Pool and Peacekeeping Budget—is transferred to the FCO from DfID and the HMT Reserve respectively on an annual basis at the time of Main Estimates (in February/March), Winter Supplementaries (in September/October) and Spring Supplementaries (in January). Footnote 4 to Table 3 (p 13 of Volume 2, Departmental Report 2008–09) explains that the figures under 2009–10 Plans do not include the total amount of conflict prevention expenditure for the Financial Year because the full amount has not yet been drawn across the Winter and Spring Supplementaries. Explicit reference to figures for 2010–11 Plans will be made in FCO Departmental Report 2009–10.

#### DSO 1: GLOBAL NETWORK

7. The Autumn Performance Report notes that “if the current budget pressure of a result of the sharp fall in Sterling continues [sic], we may not be able to sustain our current global presence.” In his evidence to the Committee in December, Sir Peter Ricketts said that the FCO would look at the possibility of closing posts “over the next month or two” (Q 24). What risk does the FCO currently see of having to close overseas posts? What effect would any shrinkage of the current network have on the delivery of PSA 30 or the FCO’s DSOs?

As the Foreign Secretary has said recently, the Government is absolutely committed to a world-class and comprehensive diplomatic service that is a credit to the UK. The fall in the exchange rate has affected the purchasing power of the Foreign and Commonwealth Office’s budget. The Foreign Secretary is working with ministerial colleagues to address next year’s budget, and will report when those discussions are complete. He is committed to ensuring that as a result of these discussions the FCO will be able both to fulfil its historic responsibilities and to pursue its modern priorities and meet its PSA targets.

#### DSO 2: UKTI

8. The Autumn Performance Report shows progress against 3 out of 5 indicators (compared to 5/5 in the 2008 APR), and “strong” progress in only one case. On what basis does the 2009 APR therefore assess performance against DSO 2 as “strong”? Does the FCO attribute the weakening of performance on DSO 2 over the past year largely to the international economic downturn, or are other factors involved? If so, what is the FCO doing to address them?

The 2009 Autumn Performance Report (APR) followed HMT guidance as stated in Public Expenditure System (2009) 6., which states that departments are asked to judge whether there has been improvement in the past year, i.e. in the period since the 2008 APR. In previous reporting rounds, departments were asked to judge whether there had been improvement since the beginning of the CSR period. UKTI delivers DSO 2 for the FCO.

Guidance from HMT for the publication of 2009 Autumn Performance Reports, PES (2009) 6, states that content should involve:

1. The provision of a summary assessment for each PSA/DSO. This involves:
  - (i) an evaluative element to this assessment for the overall DSO/PSA. “Strong Progress” was defined as “where more than 50% of indicators had improved”.

As UKTI was reporting progress in 3 out of 5 indicators, this fits into “strong progress” as defined by HMT guidance. It is on this basis that UKTI reported performance against DSO 2 as “strong”.

Performance against DSO 2 has continued to be strong. UKTI recorded a 22% increase in assisting UK businesses to internationalise; a 30% increase in revenues from charging; and a fifth consecutive year of growth for inward investment projects over the period of reporting (1 October 2008 to 30 September 2009). There has been continued progress against 3 of the 5 indicators. In relation to the other 2 indicators:

- Indicator 3: UKTI has continued to exceed the CSR target by over 100%. The proportion of UKTI clients reporting additional R&D has fallen slightly through the period of the downturn.
- Indicator 4: Evidence from the 2009 wave of the UK Reputation survey confirms that country reputation is very stable over time, and hence annual change against this indicator year on year should not be expected. There was no deterioration or improvement in this indicator.

UKTI has undertaken significant work over the last year to maximise the value of its resources by moving them to where they are most productive for UK business and is realigning its inward investment resources to ensure that funding and posts are focused on the most productive markets.

Over this period, UKTI has cut the average cost of assisting businesses in relation to trade development and inward investment. UKTI continues to become more efficient by delivering more for less.

More details are available in the UKTI Autumn Performance Report 2009, available on the UKTI website: [www.uktradeinvest.gov.uk/ukti/fileDownload/autumn.pdf?cid=439551](http://www.uktradeinvest.gov.uk/ukti/fileDownload/autumn.pdf?cid=439551)

### DSO 3: CONSULAR SERVICES

9. *The Autumn Performance Report notes that there is one “red” indicator for quality of service in the consular network, on customer satisfaction. How does the FCO explain this, and what is it doing to improve customer satisfaction with the consular network?*

Customer satisfaction surveys have returned a satisfaction rate of over 94% across the consular network from October 2008 to September 2009, a consistent green rating on the Consular Balanced Scorecard. However, our current system of surveys only captures the views of a limited number of customers, including only a very small proportion of those we help in a crisis or in very serious incidents. The red light in the Autumn Performance Report highlights the need to improve this survey system. An early priority of the 2010–13 Consular Strategy is to develop a system to collect customer feedback from a more representative cross-section of customers, more systematically, and embed that at the heart of our performance management. This will help us to improve further the quality of our services, and to develop them on the basis of this feedback so that they meet customers’ needs more effectively.

### DSO 5: COUNTER-TERRORISM

10. *The Autumn Performance Report says that spending for this DSO is under pressure from Sterling weakness and that “the volume of counter-terrorist related litigation is putting increasing pressure” on resources as well, but that the FCO is confident that it will be able to use programme funding “to achieve useful enhancements to UK national security during the current year.” Could the FCO confirm whether programme funding is being used to pay for counter-terrorist litigation, or whether those costs are being met from elsewhere?; and whether the FCO has had to cancel any “enhancements to UK national security” which were planned for 2009-2010, owing to a lack of funds?*

Our programme funding is not being used to pay for counter-terrorism litigation. The cost of lawyers is being met through central funds and court costs have been met through Counter Terrorism Division’s administration budget.

The FCO’s overseas counter-terrorism budget has increased significantly in recent years. In 2008–09 it was £35 million; in 2009–10 we will be spending £36.9 million; and we are projected to spend around £38 million in 2010–11. We are rigorous at ensuring that spending reflects the current analysis of the threat, and that projects deliver the intended effect.

### DSO 5: WMD PROLIFERATION

11. *The Autumn Performance Report says that progress has been made on two out of three indicators (p 16), but the accounts of each indicator (pp 18–19) report at least some progress on all three. The Committee would be grateful for clarification.*

As noted in the Autumn Performance Review (p 16) there has been progress on more than 50% of indicators against DSO 5 Weapons Proliferation. However, the fact that there have been setbacks in our two most important indicators—Iran and DPRK—makes it inappropriate to rate overall progress as strong.

### VfM PROJECTS

12. *In the Autumn Performance Report, the Summary Table of VfM Projects (p 27) shows that for three projects—the IT Zero Based Review, UKTI Efficiency and Language Training—forecast savings at the end of 2009–10 are lower than actual savings achieved by the end of September 2009. What are the reasons for this?*

Forecast savings for all projects are periodically reviewed and are subject to change. Where actual savings to date have exceeded forecasts at the end of a Quarter, forecasts will be adjusted for the next Quarter (Q3 results are in the process of being collated). Where actual savings are falling substantially below forecasts, these forecasts will also be adjusted as appropriate.

13. *The Autumn Performance Report notes that the changes to the accommodation allowance which were to be implemented as part of the Europe Zero Based Review (ZBR) are now not to go ahead, reducing the planned savings to be achieved by the project to £6.8 million (p 28). Why are the changes to the accommodation allowance now not to be implemented as part of the Europe ZBR? Are there plans to bring reform of the accommodation allowance back onto the agenda, either in Europe or elsewhere? The Times of 16 December quoted the FCO as saying that it was conducting an internal review of all allowances paid to staff in overseas posts.*

An Accommodation Allowance was not implemented as part of the Europe ZBR as the FCO Board took the view that it was an initiative which should be undertaken across FCO, rather than just in Europe. As there are other efficiency programmes being implemented across Europe and the rest of the overseas network, there are presently no plans to introduce an accommodation allowance.

Regarding *The Times* article (16 December 09), the FCO has carried out a review of overseas allowances, and is now in consultation with the Trades Unions. The aim will be for the outcome of the review to be implemented as soon as possible once the consultation is complete.

14. *The Autumn Performance Reports notes that "if exchange rates remain at their current level or fall further, the FCO is likely to have to exceed its efficiency targets in order to maintain delivery of its DSO and PSA targets" (p 26). What is the FCO's current assessment of the likelihood that this will be necessary? If efficiency targets have to be exceeded, what is the FCO's assessment of the likely scale of the additional requirement?*

The FCO is operating in a challenging environment with foreign exchange pressures, these are being carefully managed. At Quarter 2 we had exceeded our target. Currently we are collating our Quarter 3 data on all the CSR VFM initiatives and early indications are that we remain on target. We continue to monitor all the projects closely and to identify possible further efficiencies should there be any additional requirement.

I hope this provides you with all the information you require.

3 February 2010

#### Annex A

#### INTERNATIONAL SUBSCRIPTION PAYMENTS

Name of Organisation	Estimated Spend		
	2007-08 £	2008-09 £	2009-10 £
United Nations Regular Budget	70,061,000	74,351,000	97,301,000
NATO	20,962,000	21,530,000	23,586,000
Council of Europe	19,260,000	23,947,000	26,144,000
OECD (2007, 2008 and 2009)	12,826,000	15,169,000	15,013,200
Commonwealth Secretariat	3,435,000	5,821,000	5,046,000
OSCE	3,223,000	2,319,000	2,475,858
Western European Union	1,903,000	2,010,000	2,136,000
Other Subscriptions (less than £1m per annum)	4,536,000	2,375,000	1,000,000
<b>TOTAL</b>	<b>136,206,000</b>	<b>147,522,000</b>	<b>172,702,058</b>

#### PAYMENT IN FOREIGN CURRENCY

	ESTIMATED		
	2007-08	2008-09	2009-10
United Nations Regular Budget (\$)	131,175,171	131,567,485	156,262,897
NATO (€)	26,627,768	26,072,295	26,828,656
Council of Europe (€)	29,303,835	29,841,856	30,155,384
OECD (€)	18,505,680	18,945,770	17,580,000
OSCE (€)	4,600,959	3,042,296	2,729,628
Western European Union (€)	2,483,379	2,538,013	2,319,651

\* *Commonwealth Secretariat Paid in Sterling*

#### PERCENTAGE INCREASE IN BUDGET IN FOREIGN CURRENCY TERMS

	From 2007-08	From 2008-09
	For 2008-09	For 2009-10
United Nations Regular Budget	0.30	18.77
NATO	-2.09	2.90
Council of Europe	1.84	1.05
OECD	2.38	-7.21
OSCE	-33.88	-10.28
Western European Union	2.20	-8.60

## PERCENTAGE INCREASE IN STERLING CONTRIBUTION

	<i>From 2007–08 For 2008–09</i>	<i>From 2008–09 For 2009–10</i>
United Nations Regular Budget	6.12	30.87
NATO	2.71	9.55
Council of Europe	24.34	9.17
OECD	18.27	–1.03
OSCE	–28.05	6.76
Western European Union	5.62	6.27

*Notes:*

1. OSCE—The costs dropped in 2008–09 from 2007–08 as we were no longer paying additional costs for the move of OSCE Headquarters.
2. NATO—The UK % contribution to NATO Civil Budget costs has gone from 15.046% in 2007 to 14.22% in 2008 and 2009 to 13.4% in 2010.
3. ISBA (International Seabed Authority)—2008 US\$507,435 paid (equivalent to £342,421) and 2009 US\$496,784 payment in process.
4. ITLOS (International Tribunal for the Law of the Sea)—2008 €663,995 (£ equivalent not available) and 2009 €676,515 payment in progress.

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**Letter to the Chairman of the Committee from Sir Peter Ricketts KCMG, Permanent Under-Secretary,  
Foreign and Commonwealth Office**

## 2009 FCO STAFF SURVEY RESULTS

I wrote to you ahead of the oral evidence session in December 2009 giving you the headlines from the recent all staff survey, in which all major government departments participated. I am now writing to give you the detailed results: a copy of the main report is attached.<sup>16</sup>

The survey results are largely very positive. As you will see, the FCO performs well compared to the average scores across the Civil Service, particularly in areas such as leadership and change management. Our overall results put us at the top of the table of the large departments (those with over 10,000 staff).

The news is not all good. We have not, for example, yet significantly reduced the reported incidence of bullying and harassment among our staff. We will do more work to analyse the results here and elsewhere, and to tackle the issues identified in the survey.

We have made the results available to all our staff; and will also be publishing them on the FCO website.

3 February 2010

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**Letter to the Chairman of the Committee from Sir Peter Ricketts KCMG, Permanent Under-Secretary,  
Foreign and Commonwealth Office**

I am writing to update you on the latest FCO management issues. This letter covers the period October to December 2009.

## CORPORATE SERVICES PROGRAMME

The programme is progressing with pace. We have now removed over 50,000 days of processes from our systems and introduced a number of technology improvements, freeing up staff to do more frontline work. For example, we've moved from a subsistence-based expenses system to a global one based on actual reasonable expenditure.

The Director of the new Corporate Services Centre in Milton Keynes is in place, and the last remaining HR staff moved into the Centre in December. We are implementing a new operating model that will allow us to realise efficiencies and reduce headcount.

Recruitment and training plans are in place to ensure we achieve localisation of over 100 Management slots across our network of posts. Work on consolidating management services in a few overseas posts continues, as does work on outsourcing property services in parts of Asia/Pacific. The North West Europe facilities management outsourcing contract has delivered over £1 million in benefits to date, and recently received a green rating from the OGC.

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<sup>16</sup> Not printed.

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## SERVICE LEVEL AGREEMENT WITH WHITEHALL PARTNERS (WPs)—RECOVERY OF COSTS FROM WPS ON OUR NETWORK

The FCO Board decided to retain, for the rest of this Comprehensive Spending Round (CSR), the existing charging framework for Whitehall Partners (WPs) who use our platform. We have agreed a simplified charging model with the UK Border Agency (UKBA), our biggest partner, to provide budgetary certainty for both parties. For other Departments, charges for central overhead costs will remain capped at last year's levels for the rest of this financial year. Work has begun on identifying how funding for the overseas platform can be improved for the next Spending Review with a view to moving away from the current charging framework. We are engaging with WPs to identify a better way to recover costs that will ensure that the FCO is fairly recompensed for the risks and contingent liabilities it carries for others on the platform. This will also facilitate work to improve the efficiency of the Government's wider international operations through wider use of shared services, in accordance with the recent White Paper on Smarter Government.

## ACTIVITY RECORDING

The Quarter 2 activity recording data for 2009–10 was collected successfully. In October the FCO Board agreed to continue with the current set of 37 activity recording codes until a new, simplified regime of 12 activity recording codes could be introduced at the mid-point of financial year 2010–11.

## TOP RISKS REGISTER

The register was updated in December to include four operational risks (Physical, Technical and Personnel Security; Resources; IT Systems; and UKBA) and nine strategic risks (Iran, Afghanistan, Pakistan, Terrorism, Middle East Instability, Horn of Africa, Overseas Territories, Litigation and Copenhagen). The FCO Board continues to discuss individual risks in depth at its monthly meetings.

## BUSINESS PLANNING/DEPARTMENTAL STRATEGIC OBJECTIVES (DSOs) AND PUBLIC SERVICE AGREEMENT (PSA) MONITORING

The Autumn Performance Report (APR) for our eight DSOs and PSA 30 was published on 11 December. We have sent copies to the Committee. There was "Strong Progress" against DSOs 1, 2 and 3 and "Some Progress" against the others and PSA30. We remain on track to achieve our "Value for Money" target of £144 million by the end of 2010–11.

The APR was followed by our internal Mid-Year Review of 2009–10 Business Plans in October. A balanced scorecard was completed for the first time by posts at the mid-year review. A similar scorecard was piloted by a number of London-based Directorates. Assessment and feedback from both exercises was discussed and endorsed by the FCO Board in early January.

## VALUE FOR MONEY (VFM) AND EFFICIENCY SAVINGS

We remain on track to achieve our 2009-10 VfM targets and thereby our overall CSR VfM target of £144 million by end of financial year 2010–11.

The Operational Efficiency Programme (OEP) reductions announced in Budget 2009 is in addition to the CSR efficiencies. The FCO family (including BBC World Service and British Council) is preparing to deliver a further £20 million as its contribution to this wider government drive to deliver £5 billion savings in 2010–11.

## FIVE STAR FINANCE CHANGE PROGRAMME

We reached 4 stars in December 2009 and are now working to build on and intensify this improvement. This wider ambition is set within the current resource constraints and alongside the transition to new ways of working in our Corporate Services Centre and restructuring in the overseas network. We are retaining the ambition to achieve 4.5 stars but extending the phase until July 2010 to allow deeper embedding of the changes in the network.

We are confident that the 5 star Finance Programme is delivering real change. The NAO will assess our progress at the 4.5 star point and we will use that assessment to design the 5 star phase.

## ESTATES

In November we moved into new offices in Boston and Basra. The Consulate General in Boston moved to new premises on 10 November. Following a decision by the landlord to offer the space that we occupied to Microsoft, we found ourselves with the difficult challenge of finding and fitting out an office in a relatively short space of time. We made good use of local project management skills and the project for the fit-out of the offices came in on time and under the £2m budget set by the Investment Committee (IC).

The Consulate in Basra moved into the “Red Barn” on 22 November. The “Red Barn” is a hardened concrete shell built by the MOD for use as a hospital. When the MOD withdrew the compound was transferred to the US with the FCO retaining use of the barn. Within the shell we have built a suite of offices. The project was effectively managed by FCO Services under difficult circumstances and delivered at a cost of £5 million. There is some surplus space that we are renting to British companies.

In the same month, the United Kingdom Permanent Representation to the European Union (UKREP) and the Embassy moved into their fully refurbished offices in Brussels. The £13.5 million project to refurbish the existing offices was completed in record time with our strategic partner, Mace. The project came in under the £14 million budget approved by the IC.

The FAC will recall that, following the terrorist attack on the US Embassy in Damascus in 2007, we have been looking to provide a more secure office for staff. In spring 2009 we began a project to convert two adjacent villas into a new mission and ambassadorial residence. There have been problems with the security management of the project and the MFA have since abandoned their plan to establish a diplomatic quarter in the suburb where our planned new mission would be located. We have therefore suspended work on the project while we reconsider our options. The FCO Estates Committee is due to consider the way forward at its meeting this month. We will update the FAC in the light of the Estates Committee decision.

I told the FAC I would keep them updated on the estates progress in Moscow and a separate letter was sent last month from the Parliamentary Relations Team.

I attach at Annex A our quarterly report for properties sold and purchased in the second quarter of financial year 2009–10.

#### FCO SERVICES

FCO Services have reacted positively and rapidly to the budgetary pressures facing the FCO this year by delivering a super dividend of £3 million, two years ahead of plan and in addition to their scheduled commitments for dividend, interest and loan re-payment. I am confident that FCO Services will be able to continue to demonstrate the success of their transition to Trading Fund and offer further support to the FCO through additional accelerated benefits in 2010–11.

Customer satisfaction trends are regularly monitored and continue to be a key focus for FCO Services. An interim customer satisfaction survey was conducted recently which showed satisfaction had improved by 6% among budget holders/service managers. This reflects improvements in FCO Services’ approach to the management of relationships with key customers. FCO Services plan to conduct another survey later in the year to ensure the improving trend is maintained.

#### PASSPORT OPERATIONS

The integration of the domestic and overseas passport operations into the Identity & Passport Service (IPS) remains on track for 1 April 2011. Both the FCO and the IPS recognise the need for a more radical but cost effective approach to integration as recommended by the FAC. A joint FCO/IPS Team is now working through options, which include: extending the lifespan of existing FCO technology until IPS systems are ready to process applications from abroad; the creation of a single passport processing centre in the UK as soon as possible after April 2011 and maximising opportunities for partnership with UKBA once biometric enrolment becomes a requirement for customers overseas. A transition plan is expected by February, when both IPS and FCO Boards will formally approve the recommended option.

As a result of our ongoing rationalisation project, we have established six Passport Processing Centres (PPCs) in Washington, Wellington, Pretoria, Madrid, Paris, Dusseldorf, which are processing nearly  $\frac{2}{3}$  of the 370,000 passports the FCO produces each year. The Programme Board recently endorsed the decision to create a further (final) PPC in Hong Kong to provide global coverage, maintaining a high level of service but at significantly less cost to the FCO. The rationalisation project will be completed by October 2010 when passport printing will also start to be centralised in the UK. Transition to a single PPC in the UK will be the next stage.

#### THIRD GENERATION FIRECREST (F3G)

Installation of our new IT system F3G continues apace. By 31 December, 69% of staff overseas were using F3G. We have increased the rate of deployment to seven posts a week and are on target to complete the global rollout in April 2010. A few posts have been deliberately delayed until May 2010 for business reasons. In the UK, the final phase of deployment commenced in October, enabling increased mobile working options for staff. We expect all UK departments to be on F3G by March 2010. The new technology—including classified laptops and a single global network for all staff—is already delivering tangible business benefits. We continue to deliver performance improvements and are working closely with our suppliers, Hewlett-Packard and FCO Services, to upgrade on-going system support. The programme remains within budget and on track to deliver within the timeframe set out in 2007.

## UK BORDER AGENCY (UKBA)

As demonstration of our ongoing strong relationship, the FCO and UKBA are planning a joint publication called *Migration: International Challenges, International Solutions*. This sets out how UKBA and the FCO work together at different points along the migrants' journey to facilitate smooth entry to the UK for legitimate visitors, workers and students, whilst also deterring and intercepting those seeking to enter illegally and/or cause us harm. We expect the publication to be launched in early 2010.

The FCO's partnership with UKBA is underpinned by a Service Level Agreement (SLA) covering general principles of interaction and HR, Finance and IT issues. We have agreed for FY 2009–10 a more transparent and simplified mechanism for charging UKBA for use of FCO resources. The SLA is due for further review in FY 2010–11, but these new arrangements are expected to have a positive impact on planning, for both the Agency and ourselves.

3 February 2010

## Annex A

## FCO PROPERTY SALES FOR THE PERIOD 1 JULY TO 30 SEPTEMBER 2009

<i>Date</i>	<i>Post</i>	<i>Country</i>	<i>Type of Property</i>	<i>Exchange Rate Pound to Sterling</i>	<i>Gross Sales Transaction Currency</i>	<i>Receipt Sterling</i>
11 September 2009	Kingstown	St Vincent & Grenadines	Office	0.6167889965	USD 400,000	246,716
Gross Sales Proceeds						£246,716

**Written evidence from Michael John Holloway, Consular Regional Director, Iberia,  
Consular Region, Foreign and Commonwealth Office**

**SUPPORT FOR BRITISH NATIONALS OVERSEAS: THE FUTURE OF CONSULAR SERVICES**

This note summarises the presentation given by consular managers working in Iberia to the Foreign Affairs Committee, House of Commons, in Madrid on 19 January

**STRIVING TO BE A WORLD-CLASS CONSULAR SERVICE**

*The FCO's consular operation is made up of sixteen consular regions across the world, of which Iberia is one. This operation has made real progress in strengthening its professionalism and crisis management in recent years. Over the next few years, our twin priorities are to become more responsive to the needs of British nationals abroad, while being ever more cost effective. Many of the ideas that we will be rolling out globally to deliver this agenda are being piloted in Iberia.*

**THE CHALLENGE IN IBERIA**

The Iberia Consular Region (Andorra, Portugal, and Spain) is the FCO's biggest in terms of volumes of work, and has the highest media profile. The problems of British nationals along the Costas and Algarve constantly features in the UK media. The customer base is huge. The challenges this presents are unrivalled by any other British consular operation. Some 30% of worldwide consular assistance casework (or 5,449 individual cases) in 2008–09 was carried out in Iberia. The reputational stakes for FCO in getting consular services right in Iberia are considerable.

Iberia remains the Number One holiday destination for British citizens, by far. In January 2010, six airports based in Iberia featured in the top ten most searched destinations globally. Malaga, Tenerife, and Alicante were the top three. British nationals make around twenty two million trips to Iberia each year. That's almost a third of all overseas visits made by the British worldwide.

About one million British citizens live in Spain. Most permanently, some at certain times of the year. Barclays Bank estimate that 1m of our compatriots own properties in Spain. Of these, the FCO estimates that around 500,000 are over 60 years old, although Department of Work and Pensions (DWP) records show only 98,000 in receipt of UK benefits and pensions (worth £404m pa). An increasing number are elderly and infirm. Many are struggling to make ends meet on a fixed income. Sterling's recent depreciation has compounded this problem. Many have difficulty accessing social services and healthcare, which in any case offer less support than in the UK. There is an increasing expectation from this group that the British Government will help. Similar considerations apply in Portugal. Ministers have become increasingly involved in these issues. The current Minister for Europe and Consular Affairs, Chris Bryant MP, has frequently raised the wider property issues affecting British nationals with his Spanish counterparts.

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## MODERN AND COST-EFFECTIVE APPROACHES

The FCO's 2010–2013 consular strategy aims to meet the growing and changing demand for support overseas through more cost-effective, modern and innovative service delivery models. This will include greater control over consular resources within the FCO; increased oversight of our global costs will enable better informed decisions to be made about where and how value for money can be delivered while maintaining high standards of service.

The Iberia Consular Region has become a test bed for new and more cost effective ways of delivering consular services. Using its critical mass, it has developed innovative ways of sharing best practice, increasing flexibility, and raising professional standards. Some of these may be applicable more widely, although account needs to be taken of regional variations in customer profile, demands, and volumes. Unlike other regions, Iberian subordinate Posts have a 100% consular function.

Our research shows that customers want more easily accessible services. The current model based on the delivery of all consular services through a classic network of Consulates is becoming outmoded. In 2009, customer interactions in Iberia were 57% by phone, 30% by internet, 10% by visits to Consulates, and 2% by letters. We are therefore looking to pilot a consular Contact Centre. All telephone and email communication will be channelled through the Contact Centre which will enable better sifting of calls, escalations, signposting to partners, and improving customer insights through trend analysis. The Contact Centre will pilot on-line services, smarter customer-engagement through internet forums and surveys, and will take on back office functions. This will enable Consulates to focus on (i) front line casework, either escalated from the Contact Centre, or walk-ins; and (ii) outreach programmes (eg roadshows) through which consular services will be marketed to stakeholders and customers.

We are also looking at expanding the provision of services through temporary offices, “little shops” or mobile offices. This could involve moving consular staff in to smaller offices with cheaper fit out and, where appropriate, sharing space with stakeholders such as NGOs, British companies, and others. Thus increasing accessibility at the same time as driving down running costs.

Demand on Consulates for information and support from British residents in Iberia is growing at a time when FCO resources are under increasing pressure. In response, we have forged strategic partnerships with the DWP, and the Department of Health (DH), to provide joined-up government services to elderly and vulnerable citizens living in Spain to help them receive the benefits to which they are entitled. A locally appointed DWP/DH team operates from Consulates in Alicante, Madrid, and Malaga. They provide advice on UK benefits and pensions, and on how to access Spanish healthcare. Increasingly, the consular service is looking to work more closely with the voluntary sector. Age Concern and The Royal British Legion now have managers integrated into the Madrid and Malaga Consulates so that more difficult and time consuming casework which falls outside consular's normal remit can be supported by their extensive voluntary network. Their association with the FCO in Iberia provides Age Concern and the Royal British Legion with a proper platform to work from, and enhanced fundraising opportunity—so a win for all.

On the same principle, under the 2010–13 consular strategy, we are looking to develop broader and deeper partnerships across the global network—so that others can deliver effectively and efficiently the related services that the FCO itself is not funded or mandated to provide.

*1 February 2010*

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## Foreign and Commonwealth Office Spring Supplementary Estimate 2009–10

### 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, FCO Services, 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 liabilities in relation to staff leave ; 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;
    - Section B: Peacekeeping and peace building activity and on associated strengthening of international and regional systems and capacity; and
    - Section C: Provision of specialist, targeted assistance in countries emerging from violent conflict. Provision in this section has now been subsumed into Section A of RfR2.

#### RfR1 SPRING SUPPLEMENTARY ESTIMATES CHANGES

##### *Take up of EYF*

2. We have taken up £5,700,000 DEL EYF in respect of administration costs for restructuring. We have taken up £3,000,000 Capital EYF in respect of a transfer to administration costs to help with exchange rate pressures.

##### *Claims on the DEL Reserve*

3. Claims on the DEL reserve include:

- programme expenditure arising from the FCO/HMT 40/60 International Organisations subscription cost sharing agreement.
- £25,060,000 programme expenditure for Consular premiums collected in the UK by the Home Office that are transferred to the FCO via the Reserve.
- £6,000,000 administration costs in respect of modernisation of the FCO.

##### *Transfers of Budgetary Cover*

4. Transfers of budgetary cover include:

- Transfer of £5,500,000 other current from DfID in respect of the Returns and Reintegration Fund to increase the number of foreign national prisoners and failed asylum seekers who return to their countries of origin and to ensure that those who return voluntarily are effectively re-integrated.
- Transfer of £77,000 other current from DfID in respect of the Iraqi locally engaged staff assistance scheme.
- Transfer of £11,000 administration from the Cabinet Office in respect of charging for legal services by the Office of the Parliamentary Counsel.
- Transfer of £10,000 other current from DfID in respect of the Low Carbon High Growth Strategic Programme Fund.
- Transfer of £6,695,000 other current to MoD in respect of counter-narcotics work in Afghanistan for the payment of CN Ground Force, AIU Transition Costs and Project Taipan.
- Transfer of £1,965,000 other current to MoD in respect of counter-narcotics work in Afghanistan for HQ Land Forces in relation to Operation Curium funding.
- Transfer of £1,002,000 administration to MoD in respect of the FCO's contribution to the Information Assurance Technical Programme.
- Transfer of £500,000 other current to the Security and Intelligence Agencies for expansion and capability.

5. No FCO activities are expected to be reduced as a result of the above transfers. Transfers between government departments such as these are a routine occurrence and are therefore incorporated in the normal budgeting process.

*Transfers from Capital Spending to Resource Spending*

6. We have transferred £16,000,000 capital to administration in respect of exchange rate pressures. This amount includes £3,000,000 transferred from Capital EYF.

*Changes in Annually Managed Expenditure (AME)*

7. We have increased other current non cash AME by £30,000,000 in respect of impairments to cover the impact of adverse exchange movements. We have transferred £2,735,000 other current AME to administration DEL in respect of FCO staff costs for accrued annual leave following reclassification of this expenditure by HM Treasury.

*Other Changes*

8. We have transferred £2,000,000 Resource DEL from RfR1 to RfR2 for FCO's contribution to the Helmand troop uplift for Stabilisation and Conflict Prevention as announced by the Prime Minister in November 2009.

RfR2 SPRING SUPPLEMENTARY ESTIMATES CHANGES

*Claims on the DEL Reserve*

9. We have returned £14,000,000 to benefit HMT's Reserve in respect of Stabilisation and Conflict Prevention. This follows double counting of an amount transferred in the Winter Supplementary from MoD following the merger of the Stabilisation Aid Fund into the Conflict Prevention Pool. The amount had already been included in a DfID transfer but this was not apparent at the time. Although this merger was a one off event we have increased the number of cross checks we undertake with MoD to ensure that there is no recurrence.

*Transfers of Budgetary Cover*

10. Transfers of budgetary cover include:

- Transfer of £14,700,000 from DfID in respect of discretionary Peacekeeping funds that are now included in the Conflict prevention Pool.
- Transfer of £11,259,000 from DfID in respect of Stabilisation and Conflict Prevention.

*Other Changes*

11. (We have transferred of £2,000,000 from RfR1 to RfR2 for FCO's contribution to the Helmand uplift for Stabilisation and Conflict Prevention.

12. We have transferred £60,000,000 between Estimate's lines C3 to A3 to reflect the merger of the Conflict Prevention Pool and Stabilisation Aid Fund.

13. The above transfers reflect the revised structure of RfR2. Conflict prevention activities are now managed through five strategies: the SAF Afghanistan and CPP South Asia programmes have been merged; so too the SAF Iraq and CPP Middle East and North Africa programmes. A new Wider Europe programme funds activity in Russia/Commonwealth of Independent States and the Balkans (previously individual programmes). The Africa programme continues. A separate programme has been earmarked for thematic work, including support to international institutions. The Strategies continue to be managed tri-departmentally.

14. As with the RfR1 transfers no FCO activities are expected to be reduced as a result of the above transfers. Transfers between government departments such as these are a routine occurrence and are therefore incorporated in the normal budgeting process.

Table 1  
DETAILED EXPLANATION OF CHANGES

End year flexibility		
5.700	RfR1	Section A1 take-up administration EYF for restructuring
3.000	RfR1	Section A7 take-up of capital EYF for transfer to administration
5.700		Resource Total Change to DEL
3.000		Capital Total Change to DEL
Transfers from capital to administration		
16.000		Section A1 increase from Section A7 to cover exchange rate pressures
16.000		Resource Total Change to DEL
-16.000		Capital Total Change to DEL
Transfers between sections within the Estimate		
2.735	RfR1	Transfer to Section A1 from Section F2 AME for accrued annual leave
-2.000	RfR1	DEL Neutral transfer to RfR2 Section A3 from RfR1 Section A2 for Helmand uplift
2.000	RfR2	DEL Neutral transfer to RfR2 Section A3 from RfR1 Section A2 for Helmand uplift
2.735		Resource Total Change to DEL
Transfers from Other Government Departments		
14.700	RfR2	Section A3 grants transfer from DFID for Stabilisation and Conflict Prevention
11.259	RfR2	Section A3 grants transfer from DFID for Stabilisation and Conflict Prevention
5.500	RfR1	Section A2 programme transfer from DFID for Returns and Reintegration Fund
0.077	RfR1	Section A2 programme transfer from DFID for Iraqi LE staff assistance scheme
0.011	RfR1	Section A1 administration transfer from CO for legal charging services by PCO
0.010	RfR1	Section A2 programme transfer for DFID for Low Carbon High Growth Strategic Programme Fund
31.557		Resource Total Change to DEL
Transfers to Other Government Departments		
-6.695	RfR1	Section A2 programme transfer to MOD for counter-narcotics work in Afghanistan
-1.965	RfR1	Section A2 programme transfer to MOD for counter-narcotics work in Afghanistan
-1.002	RfR1	Section A1 administration transfer to MOD for Information Assurance Technical Programme
-0.500	RfR1	Section A2 programme transfer to the Security and Intelligence Agencies for expansion and capability
10.162		Resource Total Change to DEL
Transfers from Central Funds		
44.464	RfR1	Section A3 Resource Reserve claim for International subscriptions cost sharing agreement
25.060	RfR1	Section A2 Resource Reserve claim for consular premiums
-14.000	RfR2	Section A3 benefit to HMT Reserve for Stabilisation and Conflict Prevention
6.000	RfR1	Section A1 DEL reserve claim for modernisation of FCO
61.524		Resource Total Change to DEL
Other budget neutral changes		
30.000	RfR1	Section F2 increase in Annually Managed Expenditure to cover impairments
107.354		NET TOTAL CHANGE TO RESOURCE DEL
-13.000		NET TOTAL CHANGE TO CAPITAL DEL

#### DEPARTMENTAL EXPENDITURE LIMIT (DEL) AND ADMINISTRATION BUDGETS

15. The tables below show a comparison of the 2009-10 DEL (Table 2 and 2a) and Administration (Table 3) budgets with the 2003-04, 2004-05, 2005-06, 2006-07, 2007-08 and 2008-09 outturn, the forecast for 2009-10 and plans for 2010-11.

16. Table 2a 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 2 that are on a consistent basis year on year, including reclassification by Treasury of expenditure across all years of the Public Expenditure cycle.

Table 2

## DEL COMPARISON

	2003–04 <i>Actual</i>	2004–05 <i>Actual</i>	2005–06 <i>Actual</i>	2006–07 <i>Actual</i>	2007–08 <i>Actual</i>	2008–09 <i>Actual</i>	2009–10 <i>Forecast</i>	2010–11 <i>Plans</i>
Resource DEL <sup>1,2</sup>	1,512.728	1,718.120	1,878.691	1,836.554	1,877.548	2,085.310	2,240.987	1,639.489
Capital DEL	86.671	116.676	131.842	160.314	226.377	229.080	203.310	205.060
<i>Less Depreciation</i> <sup>1,3</sup>	<i>64.060</i>	<i>67.156</i>	<i>108.725</i>	<i>81.555</i>	<i>73.220</i>	<i>81.684</i>	<i>103.050</i>	<i>99.050</i>
Total	1,535.339	1,767.640	1,901.808	1,915.313	2,030.705	2,232.706	2,341.247	1,745.499

<sup>1</sup> Figures for all years reflect the reclassification of impairment expenditure from DEL into AME.

<sup>2</sup> Resource DEL figures for 2010–11 are understated because they do not include all of the conflict prevention expenditure, which will be transferred at the time of the relevant Main and Supplementary Estimates. In addition 2005–06 included expenditure on a number of one off items (Tsunami expenditure, Efficiency Challenge Fund & G8 & EU presidencies).

<sup>3</sup> 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 2a

## PREVIOUS YEARS' EXPENDITURE AGAINST DEPARTMENTAL EXPENDITURE LIMITS £M

<i>Year</i>	<i>Voted</i>	<i>Non-voted</i>	<i>Total DEL</i>	<i>Outturn</i> <sup>1</sup>	<i>Variance</i>
<b>Resource</b>					
2004–05	1,607.192	209.690	1,816.882	1,736.188	80.694
2005–06	1,999.224	6.713	2,005.937	1,916.190	89.747
2006–07	1,924.913	44.213	1,969.126	1,852.024	117.102
2007–08	1,950.523	5.862	1,956.385	1,895.961	60.424
Final outturn 2008–09	2,074.701	3.000	2,077.701	2,085.310	–7.609
<b>Capital</b>					
2004–05	101.533	1.000	102.533	71.236	31.297
2005–06	135.697	1.000	136.697	92.959	43.738
2006–07	157.779	1.000	158.779	160.747	–1.968
2007–08	243.567	—	243.567	227.973	15.594
Final outturn 2008–09	216.060	—	216.060	229.080	–13.020

<sup>1</sup> Outturn in is based on the definition of DEL in the relevant year and so is not consistent with the outturn in Table 2 that includes subsequent classification changes effective across all years.

Table 3 Administration Budget Comparison £m

	2003–04 <i>Actual</i>	2004–05 <i>Actual</i>	2005–06 <i>Actual</i>	2006–07 <i>Actual</i>	2007–08 <i>Actual</i>	2008–09 <i>Actual</i>	2009–10 <i>Plans</i>	2010–11 <i>Plans</i>
Administration budget	375.811	405.345	399.781	393.051	367.358	412.805	456.28	403.551

<sup>1</sup> Figures for all years reflect the reclassification of impairment expenditure from DEL into AME.

## DEPARTMENTAL UNALLOCATED PROVISION (DUP)

17. All FCO provision has been allocated in the Winter Supplementary Estimate. We took up £17,000,000 DUP to offset adverse exchange rate movements.

Table 4 2009–10 Departmental Unallocated Provision	Resource	Capital
RfR1 DUP to met unforeseen requirements arising in-year	£0.0m	£0.0m
Total	£0.0m	£0.0m

## END YEAR FLEXIBILITY (EYF)

18. The Public Expenditure Outturn White Paper published in July 2009 showed a total figure of £134.002 million for carry forward of underspend into 2009–10 under the DEL EYF scheme.

19. In the Winter Supplementary Estimate we took up £13.0 million DEL EYF, of which £2.0 million administration costs and £11.0 million other current costs, in respect of FCO Capital charges (non-cash).

20. As explained above in the Spring Supplementary Estimate we took up £5.7 million resource EYF for restructuring and £3.0 million capital EYF to transfer to administration to help with exchange rate pressures.

Table 5 Accumulation of EYF £m

	<i>Administration</i>	<i>Programme</i>	<i>Total Resource</i>	<i>Of which near cash</i>	<i>Capital</i>	<i>Total</i>
Total FCO EYF Entitlement in Public Expenditure Provisional Outturn July 2009 (table 6–Cm 7606)	76.271	53.917	130.188	100.552	3.814	134.002
EYF drawn down in Winter Supplementary	2.000	11.000	13.000	—	—	13.000
EYF drawn down in Spring supplementary	5.700	—	5.700	5.700	3.000	8.700
Balance of accumulated end year flexibility going into 2009–10	68.571	42.917	111.488	94.852	0.814	112.302

## PUBLIC SERVICE AGREEMENTS

21. The £44 million taken up as part of the 40/60 cost sharing agreement for International Subscriptions particularly supports the DSO for preventing and resolving conflict through a strong international system but also confers benefits across a number of DSOs and PSA targets.

22. The transfer from the Treasury Reserve of £25 million of consular income contributes to our DSO to support British nationals abroad.

23. Part of the increase in expenditure in this Supplementary Estimate is take-up monies to further the conflict reduction PSA on which we are the lead department.

24. The up-take of EYF of £5.7 million and £3 million for respectively improved efficiency and currency fluctuations are both designed to improve delivery across a number of FCO's Departmental Strategic Objectives and PSA targets as is the £6 million Reserve claim for modernisation of the FCO.

25. We have also had transferred £5.5 million from DFID to facilitate work in furtherance of the shared migration PSA.

*Keith Luck*  
Director General Finance

*10 February 2010*

**Letter to the Committee Specialist from the Parliamentary Relations Team,  
Foreign and Commonwealth Office**

FCO DEPARTMENTAL REPORT 2008–09: TWO FOLLOW-UP QUESTIONS

Thank you for your letter of 29 January raising further questions on our 2008–09 Departmental Report. Please accept my apologies for the delay in getting this information to you. Your original questions are shown below in italics followed by our responses.

Q1. *I enclose an article from the Financial Times of 22 January 2010 which refers to an “internal memo leaked to the Conservatives” on possible further spending cuts which the FCO may make after the General Election. Assuming that it exists, the Committee would like sight of the document.*

A. The text of the document (a message from the PUS to staff) is below:

“NEXT YEAR’S BUDGET: THE LATEST

Our monthly meeting on 18 December was almost entirely devoted to the next step in setting budgets for every Directorate and Post for the next financial year starting on 1 April.

We know that next year will be a lot tougher than this year. This is partly because we just have less money (like all Departments we have to make further efficiency savings next year). But it’s mostly because the value of our budget is continuing to decline as sterling has dropped against other major currencies. Since we spend most of our money abroad in foreign currency, that means the pounds we have to allocate will buy less.

We have a twin-track strategy for dealing with this: making contingency plans on the assumption that we will get no extra help with the severe pressures on our budget, while on the other hand continuing to fight hard for a better deal.

We have agreed a core principle to guide us in allocating the money we do have: put our network and people first. We want to sustain an effective global presence, keep our staff safe and secure, and continue to invest in them through the training and other development activities we provide. We also want to give posts greater certainty about the value in local currency of their budget next Financial Year, so they can plan properly.

On that basis, the Board made provisional allocations for our major budgets for next FY: administration (that is people, rents and running costs), programme (which funds much of our work on issues like counter-terrorism and climate change) and capital (which pays for buildings, security works and other infrastructure). All these budgets will go down next year but the admin budget is the one under greatest pressure.

We therefore agreed to make some cuts in programme spending to ease the pressure a bit on our network and our staff (admin) and to create a central fund to manage in-year currency fluctuations. We also agreed to allocate some additional money to sustain training and development next year, and for essential physical security works.

Even with cuts to programme to subsidise admin, next year’s admin budgets will still be substantially less than this year. We were clear that further cuts could and should not be achieved by salami slicing: it would require us to stop activity, close posts and reduce staff numbers.

That is not where any of us, including the Foreign Secretary and his Ministerial team with whom we discussed this on 21 December, want to end up. And any strategic decisions about the future size and shape of the FCO will be for whatever government comes to power after the UK elections.

So once we have finalised the budget allocations in January, we will ask Directors and Heads of Mission to do two things as they plan for the coming year. First, seek to avoid irreversible decisions between now and the election. Second, work up contingency plans for substantial cuts which could be implemented soon after the election if the new Government decides not to allocate additional funds to the FCO.

We will be asking Directors and Heads of Mission to look at a whole range of options. I realise that this will be unsettling for all of you, and I am sure the rumour mill will be working overtime. But I can assure you of three things:

- we have made no decisions on the size and shape of the FCO and the overseas network, and won’t until after the election;
- we will keep you fully informed. As soon as decisions are made, we will tell you and explain the reasons; and
- we will continue to make the case, now and after the election, for a properly-funded FCO to protect and advance the UK national interest. I can’t promise you we will succeed. I can promise you we will campaign vigorously and confidently on behalf of the whole organisation.”

Q2. *In a Parliamentary answer of 8 December 2009, the Foreign Secretary said:*

*For financial years 2010–11 to 2013–14 our asset managers have identified, and intend selling, 106 properties as potentially redundant. Their current book values total £71 million. The properties comprises four office buildings, six Heads of Post residences, 86 units of staff accommodation, four plots of land, three amenity complexes and three ancillary buildings. (HC Deb, 8 Dec 2009, c236 W). The Committee would like to see the list of properties concerned.*

A. I am afraid we do not publish details of planned sales in advance of professional marketing due to local commercial sensitivity and in order to maintain the impact of the eventual marketing campaigns. Active management of the estate involves frequent disposals, most often of staff accommodation but

sometimes of replaced offices or land which we no longer require. Whenever properties of historical significance, or similar sensitivity, are proposed for sale, FCO Ministers are consulted before any action is taken.

The FCO will of course continue to fulfil the undertaking made by the then PUS, Sir Michael Jay, in 2004 when he wrote to the Committee that we were "... prepared to report to the Committee information about sales which have taken place three months after the transactions have been completed. However, we hope that the Committee will understand that in certain circumstances we will not be able to comply with this, for example when a purchaser has specifically required the inclusion of a confidentiality clause into an agreement. Under those circumstances we would wish to ensure we respected undertakings given. We would however, explain the background of such agreements to the Committee."

I hope you find these responses useful and we look forward to seeing your report.

3 March 2010

### Letter to the Clerk of the Committee from UK Trade & Investment

#### ESTIMATES MEMORANDUM AND WRITTEN STATEMENT

HM Treasury guidance specified that departments are required to provide a 'Written Statement' and 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 Written Statement for the forthcoming Spring Supplementary which requests authority from Parliament to apply additional income of £743,000 and draw down sufficient cash to settle creditors rather than fund new expenditure. UKTI will also be transferring £200,000 capital budget to BERR. This is to fund the capital works to UKTI accommodation, specifically the upgrade to provide secure Information Technology (IT) rooms. Should the Committee require any additional information, I would be happy to expand the Statement 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, 10 February 2009.

I am also sending a copy of this letter and enclosure to the Clerk of the Business & Enterprise Committee.

*Curtis Juman*  
Director of Finance

4 February 2009

The statement below follows the format guidance as set out in *Supply Estimates: a guidance manual*, available on the HMT website.

#### UK TRADE & INVESTMENT SPRING SUPPLEMENTARY 2008–09—WRITTEN STATEMENT

Subject to parliamentary approval of any necessary Supplementary Estimate, UKTI's total DEL will be decreased by £199,000 from £91,506,000 to £91,307,000. This reflects the net transfer of £200,000 in Voted capital from UKTI's Vote to BERR's Vote. Within the total DEL change, the impact on resources and capital is set out in the following table:

	Change		New DEL		£'000 Total
	Voted	Non-Voted	Voted	Non-Voted	
Resources DEL	1	—	91,506	—	91,506
<i>Of which:</i>					
Near-cash in RDEL	1	—	91,419	—	91,419
Capital DEL <sup>†</sup>	—200	—	48	—	48
Less Depreciation <sup>††</sup>	—	—	—166	—	—166
Total DEL	—199	—	91,388	—	91,388

<sup>†</sup> Capital DEL includes items treated as resource in Estimates and accounts but which are treated as Capital DEL in budgets.

<sup>††</sup> Depreciation, which forms part of resource DEL, is excluded from total DEL since Capital DEL includes capital spending and to include depreciation of those assets would lead to double counting.

UKTI's Vote does not include Administration provision, which is included in the Estimates of our parent departments, BERR and FCO.

The change in the resource element of DEL arises from:

- A token increase of £1,000 to allow an increase in appropriations-in-aid to be included in the Estimate.

The change in the capital element of DEL arises from:

- A transfer of capital underspend of £200,000 to BERR to fund capital works to UKTI accommodation.

## MEMORANDUM

### INTRODUCTION

The purpose of this memorandum is to provide the Select Committee with an explanation of how the resources and cash sought in the Spring Supplementary Estimate will be applied to achieve departmental objectives. This includes information on comparisons with the resources provided in earlier years in Estimates and departmental budgets, and may also refer to future financial plans. Details of changes in resources relative to original plans set out in the last Comprehensive Spending Review are provided.

The decreases in provision sought in this Supplementary Estimate relate primarily to:

- Token increase of £1,000 to allow increase in Appropriations-in-Aid to be included in the Estimate.
- Transfer of capital to BERR of £200,000.

The UK Trade & Investment's Spring Supplementary Estimate for 2008–09 seeks the necessary resources and cash for its programme and capital Vote. UKTI's administration costs are met from within the resources of Business, Enterprise and Regulatory Reform (BERR) and Foreign & Commonwealth Office (FCO) and consequently any changes related to Administration costs are shown in the BERR and FCO Spring Supplementary Estimates.

### SUMMARY OF THE MAIN SPENDING CONTROL FIGURES CONTAINED IN THE ESTIMATE VOTED PROVISION

#### *Voted Provision*

The Supplementary Estimate provides for a 0.22% decrease in net Voted resource:

- Decrease in the Net Resource Requirement (NRR) of £199,000;

Request for Resources (RfR) 1 —A £1,000

Request for Resources (RfR) 1 —A £200,000

<i>Resource and Capital DEL</i>	<i>Increase/Reduction £'000s</i>
Resource DEL: Voted	1
Resource DEL: Non-Voted	0
Total Resource DEL	1
Capital DEL: Voted	– 200
Capital DEL: Non-Voted	0
Total Capital DEL	– 199

To note: total gross resource will increase by £744,000 which is offset by the additional income of £743,000. We are seeking to transfer £200,000 of Capital DEL which, leads to a net change in total DEL of £199,000.

#### *The Net Cash Requirement*

The Net Cash Requirement (NCR) has increased by £1,201,000 from £92,266,000 to £93,419,000. As the table below shows, this is mainly to settle creditors in relation to prior year spend.

<i>Net Cash Requirement</i>	<i>Increase/Reduction £'000s</i>
Resource DEL: Voted (token transfer)	1
Capital DEL: Voted (transfer to BERR)	–200
Decrease in Creditors	1,400
Total Net Cash Requirement increase	1,201

#### *Budgetary data*

The effect of the above Vote changes in resource, affects the UKTI budget in the following way:

The changes to key budgetary figures are

Resource Departmental Expenditure Limit (RDEL) decreases by £199,000

*Of which:*

Near-cash in RDEL £1,000

Capital DEL – £200,000

The decrease in Resource DEL is financed by the planned transfer in Capital DEL to BERR. There is also an increase in gross expenditure offset by increased Appropriations-in-Aid arising from income generated from UKTI chargeable services being higher than forecast in the Main Estimate. This only entails a change in net provision of £1,000, as a token increase. This token transfer is required under HMT rules to allow Parliament to affect the changes sought by UK Trade & Investment. This is shown in the following table:

<i>Resource DEL</i>	<i>Increase/Reduction £'000's</i>
Increase in Appropriations-in-Aid due to take-up of UK Trade & Investment chargeable services being higher than expected in the Main Estimate.	*-743
Increase to UK Trade & Investment's Gross Resource DEL to off-set the increased Appropriation-in-Aid	744
Total Resource DEL	1

\* Appropriations-in-Aid (or Income) shown as a negative figure to balance the increased Gross Resource DEL.

*Detailed explanation of changes in provision sought in the Supplementary Estimate, and implications for budgets*

<i>Amount</i>	<i>Description</i>
	Movements in provision related to Resource DEL
£1,000	Token increase to allow increase in Appropriations-in-Aid (fully offset by changes in spending) as required under HMT rules. (RfR1-A: subhead A2)
	Movements in provision related to Capital DEL
-£200,000	Transfer of capital to BERR. (RfR1 - B: subhead A7)
-£199,000	TOTAL RESOURCE DEL CHANGE
	Movements, neutral in provision
£743,000	Increase in gross expenditure offset by increased Appropriations-in-Aid arising from income generated from UKTI chargeable services being higher than forecast in the Main Estimate. (RfR1 - A: subhead A2 and A5)

#### *Departmental Expenditure Limit*

This Supplementary Estimate will result in an overall decrease in Resource DEL of £199,000.

Capital DEL decreases by £200,000. Details of DEL in Estimates are:

<i>Resource DEL</i>	<i>Voted</i>	<i>Non-Voted</i>	<i>TOTAL £'000s</i>
Main Estimate	91,505	—	91,505
Spring Supplementary Estimate	91,506	—	91,506
Capital DEL			
Main Estimate	248	—	248
Spring Supplementary Estimate	48	—	48
Revised TOTAL DEL*	91,388	—	91,388

The only significant movement in DEL Budget is due to the transfer of £200,000 capital to BERR.

\* Depreciation, which forms part of RDEL, is excluded from total DEL since CDEL include capital spending and to include depreciation of those assets would lead to double counting.

#### *Financial Performance*

The table below compares final outturn from 2004-05 onwards with planned DEL for the previous and current years. These figures are available from the relevant year UK Trade & Investment Accounts:

<i>Year Resource</i>	<i>Voted</i>	<i>Non-Voted</i>	<i>TOTAL</i>	<i>Outturn</i>	<i>Variance £'000s</i>
2005-06	100,057	0	100,057	95,374	-4.68%
2006-07	95,329	0	95,329	94,088	-1.30%
2007-08	89,329	0	89,329	87,807	-1.70%
Capital					
2005-06	248	0	248	155	-37.50%
2006-07	248	0	248	176	-29.03%

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2007–08	248	0	248	57	– 77.02%
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The Resource DEL outturn for 2007–08 of £87,807,000 was an underspend of £1,522,000 compared to final provision of £89,329,000 (equivalent to 1.7% of Resource DEL). The underspend was largely due to late cancellation or postponement of events and the over estimation of cost for overseas activities.

The Capital DEL Outturn for 2007–08 of £57,000 compares against a final provision of £248,000. This large variation was due to UKTI continuing to utilise its asset base efficiently.

#### *DEL End-Year Flexibility*

<i>£'000s</i>	<i>Resource</i>	<i>Capital</i>
EYF at start of 2008–09	11,158	1,647
EYF drawn down in Winter Supplementary Estimates	0	0
EYF drawn down in Spring Supplementary Estimates	0	0
Current EYF balance	11,158	1,647

This Supplementary Estimate will not draw down any EYF. The stock of EYF arose due to the managed planned reductions in resource resulting in a limited underspend over a number of years.

#### *Administration Budget*

The Supplementary Estimate will have no effect on our administration budget. UKTI's Vote does not include Administration provision, which is included in the Estimates for our parent departments, BERR and FCO.

#### *Provisions*

UKTI does not have any provisions.

#### *Contingent Liabilities*

UKTI does not have any contingent liabilities.

#### *Approval of Memorandum*

This memorandum has been prepared with reference to guidance in the *Supply Estimates: a guidance manual* provided by HM Treasury. The information in this memorandum has been approved by Sir Andrew Cahn, KCMG, the departmental Accounting Officer.

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### **Letter to the Rt Hon Gordon Brown MP, Prime Minister, from the Chairman of the Committee**

#### **FLUCTUATIONS IN THE VALUE OF THE POUND**

I write to express the concern of my Committee about the impact of recent fluctuations in the value of the pound on the ability of the Foreign and Commonwealth Office to maintain its spending commitments overseas. You will be aware that international subscriptions paid on behalf of the UK as a whole are generally paid from the FCO's budget and that the Government is billed by organisations such as the UN, EU and OSCE in US dollars and euros. The Treasury has withdrawn its support for the Overseas Pricing Mechanism, which used to protect departments from weakening of sterling, and whilst the FCO has actively sought to hedge using simple "outright forward" contracts, this has not protected it from the full effect of the recent drop in the value of the pound.

As an example of the effect of such exchange rate fluctuations, in a Written Ministerial Statement on 25 March the Government announced that of the £556 million available in 2009–10 for conflict resource (excluding military operations in Afghanistan and Iraq), £456 million has been allocated by the FCO to cover the projected rise in the cost of peacekeeping contributions for which the UK has a legal obligation. Since the Treasury reserve has only allocated £374 million for peacekeeping this has necessitated cuts in other areas of the FCO's work.

In our recent Report on the FCO's Annual Departmental Report 2007–08, we reached the following conclusion:

We are deeply concerned that as a result of the Treasury's decision to withdraw its support for the Overseas Price Mechanism, the FCO may not be able to meet higher international subscriptions over the next two financial years unless it cuts its activities. We conclude that it is deplorable that the FCO should have to shoulder the financial burden from within its already tight budget to pay

for subscriptions which also benefit other Government departments, and we recommend that additional non-discretionary costs should properly be met by the Treasury. (Foreign Affairs Committee, Second Report of Session 2008–09 (HC 195), para 214)

It is a matter for great concern that work in critically important fields such as conflict prevention is being undermined as a consequence of currency fluctuations which are outwith the control of the FCO. My colleagues and I are strongly of the opinion that cuts in conflict prevention could prove very short-sighted and may lead to heavier burdens on public spending in the future.

We wish to repeat our recommendation that the Government should pay non-discretionary costs such as subscriptions to international institutions directly from Treasury funds, and should put in place a mechanism to ensure that at this time of financial difficulties the work of the FCO, critical to long-term international stability and the interests of the UK, can be maintained at its previous level. We consider it appropriate for such allocations to be made wholly from the Treasury reserve.

I am copying this letter to the Chancellor of the Exchequer and the Foreign Secretary.

2 April 2009

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### Letter to the Clerk of the Committee from UK Trade & Investment

#### ESTIMATES MEMORANDUM

HM Treasury guidance in *Supply Estimates: a guidance manual* specifies that departments are required to provide an “Estimates Memorandum” to their Select Committee explaining the allocations 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 Estimate. This allows the draw down of £96.4 million resource and £97 million net cash in line with the Comprehensive Spending Review Settlement. This includes the Machinery of Government transfer of trade promotion for defence exports from the Ministry of Defence and the additional £5 million announced in the Budget on 22nd April 2009. Should the Committee require any additional information, I would be happy to expand the Memorandum appropriately.

Main Estimates are presented and published approximately five weeks after the Budget and it is likely that presentation to the House of Commons will be on Tuesday 2 June 2009.

I am also sending a copy of this letter and enclosure to the Clerk of the Business & Enterprise Committee.

*Curtis Juman*  
Director of Finance

8 May 2009

### UK TRADE & INVESTMENT MAIN ESTIMATE 2009–10

#### INTRODUCTION

1. The purpose of this memorandum is to provide the Select Committee with an explanation of how the resources and cash sought in UK Trade & Investment’s (UKTI) Main Estimate will be applied to achieve departmental objectives. This includes information on comparisons with the resources provided in earlier years in Estimates and departmental budgets, and also refers to future financial plans. Details of changes in resources relative to original plans set out in the last Comprehensive Spending Review are provided.

#### MAIN ESTIMATE

2. The UKTI’s Main Estimate for 2009–10 seeks the necessary resources and cash for its programme and capital Vote.

3. UKTI’s administration costs are met from within the resources of Business, Enterprise & Regulatory Reform (BERR) and Foreign & Commonwealth Office (FCO). Consequently any changes related to the administration costs fall within the BERR and FCO Estimates.

## SUMMARY OF THE MAIN SPENDING CONTROL FIGURES CONTAINED IN THE ESTIMATE

<i>Total Departmental Expenditure Limit</i>	<i>Outturn</i>			<i>Plans</i>	
	<i>2006–07 £m</i>	<i>2007–08 £m</i>	<i>2008–09 £m*</i>	<i>2009–10 £m</i>	<i>2010–11 £m</i>
Total Net Resource Requirement (NRR)	98.005	89.113	91.527	96.383	96.256
Annually Managed Expenditure (AME)	0.014	–0.034	0.021	0.021	0.021
Net Resource DEL	97.991	89.147	91.506	96.362	96.235
<i>Of which:</i>					
Near cash	97.887	89.180	91.419	96.275	96.148
Non-cash	0.104	–0.033	0.087	0.087	0.087
Capital DEL	0.176	0.057	0.048	0.248	0.248
Less Depreciation**	0.161	0.147	0.166	0.166	0.166
<b>TOTAL DEL</b>	<b>98.006</b>	<b>89.057</b>	<b>91.388</b>	<b>96.444</b>	<b>96.317</b>

\* Provisional figures

\*\* Depreciation, which forms part of Net Resource DEL, is excluded from total DEL as it is also included in Capital DEL. To include it again would lead to double-counting.

5. *Annually Managed Expenditure*: There is no change in the provision provided.

6. *Net Resource DEL*: The increase in Resource DEL compared with the previous year largely reflects £10 million additional resource over the next two financial years announced in the 2009 Budget to help UK businesses better showcase their strengths to overseas customers and markets. This is offset by reduced resource requirement for UKTI mainly from increased efficiency. Resource DEL excludes Annually Managed Expenditure (AME) but includes delivery of agreed efficiencies.

7. *Near-cash figures in Resource DEL*: The increase in near-cash DEL compared with the previous year is due to the additional resource offset by reduced resource requirement for UKTI as detailed above.

8. *Capital DEL*: The reduction in capital of £0.2 million in 2008–09 reflects the transfer of provision to BERR for capital works to provide secure Information Technology (IT) rooms.

## EXPLANATION OF SIGNIFICANT CHANGES IN PROVISION COMPARED WITH:

*Spending Review Allocations*

<i>Resource DEL Requirement</i>	<i>2008–09 £m*</i>	<i>2009–10 £m</i>	<i>2010–11 £m</i>
CSR Settlement	89.329	89.328	89.328
Net Defence export Resource DEL	2.198	2.055	1.928
2009–10 Budget announcement		5.000	5.000
Total Net Resource DEL Requirement	91.527	96.383	96.256
Capital DEL	0.048	0.248	0.248

\* Provisional figures

9. At the start of 2008–09 UKTI's allocation reflected a net flat-cash budget settlement in the Comprehensive Spending Review (CSR) 2007 of £89 million for each of the three years.

10. This funding is for the delivery of UKTI's agreed targets; its marketing commitments related to the Olympics over the CSR period; and a contribution to the Regional Development Agencies (RDA) single pot of £17/16/16 million in relation to inward investment activities.

11. In 2008–09 the responsibility for defence exports promotion moved from the Ministry of Defence to UKTI to provide greater integration with the Government's general support activities. The related net budget decreases over the CSR period, reflecting agreed efficiencies.

12. The provision increases from 2008–09 as a result of additional resource (£5 million 2009–10, £5 million 2010–11) provided in the 2009 Budget to help UK businesses better showcase their strengths to overseas customers and markets which leads to an increase in UKTI's overall net resource requirement as detailed above.

*Previous Year Comparison (with 2008–09)*

13. As set out above, the provision increases from 2008–09 due to the announced additional resource less agreed efficiencies.

*Net Cash Requirement*

<i>Net Cash Requirement</i>	<i>2008–09</i> <i>£m*</i>	<i>2009–10</i> <i>£m</i>
Net Resource Requirement	91.527	96.383
Total Net Voted Capital	0.048	0.248
<i>Accruals to cash adjustment</i>		
Cost of Capital charges	0.079	0.079
Depreciation	-0.187	-0.187
Increase (-)/Decrease (+) in creditors	2.000	0.480
Total accruals to cash adjustments	1.892	0.372
Excess cash to be CFER'd	—	—
Net Cash Requirement	93.467	97.003

\* Provisional figures

14. The main change in the net cash requirement relates to the draw down of cash reflecting the additional £5 million resource provided in the 2009 Budget announcement.

*Departmental Strategic Objectives*

15. UKTI is a joint department of the Foreign & Commonwealth Office (FCO) and the Department for Business, Enterprise & Regulatory Reform (BERR). Consequently UKTI's funding and human resources reflect this framework. It shares its Departmental Strategic Objective (DSO) targets with its parent departments, delivering through staff employed by either the FCO or BERR.

16. These shared objectives for FCO and BERR respectively are to Support the British Economy and promote the creation and growth of business and a strong enterprise economy across all regions. They are underpinned by UKTI's Strategic Objective, and related targets:

By 2011, deliver measurable improvement in the business performance of UK Trade & Investment's international trade customers, with an emphasis on innovative and R&D active firms; increase the contribution of foreign direct investment to knowledge intensive economic activity in the UK, including R&D; and deliver a measurable improvement in the reputation of the UK in leading overseas markets as the international business partner of choice.

*Departmental Expenditure Limit*

17. There has been an upward movement in the DEL budget from 2007–08 due to the transfer of defence export promotion activity to UKTI from the MOD. The summary table in para 4 above compares outturn from 2006–07 onwards with the provisional outturn for 2008–09 and planned DEL for the CSR period which includes the additional £10m over two years announced in the 2009 Budget.

*DEL End-Year Flexibility*

18. At the start of 2009–10 UKTI will have an accumulated End Year Flexibility (EYF) entitlement of £11.158 million resource and £1.647 million capital, subject to any further adjustments that emerge during the finalisation of the 2008–09 Resource Accounts.

<i>DEL End-Year Flexibility</i>	<i>Resource</i> <i>£m</i>	<i>Capital</i> <i>£m</i>
EYF at start of year	11.158	1.647
EYF draw down in Winter Supplementary	0	0
EYF draw down in Spring Supplementary	0	0
Current EYF balance	11.158	1.647

19. The stock of EYF arose as a result of planned reductions in resource over a number of years. There are no plans to draw down any EYF during the financial year.

*Provisions*

20. UKTI does not have any provisions.

## CONTINGENT LIABILITIES

21. UKTI does not have any contingent liabilities.

*Approval of Memorandum*

22. This memorandum has been prepared with reference to guidance in the Supply Estimates: a guidance manual provided by HM Treasury. The information in this memorandum has been approved by Sir Andrew Cahn, KCMG, the Accounting Officer for UKTI.

### Written evidence from Sir Edward Clay KCMG

When I was told that Diplomatic Service Regulations (DSR) had been changed, I asked to see a copy of a new standard letter of appointment, revised to take account of the amended DSR 5. I got no response so asked for it under FoI.

The attached is the response. The standard letter is altered out of all recognition, for the better. In particular, there is no attempt to bind signers for life to particular rules on public statements. The three elements of paragraph 7 relate only to protecting confidential matters in the proposed role, though, of course, the requirements of the OSA continue indefinitely. For a retired officer, however, that imposes no new obligation.

I think this revision does suggest the amendment of DSR 5 was a real and significant change. But the approach of the FCO to their argument with me, their failure to offer any re-interpretation or amendment of the letter back in 2006 when I first questioned it, their slothfulness over amending DSR 5 and their failure to disclose the new standard letter of appointment until they were forced under FoI, suggests a management which never dreamt they might be wrong or might have to justify their stance. When challenged, their response has suggested an institution brittle and defensive in its response to argument. I find it strange that the FCO should beat its breast about its attachment FoI while declining to provide perfectly straightforward, unclassified information in response to my first, simple request without recourse to FoI.

I am grateful for the DSA's support over the money question and their sympathetic interest in DSR 5 itself. Getting that amended has been well worthwhile.

19 June 2009

### Annex A

#### LETTER TO SIR EDWARD CLAY FROM HUMAN RESOURCES DIRECTORATE, FOREIGN AND COMMONWEALTH OFFICE

FREEDOM OF INFORMATION REQUEST: 395-09

Thank you for your request dated 16 May 2009, under the Freedom of Information Act. You asked that the Foreign and Commonwealth Office (FCO) should disclose "a copy of the revised standard letter of appointment which would be presented to retired officers such as you on taking up an appointment like the Chevening job or chairmanship of Wilton Park or another part-time position of this kind."

I can confirm that the Foreign and Commonwealth Office does hold information to answer your request. I'm attaching a copy of the standard terms and conditions of appointment with this letter (Annex B).

In keeping with the spirit and effect of the Freedom of Information Act, all information is assumed to be releasable to the public unless exempt.

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Email: [licensing@opsi.gsi.gov.uk](mailto:licensing@opsi.gsi.gov.uk)

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For further information on Crown copyright policy and licensing arrangements, see the guidance featured on the OPSI Website (<http://www.opsi.gov.uk/advice/crown-copyright/copyright-guidance/index.htm>)

If you are unhappy with the way the Foreign and Commonwealth Office has handled your request, you may ask for an internal review. You should contact me within 40 working days if you wish to complain.

If you are not content with the outcome of your complaint, you may apply directly to the Information Commissioner for a decision. Generally, the ICO cannot make a decision unless you have exhausted the complaints procedure provided by the FCO. The Information Commissioner can be contacted at: The Information Commissioner's Office, Wycliffe House, Water Lane, Wilmslow, Cheshire, SK9 5AF.

16 June 2009

## NON-EXECUTIVE CHAIR TERMS OF APPOINTMENT

This document sets out your principal terms and conditions of appointment.

### NAMES OF PARTIES

.....

### THE FOREIGN AND COMMONWEALTH OFFICE ("THE DEPARTMENT")

#### 1. COMMENCEMENT OF APPOINTMENT

Your appointment will begin on.....

#### 2. DURATION

Subject to earlier termination your appointment will be for a fixed period ..... of ..... It will run from ..... to.....

#### 3. ROLE AND FUNCTION

- a) You are appointed, subject to security clearance, as the Chair of the Wilton Park Departmental Board, and ex-officio as the Chair of the Wilton Park Advisory Council. Nothing in this agreement is intended, or shall be taken, to have the effect of making you an employee of the Department.
- b) You are appointed to lead both boards, ensuring that together they set, implement and monitor Wilton Park's delivery against its mission and specific targets effectively. Time commitment will be approximately ..... per month including attending meetings and preparation time.
- c) You will have the opportunity to meet regularly with the Senior Responsible Officer for Wilton Park in the FCO, currently ..... to reflect on your role, review performance and evaluate the arrangement between you and the FCO.
- d) Subject to clause 8, you may during your appointment do other work and pursue other interests apart from this role.

#### 4. REMUNERATION

- a) Your remuneration will be .....
- b) This fee will be reviewed annually. You will be notified in writing of any change to your fee.
- c) in addition to your fee, you will be eligible to claim travel expenses (according to FCO rules and procedures for senior staff) reasonably incurred for travel undertaken as part of your responsibilities. You will need to retain receipts if you intend to claim for travel expenditure.
- d) You should claim your travel expenses retrospectively at the end of each month on the form provided by Public Diplomacy Group and payment will then be made monthly by credit transfer to your bank or building society.

#### 5. DISCLOSURE

- a) Your fee has to be disclosed in the Wilton Park annual report. In entering into this agreement and accepting this appointment you thereby consent to this disclosure.

#### 6. NOTICE

- a) Either party may terminate this contract for any reason before the expiry of the fixed period by giving three months notice in writing.
- b) The Seven Principles of Public Life are considered to provide good guidance on the standards of conduct expected in this role. Breach of these standards amounting to misconduct could lead to termination of your appointment.

## 7. CONFIDENTIALITY/USE OF OFFICIAL INFORMATION

- a) This appointment is subject to SC security clearance.
- b) You are required to exercise care in the use of information which you acquire in the course of your duties and to protect information which is held in confidence.
- c) You are also subject to the Official Secrets Act 1989. An explanatory leaflet summarising the provisions of the Act as they affect civil servants (which will also be broadly applicable to you) is attached.

## 8. CONFLICTS OF INTEREST

- a) You must declare to the Senior Responsible Officer any personal or business interest which may, or may be perceived (by a reasonable member of the public) to influence your judgement in performing your functions and obligations under this agreement. These interests include (without limitation), personal direct and indirect pecuniary interests, and any such interests of your close family members and/or of people living in the same household as you or as your close family members.
- b) You must inform the Senior Responsible Officer in advance of any new appointments that may impinge on your performance of your functions and obligations under this Agreement.
- c) You must inform the Senior Responsible Officer in advance if it is your intention to take up a position in any political party.
- d) It will be your responsibility to withdraw from any discussions where you have any interests that may, or may be perceived to, influence your judgement.
- e) All information on potential conflicts of interest will be held on a Cabinet Office Register and could be disclosed to the public under the Freedom of Information Act. In entering into this agreement and accepting this appointment you thereby consent to this disclosure.

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**Written evidence from the Public and Commercial Services Union**

## SURVEY INTO BULLYING AND HARASSMENT IN THE FOREIGN AND COMMONWEALTH OFFICE

PCS is the largest union representing staff in the FCO. We represent both UK based staff and also Diplomatic Service staff based overseas. We are writing to express our concerns over what appears to be a high incidence of bullying and harassment in the FCO.

An FCO staff survey in 2008 showed that 17% of staff both home and overseas had experienced some form of bullying and harassment. FCO senior management were shocked by the high rate (the Whitehall average is 11%). They ordered a more in-depth analysis of the survey by an outside company ORC International. Their report is attached.<sup>17</sup>

This showed that locally employed staff, and those in more junior positions are more likely to feel they have been subject to bullying, harassment or discrimination. The reasons given to explain this were: bias against more junior grades, the UK based/local staff divide and diverse working patterns. The figures also showed that Black Minority Ethnic (BME) staff and staff with a disability were more likely than other groups to report unacceptable behaviour. 35% of BME staff and nearly 30% of disabled staff said they had been subjected to unacceptable behaviour.

Sir Peter Ricketts, the FCO Permanent Under-Secretary, stated one of the reasons for the high figures (in a message to staff, attached),<sup>18</sup> was that diversity training courses and the more inclusive working environment meant that staff now felt more comfortable raising their concerns. However this is not reflected in any increase in the number of formal grievances being raised with the FCO. Much of the bullying and harassment highlighted in the survey went unreported to the FCO, in the main we believe because staff lack confidence that their complaints will be taken seriously.

Another reason for the high figures reported in the survey according to Sir Peter, was that the FCO had finally got serious about tackling poor performance which he says was likely to highlight personality issues. PCS does not believe this to be the case. In our experience poor performance procedures are themselves sometimes used as a means by managers in more senior grades to harass and bully more junior staff.

The main concern of our members within the FCO is that the underlying reason for bullying and harassment, and one which is not mentioned in the report, is to do with the FCO culture, which as the Committee may recall was highlighted as a problem in the 2008 FCO Cultural Audit, i.e. officers capable of dealing with foreign policy issues within the FCO were more highly prized than good managers. It was rare to find a combination of the two.

Our members believe that not enough is being done to tackle bullying and harassment in the FCO. PCS is currently seeking a meeting with the FCO to discuss this.

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<sup>17</sup> Not printed.

<sup>18</sup> Not printed.

PCS thinks that the staff survey and ORC International report paint a very worrying picture of bullying and harassment in the FCO with BME and disabled staff seemingly most vulnerable to unacceptable behaviour.

We believe this is an issue which the Committee may be interested in and we would be happy to speak to the Committee on this matter if they think it would be useful.

22 June 2009

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### Written evidence from Barry J Lennox

#### ZIMBABWE PUBLIC OFFICER PENSIONS

Thank you for courteously listening to my phone call yesterday (Thursday 16 July 2009) about my frustration with the continuous vacillation and delay of the FCO staff on the above subject.

You will see from correspondence with the former clerk of the Committee<sup>19</sup> that this is an on-going matter. The latest problem arises from a meeting at Portcullis House on Monday 15 June 2009 with Keith Simpson MP, the Conservative Shadow Minister for Africa, arranged by Gerald Howarth MP, the Honorary Parliamentary Adviser to the Overseas Service Pensioners' Association (OSPA), attended by the Chairman and Secretary of that organisation as well as myself as the representative of Rhodesia/Zimbabwe on OSPA's Council.

Keith Simpson advised us to seek, under the Freedom of Information Act, the background papers to the letter (copy attached)<sup>20</sup> dated 20 December 1979 from Lord Trefgarne, on behalf of the Government, to Lord Gridley, stating the Zimbabwe Constitution "provides full safeguards for public service pensions and their remittability".

That this is incorrect can be judged from the fact that pensions have not been paid outside Zimbabwe since February 2003 and, even before that, their value had plummeted in line with the fall in the Zimbabwe Dollar.

The Secretary of OSPA applied to the FCO for the release of the papers as suggested by Keith Simpson, only to be told that, as the relevant files are being prepared for public release to the National Archives in January 2010, it was reasonable for them to decline to provide the information now because of the work that would be involved.

In the meantime my former colleagues and I, who paid compulsory contributions for our pensions into government revenue, can wait even longer for what we are due.

The foregoing is a similar story to the vacillation and delay following a meeting to discuss the non payment of Zimbabwe public officer pensions with officials of the FCO on 25 February 2004, also arranged by Gerald Howarth MP, at which I presented a paper based on legal advice I had received from a former judge of the High Court of Zimbabwe (copy attached).<sup>21</sup>

The FCO officials having said they would refer my paper to their legal adviser, took three months to respond to OSPA by a letter (copy attached)<sup>22</sup> which quoted part of a sentence from the advice they had received. I attempted to get them to release the full advice, which they refused and I took up the matter under the Freedom of Information Act. I was successful in getting the Commissioner for Information to instruct the FCO to release the advice to me, but the FCO appealed to the Information Tribunal, which upheld their appeal.

Previous delays had occurred with correspondence, about one item of which I wrote to Sir Michael Jay complaining about the delay in replying and also about the run around Jessica Gorst-Williams of the *Daily Telegraph* was given by the FCO staff when she tried to help me.

17 July 2009

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### Written evidence from Sir Peter Marshall, KCMG CVO

#### THE FCO'S ANNUAL REPORT AND THE UNITED KINGDOM'S INTERNATIONAL PRIORITIES

In Press Notice PN28 (Session 2008–09) the Committee invited written submissions of evidence in relation to the inquiry which they will be conducting into the *FCO Departmental Report 2008–09*. Among the issues which the Press Notice refers are "the FCO's framework of objectives and targets and its performance against them".

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<sup>19</sup> Not printed.

<sup>20</sup> Not printed.

<sup>21</sup> Not printed.

<sup>22</sup> Not printed.

This is the last year of the present Parliament. The Committee has during its lifetime inquired into a large number of matters of the great national importance. I would therefore venture—for reasons which I hope will become clear—to submit my evidence in the form of a letter to yourself, based on a sequence of questions, within the compass of the Press Notice, but not confined solely to the year under investigation.

- (1) Is the Report in its current form able adequately to reflect not only progress in the achievement of declared national objectives, but also the flexibility and the nimbleness which the conduct of successful foreign policy in general in the 21st century requires?
- (2) Is it similarly able adequately to reflect the extent to which the running in a growing number of issues has of necessity to be made outside the FCO, and notably by No 10 and the Cabinet Office?
- (3) Is the work of the Diplomatic Service sufficiently understood, and supported, by public opinion in this country?
- (4) Is the Diplomatic Service adequately resourced?
- (5) How far are the answers to questions (3) and (4) interrelated?
- (6) How would the Foreign Affairs Committee amplify, perhaps with particular reference to questions (1) to (5), the important observation they make in paragraph 6 of the Introduction to their most recent report on their activities (HC 113, January 15 2009) that “in addition to our central task of scrutinising the work of the FCO, we see ourselves as having a useful role to play in informing Members and the wider public about major developments in world affairs and their consequences for the United Kingdom”?

I pursue this sequence of questions in what follows.

(1) *The fickle Wood and the durable Trees*

Apparently simple questions such as (1) may on occasion require complex answers. This is a case in point.

As they explain in the Introduction to their very interesting report on the *FCO Annual Report 2007–08* (HC 195, February 2009), the Committee have since 1981 inquired annually into FCO expenditure plans and related administrative matters. In 1991 Government Departments first began publishing annual Departmental reports, setting out their work for that year and expenditure plans for the future. The Committee have used these reports as a basis for scrutiny of the FCO’s administration and expenditure.

Matters took a fresh turn in December 2003, when the Rt Hon Jack Straw MP, the Foreign and Commonwealth Secretary, published a ground-breaking White Paper *UK International Priorities—A Strategy for the FCO* (Cm 6052). Building on the series of annual Departmental Reports, it both set out priorities—discussed and agreed between Departments and agreed by the Prime Minister—for UK international policy over the next five to 10 years, and described how the FCO intended to work with others and through its own network to help the Government meet the aims which it set out.

The White Paper was a milestone in the conduct of foreign policy, not only in the detail of what it said, but also as confirmation of renewed confidence that there were at the disposal of our country the sinews, skills, experience and resolve to implement these policies and priorities, and to play a responsible and constructive part in a globalised world. The clarity and the calm conviction of the White Paper testified to a state of affairs far removed from Dean Acheson’s jibe about our having lost an empire and not yet found a role.

The White Paper was not a reflection of a tranquil state of world affairs, nor of a serene British assessment of it. 9/11 had occurred only two years previously. Even if there was a durable quality to many of the trees, the wood was fickle. Mr Straw provided for this in two ways: first it was the expressly stated intention to update the White Paper regularly; secondly, there was an inbuilt flexibility in the formulations which facilitated adjustment in the light of changing circumstances.

When the Foreign Affairs Committee invited comments on the *FCO Annual Departmental Report*, covering the year 2003–04, which had just appeared, I inquired whether this invitation extended to observations on Mr Straw’s White Paper, and was told that it did. I therefore submitted a memorandum which the Committee were good enough both to publish and to notice favourably in a separate section of their Report (HC 745, paras 35–42 and Ev 70–76).

Mr Straw produced a second White Paper *Active Diplomacy for a Changing World—The UK’s International Priorities* (Cm 6762) in March 2006, by which time, of course, you had yourself assumed the chairmanship of the Committee. The Press Notice 28 of 2 May 2007, recorded the Committee’s most welcome intention of ensuring that the White Paper was considered as part of the Committee’s work as a whole, and was to be taken into account in the context of other reports from the Committee. This was reflected in the generous publication with the Committee’s Report on the *Foreign Policy Aspects of the Lisbon Treaty* (HC 120, January 20 2008) of my letter of 6 October 2007, (Ev 141–3) and in the references to it in the body of the Report itself.

Subsequent developments, particularly the creation of a new Strategic Framework, as reported to the House of Commons on 23 January 2008, by the Foreign and Commonwealth Secretary, are absorbingly covered in the Committee’s Report on the *FCO Annual Departmental Report* for 2007–08. The Committee welcomed the changes as in line with their own views.

The Framework, as the Committee noted, is relatively brief. But there have been a number of important Government statements and publications, which provide further insight into what is at issue. The latest *FCO Annual Departmental Report*, especially in the perspective of the respective Introductions by the Foreign and Commonwealth Secretary and the Permanent Under-Secretary, certainly indicates no lack of flexibility in addressing changed or new situations. It also takes account of the discussion in the Report of the Committee on the FCO's 2007–08 Report, which seemed to concentrate rather on the separate question of possible changes in the relationship between the FCO and other Departments consequent upon, or implied by, the adoption of the new Strategic Framework.

The somewhat different question prompted by the course of events is whether the Framework implies a relatively greater emphasis on the executive function of the Diplomatic Service, as compared with its advisory function, which was so strong a feature of Mr Straw's White Papers, and whether there is in consequence a possible loss of FCO departmental clout. This leads naturally to question (2).

#### (2) *The Spread of Presidential Government*

Foreign Ministers have never enjoyed a monopoly in the handling of foreign affairs. But the extent of involvement of Prime Ministers/Heads of Government has greatly increased in recent years for three related reasons: first, the vanishing distinction between internal and external affairs; second, the enormous growth in public interest in foreign affairs, provoked by the impact of external influences on our daily lives, and animated by the information and communication revolution; and third, the spread of the presidential system of management under the control of the Heads of Government, virtually regardless of the formal constitutional position, with corresponding emphasis on the personal links between Heads of Government at or between virtually incessant summit meetings. It is difficult to see this situation being reversed in any near future.

But this does not put the Diplomatic Service out of business. There will always be a requirement for a substantial central core of expertise in the element of what may be called the “foreignness” both in foreign affairs and in their impact at home. The formulation of the fourth of the FCO's Departmental Strategic Objectives—“a flexible global network serving the whole of the British Government”—makes the point with suitable modesty. The core would be justified in claiming what Bagehot espied as rights of the sovereign in a constitutional monarchy—to be consulted, to encourage and to warn. But it would have to validate the claim by the effective deployment of its expertise, and by inspiring confidence that it was not plugging its own agenda.

Much depends on the relationship between the Prime Minister and the Foreign and Commonwealth Secretary, and on appropriate continuity at Ministerial level in the FCO. During the present Parliament there have been three Foreign and Commonwealth Secretaries, and four Ministers for Europe. That cannot make for efficiency.

#### (3) *Public and interactive Diplomacy*

In the heyday of classical diplomacy the conduct of foreign policy was primarily a matter of the sovereign's prerogative. Proponents of *Realpolitik* such as the Prussian General Clausewitz spoke of “the passions of the people” as a resource to be mobilised as a means of furthering a particular policy. The approval of the populace for what was to be put in hand was not a major consideration. Indeed a stock joke of the classical era was that there was no equivalent in such-and-such a language for the phrase “public opinion”. The nearest available term was “the stupid people”.

In 21st century democracies, public approval of the conduct of foreign policy is ultimately a *sine qua non*. The Committee has naturally devoted a good deal of attention to the question. I have in mind in particular their Third Report of Session 2005–06 on *Public Diplomacy* (HC 903). In launching an engrossing FCO study *Engagement: Public Diplomacy in a Globalised World*, on 21 July 2008, Mr Jim Murphy, at that time Minister for Europe in the FCO, emphasised the necessity of carrying public opinion “at every stage of the policy cycle”. To this end a stream of statements and communiqués will not suffice. There must be dialogue. Diplomacy has not merely to be public: it has also to be interactive.

Curiously enough, the latest *FCO Annual Departmental Report* makes no mention of this event. It has to be said that there is a glaring contrast between the insistence on carrying public opinion with you at every stage on the one hand and the Government's strenuous efforts to shield the adoption of the Lisbon Treaty from the expression of public opinion on the other.

#### (4) *Paying for what you want by way of International Involvement*

While there have been over the years a number of outside examinations of Diplomatic Service resourcing, they have, understandably perhaps, been more concerned with getting value for money out of Diplomatic Service expenditure, or with living within our national means, than with a dispassionate analysis of what was required to ensure delivery of what the nation was asking of the Diplomatic Service.

The last such investigation—and it could also be said to be the first such—was by the Plowden Committee, which reported in 1964 (*Report of the Committee on Representational Services Overseas appointed by the Prime Minister under the Chairmanship of Lord Plowden 1962–63*, Cmnd 2276, February, 1964). The background to the appointment of the Committee was a feeling that a review was necessary both to see how

the far-reaching organisational reforms introduced during, and after, the Second World War were working out in practice. The world in which we lived, the Report noted, “was no longer the world of 1943 or even a world which could be foreseen in 1943”.

The Plowden Report is a superb analytical and prescriptive achievement. Its simultaneous mastery of the big picture and of operational and administrative detail gives it an authority that attaches to no other document on the subject. While it enjoyed an immediate harvest of much needed improvements in diplomats’ terms and conditions of service, its wider policy, organisational, training and staffing recommendations largely fell victim to the economic crisis which coincided with the return of a Labour Government a few months after the Report’s appearance. The Report is well worth revisiting.

(5) *Adequate Resources depend on adequate Understanding and Support*

Question (5) can be simply answered—strongly in the affirmative. We cannot expect the Diplomatic Service to be adequately resourced unless there is adequate public understanding and support of its role. At the moment the question has to be asked to what extent it really enjoys either advantage.

This, unhappily is an area where the writ of prejudice and indifference runs freely. Unlike the Royal Navy traditionally, for example, the Diplomatic Service has no natural or instinctive constituency at home. It is all too easily associated in the public mind with standing up for foreigners instead of ourselves. The suggestion that it carries out the policies of the democratically elected government is met with dark suspicion that, in the manner of *Yes Minister*, it bullies and undermines Ministers rather than obeying them. And the general mistrust and distaste for “Brussels” tends to express itself in criticism of the FCO for lack of resolve or tenacity. In bargaining terms, moreover, the relative ease with which the Diplomatic Service continues to attract good recruits weakens any general case it may make for improvement in terms and conditions of service.

There are no quick fixes. Patient exposition and interaction on what the Diplomatic Service is doing and how and why it does it are indispensable. But perhaps independent yet authoritative assistance in accomplishing the task may be required.

(6) *Much will have more*

As noted in question (6) above, the Committee in their latest report on their activities, explain, not for the first time, that they see themselves as “having a useful role to play in informing Members and the wider public about major developments in world affairs and their consequences for the UK”.

I believe this proposition to be of very great importance. It is surely clear that the 21st century will require a reassessment of the balance between representative democracy and direct democracy as we have known it for the last century and a half. The blogosphere is upon us. Whatever the reassessment, the Select Committee system which has so amply proved its worth, cannot but figure prominently in it. This must surely apply in particular to our involvement in European Union affairs. The results of the recent European Parliament elections have ominous implications for representative democracy at the EU level.

At a microdiplomatic, no less than at a macropolitical level, the Committee are uniquely placed. First, the wide range of their own activities and the unrivalled access to those responsible for the conduct of our foreign policy which they enjoy give them a most authoritative and comprehensive appreciation of world developments and of how they impact on this country. The more we hear from them the better.

Secondly, and again by virtue of their activities, the Committee are themselves eminently accessible to the concerned public, not least via public sessions and the regular invitations to make submissions on issues which are the subject of their inquiries.

Thirdly, the extent to which, as a consequence of our membership of the European Union, our affairs are centrally managed beyond our own borders places a premium on both a mastery by the Committee of what is transpiring in Brussels and elsewhere, and on the effective conveying to the public of the product of their vigilance. In my letter of 26 January 2008, I offered some comments on the Committee’s Report on the *Foreign Policy Aspects of the Lisbon Treaty*. That Report is a gem in point.

Fourthly, the Committee’s work is testimony to the way in which substance and process are inextricably linked. The Committee in consequence are better able than anyone else to form a balanced and realistic view of what the Diplomatic Service need in terms of resources in order to do what is asked of it.

While I underestimate neither the effort that such an investigation would require nor the opportunity cost in terms of other important work foregone which such an effort would involve, I submit that, for the reasons to which I draw attention in this letter, there is a strong case for the Committee either undertaking a review along the lines of the Plowden Committee referred to under question (4) above or ensuring that such a review is put in hand. Suggestions that the present is an unpropitious moment for such a review may be received with composure. Bureaucracy is prone to resisting the prospect of change on grounds of Unripe Time, however favourable the circumstances. The time to buy shares is when others are selling them.

17 September 2009

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### Written evidence from Adam D G MacLeod

#### FOREIGN AND COMMONWEALTH OFFICE—UNSATISFACTORY STAFFING ARRANGEMENTS

I would be grateful if you would say whether you have any plans to investigate the organisation of the Foreign and Commonwealth Office.

I ask because the arrangements for posting staff in that Department are far from satisfactory.

Because some two thirds of the staff are in overseas postings lasting around three years, there is a steady flow of officers returning from abroad.

One would expect that a central Personnel Department at FCO HQ would carefully plan the movement of each officer with a view to his career development, and that he would be given details of his new post at HQ before he returned to UK, or as soon as he reported at HQ.

However, several years ago, on the recommendation of a team of experts, FCO dispensed with their central Personnel Department.

This has led to an extraordinary situation where:

- (a) There are no arrangements for allocating officers returning from abroad to specific posts.
- (b) Each officer on return has to apply for a vacancy as an when it is advertised in a periodical FCO notice.
- (c) For each vacancy an interview panel has to be set up to select the most suitable candidate.
- (d) At any one time some 200 or more officers of varying grades are left completely idle, yet on full pay.
- (e) They are not even allowed to “help out” colleagues on a casual basis.

I am sure you will agree that this is a gross waste of the talents of skilled and experienced officers and of taxpayers’ money—and is deeply demoralising for the officers concerned.

20 November 2009

### Written evidence from the National Audit Office

#### MANAGEMENT OF EXCHANGE RATE RISK BY THE FOREIGN AND COMMONWEALTH OFFICE

##### BACKGROUND

1. This briefing has been prepared for the Foreign Affairs Committee to provide an overview of the management of exchange rate risk by the Foreign and Commonwealth Office (FCO), in support of the Committee’s inquiry into the FCO Departmental Report and Resource Accounts 2008–09.<sup>23</sup>

2. This briefing has been shared with the FCO and Treasury to ensure that the evidence presented is factually accurate, but the commentary and views expressed are the sole responsibility of the NAO.

3. In its Report on the FCO Annual Report 2007–08 the Committee concluded that:

“We are deeply concerned that as a result of the Treasury’s decision to withdraw its support for the Overseas Price Mechanism, the FCO may not be able to meet the higher international subscriptions over the next two financial years unless it cuts its activities. We conclude that it is deplorable that the FCO should have to shoulder the financial burden from within its already tight budget to pay for subscriptions which also benefit other Government departments, and we recommend that additional non-discretionary costs should properly be met by the Treasury”.<sup>24</sup>

4. The FCO responded that:

“We note the Committee’s concern over HMT’s decision to withdraw its support for the Overseas Price Movements mechanism and the recommendation that additional non-discretionary costs of international subscriptions which benefit wider HMG should be met by the Treasury. This will need to be considered in the next Comprehensive Spending Review (CSR). In the meantime we have put in place, with HMT agreement, a number of mitigating measures. These include forward purchase of our foreign currency requirements and agreement that the costs of international subscriptions in excess of £102 million would be shared by the Treasury and FCO in the ratio 60:40”.<sup>25</sup>

5. Accordingly, this paper provides further background on:

- the Overseas Price Mechanism;
- the reasons why Treasury removed its support for this mechanism as part of the CSR 2007 settlement;

<sup>23</sup> HC 460, Session 2008–09.

<sup>24</sup> Para 214, Second Report of the Foreign Affairs Committee Session 2008–09, HC 195.

<sup>25</sup> Response of the Secretary of State for Foreign and Commonwealth Affairs, April 2009, Cm 7585.

- actions taken by FCO to mitigate the exchange rate risk;
- related governance matters and skills within FCO;
- the impact of foreign exchange rates on the financial results for 2008–09; and
- FCO forecasts of the impact on FCO budgets and its business going forward.

This paper draws upon interviews with Treasury and FCO staff, together with an examination of relevant FCO documentation.

#### THE OVERSEAS PRICE MECHANISM (OPM)

6. FCO has a global network of 268 overseas Posts which help it to deliver its key objectives. Posts' budgets are set in sterling at the beginning of each financial year. Significant elements of the budgets are spent in the local currency and are affected by both local inflation rates and currency fluctuations, affecting in turn a Post's spending power during any financial year. The Overseas Pricing Mechanism (OPM) was designed to identify the effect of inflation and currency movements on local budgets.

7. Until 2007, FCO and Treasury used the OPM to maintain the local purchasing power of the Department's settlement through technical adjustments to the sterling settlement, to take account of changes to local purchasing power resulting from exchange and differential inflation rate movements. Every six months, the Department would calculate the impact of exchange rate movements and differential inflation rates on its purchasing power in over 160 countries in which FCO operates, and advise Treasury of the net outcome across the Department's overseas operations. If the settlement would have resulted in greater local purchasing power than intended (because sterling's value had strengthened since the spending settlement), sterling was returned to Treasury. If additional sterling was needed to maintain local purchasing power (because sterling's value had fallen since the spending settlement), it was provided by Treasury. The annual adjustment was made from the Treasury Reserve in the Spring Supplementary Estimates each year. Figure 1 gives details of the annual OPM adjustments for the four years up until 2007-08, as made in the Spring Supplementary Estimates. This shows that in three out of the four years FCO transferred resources back to the Reserve.

Figure 1  
OPM ADJUSTMENTS AS REFLECTED IN THE SPRING  
SUPPLEMENTARY ESTIMATES

<i>Financial Year</i>	<i>Amounts of adjustment (£ million)</i>	<i>Claim from the Reserve or transfer to the Reserve</i>
2004–05	– 14.1	Transfer
2005–06	– 4.9	Transfer
2006–07	– 9.6	Transfer
2007–08	+ 1.4	Claim

*Source:* FCO Spring Supplementary Estimates

8. Treasury support to FCO under the OPM extended over a number of years, going back at least as far as the 1980s. This arrangement was unique to FCO as a tool to protect the Department from exchange rate movements.

#### WHY WAS OPM REMOVED BY THE TREASURY AS PART OF THE CSR 2007?

9. As part of the 2007 CSR settlement, Treasury withdrew the OPM mechanism, as one of a package of elements within the settlement. In Treasury's view, whilst some of these elements were highly challenging (such as the required efficiency savings and withdrawal of OPM), other elements were to FCO's benefit, including substantial growth in the Department's capital expenditure limit and a cost sharing agreement with the Treasury for subscriptions to international organisations. In the Department's view, the increase in capital was provided to fund the increased costs of security across the network including those resulting from a personnel shift from Europe to the conflict zones, notably South Asia as well as the Middle and Near East and North Africa, to help fund a new Embassy in Kabul and to assist with the UK's share of UN and NATO Headquarters costs.

10. Treasury's purpose in withdrawing OPM was to introduce what it saw as more modern methods of risk management. The Treasury faces many competing demands on the expenditure reserve it retains, so it has long been the Government's policy to ask departments to bear the risk of predictable variations in expenditure in their Departmental Expenditure Limits (DEL). At the time of the 2007 CSR settlement, the Treasury considered it appropriate to extend this to include currency movements, particularly as there were risk management instruments commonly available in the financial markets, and historically the FCO's annual adjustment for currency variations had averaged out at around £10 million.

11. In general terms, Treasury has long recognised that some expenditure is subject to variation that is unpredictable and results in cost variations of a scale that cannot be managed within departments' DELs, and these are scored against Annually Managed Expenditure (AME). FCO considers that the fluctuations

in sterling since 2007 and the high proportion of its annual expenditure spent in foreign currencies should lead to foreign currency spend being classified as AME, rather than DEL. However, Treasury does not consider this spending is appropriate for AME, not least because it looks to FCO to factor in exchange rate changes as a part of resource allocation decisions.

12. FCO contends that in several areas of foreign policy priorities, such as the need to negotiate a climate change agreement or to respond to the terrorism threat, the risks and opportunities to the United Kingdom of doing business abroad, or choosing not to, do not change alongside rises or falls in foreign exchange rates.

#### ACTIONS TAKEN BY FCO TO MITIGATE THE EXCHANGE RATE RISK

13. At the time of the CSR settlement, sterling was at a historically high point against the US Dollar and Euro. The Department's budgets for the CSR 2007 period were agreed at assumed rates of £1 to 2.0143 US Dollars and £1 to 1.4578 Euros. An appreciation of sterling against the CSR rates would increase the spending power at Posts and also reduce the sterling costs of the Department's contributions to international organisations. Depreciation against the CSR rates would reduce spending power at Posts and increase the sterling cost of the Department's contributions to international organisations.

14. The Department began considering how to manage its exposure to foreign exchange risk immediately after receiving notification of the November 2007 CSR settlement, in which Treasury confirmed its intention to withdraw funding for OPM. At the FCO's request, the Treasury agreed in principle that the Department could adopt a forward purchase regime for the main currencies it needs. Between November and January 2008, staff attended workshops with banks to understand the various options available. The Department then began to assess its total annual exposure to foreign exchange risk.

15. The Department's objective in developing its proposals was to achieve as much budget certainty as possible, through buying foreign currency forward. Spending power would, though, still be reduced if foreign currency were to be purchased at any rate below the CSR assumed rates, and since then all forward and spot purchases have been significantly lower. For example, the average forward purchase rates secured for US Dollars were \$1.95 for 2008–09, \$1.62 for 2009–10 and (to date) \$1.52 for 2010–11. With the CSR rate at \$2.0143, this has put considerable pressure on US Dollar-based budgets. What neither the FCO nor the Treasury foresaw was the extreme volatility in foreign currency markets in the early part of the CSR period following the global financial crisis.

16. The FCO considered three main options for managing its net foreign exchange exposure:

- (a) continue to purchase at spot rates for all currencies as and when the currency is needed;
- (b) forward purchase 100% of its currency needs for the whole of the CSR period; or
- (c) forward purchase a significant portion of its major currency exposure (initially US Dollars and Euros), and purchase the remainder at spot rates as and when needed.

17. In February 2008, proposals were submitted to the FCO's Finance Committee, which finally approved option (c) and recommended the forward purchase of 80% of the FCO's net US Dollar and Euro exposure for 2008–09. This percentage would allow for any incorrect profiling by budget holders and avoid any build up of unnecessary pools of foreign currency.

18. The FCO operates in over 120 local currencies around the world, with significant expenditure incurred in US Dollars and Euros. 27 currencies are purchased by the FCO's Treasury Team in the UK, with the exposure in only six worth more than £4 million each per year (US Dollar/Euro/Japanese Yen/Swiss Franc/Canadian Dollar/Hong Kong Dollar) and 14 costing less than £2 million each per year. The FCO now includes Japanese Yen in the currencies it forward purchases, but does not consider it cost effective to place forward contracts for the others, which it purchases at spot rates in the UK and sends to Posts. It should be noted that the majority of currencies the FCO uses cannot be purchased in the UK and continue to be purchased locally.

19. For the longer term, the Department considered a more sophisticated risk management strategy. In April 2008, the Department placed a contract with HiFX Intelligent financial services, a specialist Forex trade company, to provide, in exchange for a monthly fee, professional advice on the range of options available to the Department in managing its risk. HiFX recommended two hedging strategies; one for euro and one for US Dollar. Both of these derivative based options were approved by the FCO Finance Committee on 14 April 2008.

20. However, HM Treasury has set out the main principles for dealing with resources used by public sector organisations in the UK in a document known as *Managing Public Money*. Paragraph 5.9.3 of *Managing Public Money* states that the Treasury "will always refuse proposals to speculate". The rationale is that providers of complex financial instruments intend to profit from their business and provide a cost of finance that is inferior to the UK government's cost of borrowing. Adhering to these guidelines, the Treasury would not sanction the more complex hedging proposals that had been put forward by the Department.

21. The Department then submitted proposals to the Treasury to purchase forward for up to 80% of FCO's requirements for US Dollars and Euros for 2008–09. This was to include all foreign currency spend within FCO's DEL, including all international subscriptions and the Peacekeeping budget. Following a further period of negotiation and discussion, in May 2008, Treasury agreed this proposal and the Department placed its first contract on 28 May 2008.

22. In August 2008, Treasury agreed that FCO could proceed to enter into forward purchases to cover requirements for 2009–10. Mindful of the principles of *Managing Public Money*, the Department continued the practice that contracts for forward purchases of US Dollars and Euros would be placed on the 15th day of each month, with contracts entered into for a maximum of 12 months ahead. Monthly data on exposure to foreign currency risk would be derived from detailed forward profiling spreadsheets that were maintained by FCO's Strategic Treasury Team. Figure 2 illustrates how FCO calculated the number of US Dollars that they would forward purchase during 2008–09 for delivery in 2009–10.

Figure 2

**ILLUSTRATION OF HOW THE DEPARTMENT CALCULATES THE AMOUNT IT PURCHASES IN A FORWARD CONTRACT**

The Department assessed the amount of total US Dollars required to meet its obligations under its three main expenditure sub-heads of (i) Peacekeeping and Conflict prevention, (ii) Contributions and Subscriptions to International organisations and (iii) Post funding as \$932.1 million for 2009–10. This figure was used as the basis for determining the amount of US Dollars that would be secured in forward purchase contracts during 2008–09, maturing in 2009–10. A percentage of either 80% or 90% was then applied to each of the subhead requirements based on the degree of certainty over the amounts and timing. The total amount of US Dollars required for 2009–10 is \$819.1 million. In the event, the Department secured \$811.6 million in forward contracts to be purchased during 2009–10.

<i>Expenditure Subheading</i>	<i>Estimated US Dollar requirement</i>	<i>Percentage applied</i>	<i>US Dollars required for 2009–10</i>
Conflict Prevention & Peacekeeping	537.2	90%	483.5
International Subscription	197.0	90%	177.3
Post funding	197.9	80%	158.3
<b>Total requirement</b>	<b>932.1</b>		<b>819.1</b>

*Source:* FCO management information

23. In December 2008, as expertise within the FCO and the Treasury's confidence in them grew, the Department developed proposals to modify its initial strategy to one based on a "horizontal layered" approach, in order to counter the increased volatility of the foreign exchange markets. The strategy involved purchasing, each month, one year ahead 1/12th of each of the following 12 months' exposure. The two benefits of this proposal were presented as (i) greater budget certainty, sooner and therefore improved forward planning and (ii) improved risk management, by spreading the risk of sudden changes in exchange rates.

24. Both Treasury and the FCO Finance Committee approved this "horizontal layered" strategy and the first purchase, including a "catch-up" forward purchase, was made in December 2008. HiFX continues to provide the Department with weekly advice on available trading options.

25. In terms of management information, the Director of Finance receives monthly updates on the currency forward purchases. Within the Monthly Key Performance reports presented to the Board, there is a one page high level summary on forward purchases. For each currency purchased, this includes the period covered by the last contract placed and the foreign currency value and the sterling equivalent of that contract, together with the total value of contracts entered in the CSR period to date and the total realised and unrealised gains and losses in the financial year.

26. In June 2009, the Department sought and Treasury gave it permission to forward purchase into the next CSR ie from 1 April 2011 onwards. Until this point all of the Department contracts had been up to 31 March 2011. The rationale behind this continues to be a non-speculative strategy with the objective of achieving budget certainty.

#### GOVERNANCE AND SKILLS

27. Both FCO's Director General Finance and Director of Finance are finance professionals who understand the mechanics of making forward purchases of currency. FCO already had plans to enhance its treasury management function before the withdrawal of the OPM and, in February 2008, appointed a new Head of the Treasury Management Team. The Department did not plan to recruit any additional staff specifically to arrange the forward purchases, but did plan to provide focussed training when required to those personnel involved in administering the contracts. The majority of the training has therefore been on the job. This has not been problematic given the relatively straightforward forward purchase arrangements which the Department is dealing with.

28. Although there were some significant senior staff costs incurred in the early stages of setting up the arrangements for placing forward purchase contracts, FCO considers that the on-going in-house staff cost to maintain the spreadsheets and place a call to the Bank of England once a month to be relatively small. FCO continues to pay HiFX a monthly fee for professional advice in this area. However, the Department considers the indirect costs of managing the broader consequences of the withdrawal of the OPM have been far greater with a considerable amount of senior management time, including that of the FCO Board, Heads of Mission and Management Officers, taken up in managing the impact of currency fluctuations.

29. In September 2009, a firm of external consultants, commissioned by the Director of Finance, completed a review of FCO's foreign currency management arrangements. The review team were also asked to propose a potential foreign exchange management framework. The report concluded that progress had been made in a number of areas but that there was a need to produce a formal document of policies and procedures. The review team noted that a formal Treasury policy was being drafted, to include objectives, policies, instruments, limits, timelines, roles and responsibilities, as well as specifying controls and segregation of duties. In addition to the Policy document, the review team recommended that a Treasury Procedures Manual should be prepared which contained detailed step by step descriptions of the forward purchase process.

#### IMPACT OF FOREIGN EXCHANGE RATES ON FINANCIAL RESULTS

30. In September 2008, the Chief Secretary to the Treasury agreed to FCO drawing down End of Year Flexibility (EYF) of some £15 million to compensate for adverse currency movements. However, the full year pressure of the decline in sterling was around £100 million (some 5% of the total budget of some £2 billion). FCO therefore had to look for efficiency savings beyond those planned in the CSR to live within its DEL. In the event, FCO did not need to draw the full EYF because of foreign exchange gains made against early currency purchases and being able to utilise identified under-spends, as part of improved financial management under the Five Star Finance Programme. It ultimately drew down some £6.5 million and stayed within its DEL budget for 2008–09.<sup>26</sup>

31. The 2008–09 Resource Accounts<sup>27</sup> detail the forward purchases entered into by FCO during 2008–09. The Department purchased 559 million US Dollars and 102 million Euros, which were delivered at a cost of £367 million. Due to the weakening of sterling over the course of the year, these purchases resulted in a realised net exchange rate gain of some £43.6 million. The Operating Cost Statement<sup>28</sup> was credited with an overall net gain of some £40.8 million, after taking account of gains and losses on other currencies.

32. The 2008–09 Resource Accounts<sup>29</sup> also show forecast unrealised gains of some £89.4 million on forward purchases maturing after the balance sheet date, based on the actual exchange rates at 31 March 2009. Since that date, forward purchases have been extended as far as November 2011, while others have matured. As at 18 November 2009, FCO forecasts a net gain of some £30.2 million on forward purchases maturing during 2009–10, as illustrated in Figure 3 below.

Figure 3

#### FORECAST POSITION ON FORWARD PURCHASES MATURING DURING 2009–10

<i>FCO forecast position on forward purchases</i>	<i>Gain/(loss) £ million</i>
Realised gains/(losses) on forward purchases maturing between 1 April 2009 and 18 November 2009	43.4
Unrealised gains/(losses) on forward purchases maturing between 19 November 2009 and 31 March 2010	(13.2)
Total forecast gains/(losses) on forward purchases maturing between 1 April 2009 and 31 March 2010	30.2

*Source:* FCO management information (unaudited)

33. As at 20 November 2009 and since the start of forward purchases, the Department has purchased a total of 1,177 million US Dollars and 236 million Euros, delivered at a price of some £844 million, resulting in an overall estimated net gain to date of some £88 million (unaudited). Forward purchase contracts for 1,238 US Dollars and 320 million Euros, costing some £1,107 million, will mature between December 2009 and November 2011, with a forecast loss of £48 million.

34. Figure 4 shows the decline in Sterling against the US Dollar and Euro since 2007, set against the assumed rates which underpin FCO's CSR settlement and average rate of forward purchases. As sterling has always been below the CSR assumed rates (Paragraph 12) since the beginning of the CSR period, even the forward purchase contracts which appear to deliver gains actually represent a reduction in the Department's purchasing power compared to that agreed in the settlement.

<sup>26</sup> Note 2 of Resource Accounts, Volume Two, Page 122.

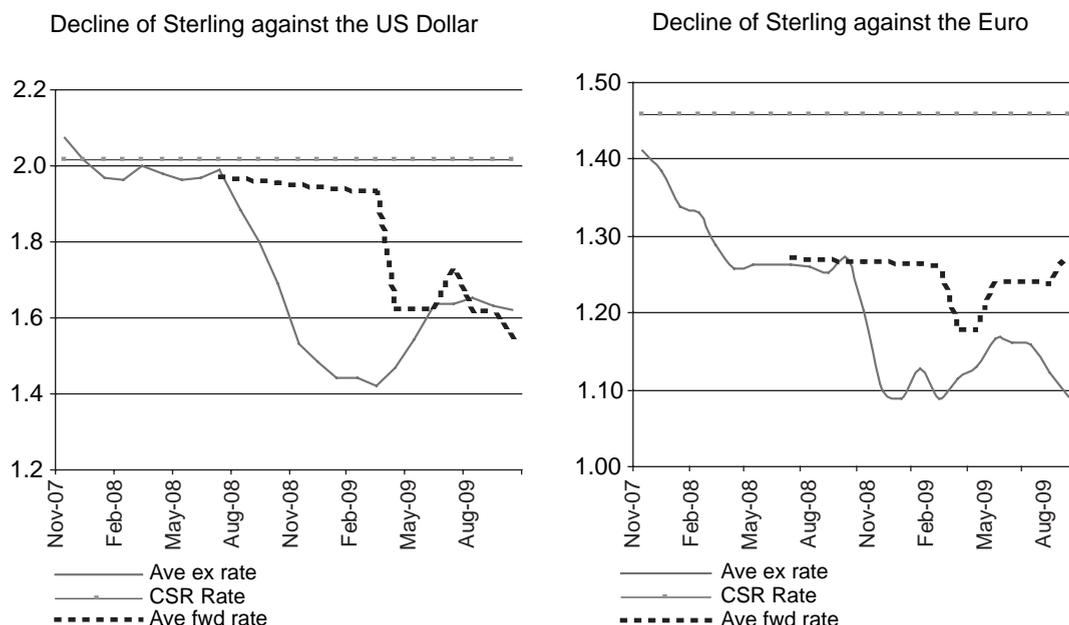
<sup>27</sup> Note 29 of Resource Accounts, Volume Two, Pages 149 to 151.

<sup>28</sup> Note 8 of Resource Accounts, Volume Two, Page 127.

<sup>29</sup> Note 29 of Resource Accounts, Volume Two, Page 150.

Figure 4

**THE DECLINE IN STERLING AGAINST THE US DOLLAR AND EURO  
NOVEMBER 2007 TO OCTOBER 2009**



Source: [www.x-rates.com](http://www.x-rates.com) and FCO management information

#### IMPACT OF EXCHANGE RATES ON FCO FOR 2009–10 AND BEYOND

35. Several government departments and agencies, including the Ministry of Defence (MoD), Department for International Development, the British Council and the Department of Health do transact some of their business in foreign currency. MoD has been using forward contracts for approximately 20 years, placing quarterly contracts, up to about five years in advance, to cover a schedule of fixed-date payments in US Dollars and Euros for major capital projects. However, the proportion of its contracts as compared to its overall DEL is considerably less than that of the FCO. FCO has a much smaller DEL, compared to MoD, and about half of FCO's expenditure is in foreign currency, making it much more challenging to absorb gains and losses. Much of the foreign currency spend is non-discretionary, for example, subscriptions to international organisations, contributions to UN Peacekeeping which are legal obligations set in foreign currency, local staff salaries, rents and other contractual obligations.

36. A number of factors will increase the amount to be spent in foreign currency in 2009–10 and beyond, such as increasing contributions to UN Capital projects and international subscriptions to NATO. The UK government's contribution to Peacekeeping missions has also risen due to increased activity through the UN and the European Union. The forward purchase contracts entered into during 2009–10 are on less favourable rates than those entered into during 2008–09. As a result, during 2009–10 there will be a larger difference between contract rates and the Department's budget rates which were set in December 2007, with a resultant larger gap in budget and reduced purchasing power.

37. The withdrawal of the OPM and the subsequent fall in the value of sterling has had a major impact on the FCO's business worldwide. FCO estimate that from funding of some £830 million for what it considers its core activities,<sup>30</sup> the Department has to cope with exchange rate pressures of some £100 million in 2009–10 on budgets where some 80% of Posts' costs are considered to be inflexible in the short term, for example staff salaries, rents and other contractual obligations. Measures taken by Posts to stay within budget include reducing the working week to four days or requiring involuntary unpaid leave for some locally employed staff and embarking on a redundancy programme for others.

38. In addition, FCO told us that it has had to reduce provision for: security abroad; health and safety, including over 50% of essential works in the difficult environments of Africa; and current and future capability. This, in its view, is severely impacting on its ability to deliver frontline diplomacy and has led to wide-ranging cuts to programmes supporting international priorities, including counter-terrorism.

23 November 2009

<sup>30</sup> FCO budget information.

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### Written evidence from Denis Lejeune

#### CHANGES AT THE FCO

As a spouse of an FCO employee (I'm also acting as ad hoc ECO and/or visa writer), I'd like to add a word to the "privileges cuts" crisis and other FCO changes under way. London on a £18,000 salary is not quite what it is hyped up to be (regardless of how thrilling day-to-day work in Whitehall is). Now some overseas posts might be having a ball, but there's quite a number of places that are not that great either, even if you could earn a million GBP a year.

I can well understand that some changes are needed, but that must be balanced out with what Britain wants to be in 10–20 years' time. Big savings in the short term often make for big losses in the middle/long-term, and I wonder how many more FCO employees will accept a three-year posting in Chongqing for example (China) on a near London salary, with one economy return ticket on Air China per year and a pat on the back.

OK, staff from other government departments can fill in the jobs, or the FCO could offer job placements to young graduates (like some countries do): that way the FCO saves money (employees are paid by other bodies or very little) and looks good (to whoever is short-sighted).

I used to work in UK universities. A good comparison would be to not give academic jobs to PhD holders with publications but, in order to cut costs, recruit primary school teachers. No doubt they are very good at the job they were trained to do, but how seriously will they be taken by longstanding scholars from other countries at conferences? Nice to drink with at the break, but other than that?

Which begs the next question: what will happen to FCO staff? They'll gravitate back to London, and Britain will be able to pride itself on having the best domestic diplomatic service. Yeehaa. That is, if nobody finds it cheaper to recruit nurses or prison guards.

Our posting here expires in June 2010. I hereby would officially like to offer accommodation and a morning cup of tea to the authors of the proposed cuts and revisions for the next six months. I will even pay for the Air China economy return ticket myself (Chongqing-HK: 2 hours; 6 hours' wait in HK; HK-London: 12 hours). That might not make them change their minds, but at least next time they try they'll know what they're talking about.

*11 December 2009*

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### Further written evidence from the Public and Commercial Services Union

#### FOREIGN AND COMMONWEALTH OFFICE'S CORPORATE SERVICES PROGRAMME

The Public and Commercial Services Union (PCS) is the largest trade union in the civil service with 300,000 members working in government departments, non departmental public bodies, agencies and privatised areas. This includes over 1,300 members employed by the Foreign and Commonwealth Office (FCO) both in the UK and overseas.

On 29 May 2009, the FCO Board endorsed a proposal to roll out a Corporate Services Programme over a three year period to generate savings for the FCO. One strand of this was the replacement of 50% of UK based management officers at missions around the world with locally engaged staff; about 100 posts are slated for localisation. Management officers are responsible for the day to day running of the embassy such as estates management, budgetary/financial control and human resource functions. PCS are concerned that there were no consultations with Posts or the FCO trade union side (TUS) prior to the decision, contrary to the spirit of the FCO facilities agreement which governs the relationship between the TUS and FCO administration.

Following protests from the TUS, a late consultation process was hurriedly commenced in August 2009; this finished in September 2009. But PCS still believes it has received either no answer or unsatisfactory responses to many of the valid points raised during the consultation. Nonetheless the FCO is pushing ahead with implementation in a dogmatic way.

PCS are opposed to the localisation of these important jobs. We accept the ebb and flow of jobs between UK based and locally engaged officers has been part of FCO life for decades. However, in the past, such changes were usually carefully and individually assessed, the resource consequences identified and the implications for posts and officers generally well managed. We believe this has not been the case with the roll out of the Corporate Services Programme.

The decision to proceed as planned was in our view flawed from the start. Indeed we cannot recall any previous examples of the FCO Board taking such an arbitrary and far reaching decision with so little consultation. That it did so without prior consultation with the unions adds insult to injury. PCS believes all aspects of this strand should be thoroughly reviewed. We believe it was conceived and implemented in haste with too little thought given to dependencies and consequences.

We are concerned about the impact the decision will have on officers and families, both as individuals and in career terms. We fear the consequences, while not yet entirely clear, will be severe. And that such news comes at a time of enhanced anxiety over jobs, pay, early retirement/redundancy arrangements and pensions can only add to the pressure felt by many.

It is also not clear to us, for example, why the Board decided to compress the programme from five years— as originally planned—to three years (and for localised management officer slots to be vacated by March 2011). We have been refused full access to the business case to HMT. It is likely that these aspects of the board's decision have caused much of the hardship for our members in terms of short touring and cancelled postings.

During the consultation, the FCO said exceptions to localisation would be made on grounds of security, lack of suitably qualified staff or unacceptable risk of fraud. But it is clear this has not been adhered to with only cursory and superficial analysis carried out rather than detailed risk and impact assessments. We believe the FCO is taking real chances with the integrity of its overseas operations including the security of FCO staff, families, information and assets. In the worst cases, national security could conceivably be endangered.

Equally at risk is the public purse. PCS is concerned that our ever decreasing numbers of UK staff overseas might increasingly have to cope with ever more sophisticated and complex types of fraud particularly if a lot of the FCO resource functions are outsourced or carried out by non UK nationals.

Localisation of staff is planned in approximately 50 countries in total. Examples of the places included in the exercise are Kinshasa, Lagos, Tehran, Islamabad and Sana'a.

PCS also believes that in small posts (which form the majority of UK representation overseas), where multi-hatting often complicates job descriptions, work now done by UK based management staff could drift up to already under pressure Deputy Head of Missions and Heads of Post, need special consideration. So too those where political or visa problems might prevent rapid deployment of rapid deployment teams in a crisis (such as Iran) or where internal instability has resulted in a history of crises, such as consular evacuations (such as Lebanon). Locally engaged staff can only do so much, not least because they do not enjoy diplomatic immunity, as recent events in Tehran regrettably illustrate.

We also question whether the necessary efficiency savings the Corporate Service Programme has envisaged can be achieved, especially when the targets have been revised since the process started. PCS is also concerned about the over reliance on consultants (costing £4.3 million since October 2008). Our concern is, when consultants are not tightly managed by persons with a deep knowledge of broader FCO business needs, that misunderstanding or misrepresentations can quickly gain credence. We note with regret the money and effort wasted on PRISM and other expensive IT programmes that either overran significantly or failed, not to mention the Collinson Grant initiative. PCS recalls that an issue in most such cases was an over reliance on external consultants with insufficient FCO in-house input.

PCS believe management's desire to run the FCO as a commercial operation is extremely misguided. The global and often sensitive nature of our business involves exceptional challenges and particular constraints. British missions and British diplomats are targeted by terrorists, organised crime and hostile intelligence services. Work is often done in difficult and dangerous environments. Threats and risks to lives, assets, careers and reputations—both corporate and individual—should have been thoroughly assessed before decisions are taken. We can find little evidence that this was the case not least as the FCO failed to share key documents with the unions.

PCS urge the Foreign Affairs Committee to consider establishing an inquiry to subject this Corporate Services Programme to rigorous parliamentary scrutiny. We are happy to provide a more detailed submission of our concerns which we have put to the FCO administration over the last six months and would welcome any opportunity to provide oral evidence to the Committee.

22 January 2010

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### **Letter to the Clerk of the Committee from UK Trade & Investment**

ESTIMATES MEMORANDUM AND WRITTEN STATEMENT: UK TRADE & INVESTMENT

HM Treasury guidance specified that departments are required to provide a "Written Statement" and 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 Estimates Memorandum and Written Statement for the forthcoming Spring Supplementary at Annex A and B respectively. These reflect the changes required to our funding for 2009–10. A significant difference this year is the requirement to incorporate changes resulting from the first time adoption of International Financial Reporting Standards (IFRS).

Three types of adjustments are included in UKTI's Supplementary Estimate:

- (i) Classification changes resulting from the adoption-of IFRS required a £3,740k transfer from the resource to capital budget together with the associated depreciation cover (£81k).

- (ii) Increased expenditure cover (to deliver the inward investment conference) funded from a £500k transfer from the Department for Business, Innovation and Skills; and a net increase of £1k in expenditure resulting from an increase in income recovery of £1,194k offset by an increase in expenditure of £1,195k.
- (iii) A technical adjustment of £486k required under vote accounting rules to ensure voted DEL (Resource or Capital) is not reduced from its previously voted position. This does not involve additional expenditure.

Overall, these changes have led to a total Resource DEL change of £1k and a total Capital DEL change of £3,740k, giving an overall total DEL change of £3,741k.

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, 23 February 2010.

Should the Committee require any additional information, I would be happy to expand the Statement appropriately.

I am also sending a copy of this letter and enclosure to the Clerk of the Business Innovation & Skills Committee.

*Curtis Juman*  
Director of Finance

10 February 2010

## Annex A

### SPRING SUPPLEMENTARY ESTIMATE 2009–10

#### Introduction

The purpose of this memorandum is to provide the Select Committee with an explanation of how the resources and cash sought in the Spring Supplementary Estimate will be applied to achieve departmental objectives. This includes information on comparisons with the resources provided in earlier years in Estimates and departmental budgets, and may also refer to future financial plans. Details of changes in resources relative to original plans set out in the last Comprehensive Spending Review are provided. They will also include the adjustments required as a result of the HMT guidance that all departments adapt International Financial Reporting Standards (IFRS) as the accounting basis.

The change in the resource element of Departmental Expenditure Limit (DEL) sought in this Supplementary Estimate relate primarily to:

<i>Description</i>	<i>Resource near-cash £'000s</i>	<i>Resource non-cash £'000s</i>	<i>Capital £'000s</i>
<i>Reclassification/changes as a result of IFRS adoption</i>			
A transfer to capitalise assets purchased in current year	- 1,067		1,067
A transfer for assets purchased in prior years	- 965	965	
An increase/transfer from BIS to capitalise assets purchased in the current year			2,673
An increase in depreciation		81	
<b>New Expenditure</b>			
An increase/transfer from BIS to fund the Inward Investment conference	500		
Token increase of expenditure (Increase of income £1,194k; Increase in expenditure £1,195k)	1		
<b>Technical Adjustments</b>			
Estimate Exclusion Adjustment*	486		
<i>Total Resource DEL Change</i>	1		
<i>Total Capital DEL change</i>			3,740
<b>TOTAL DEL CHANGE</b>		<b>3,741</b>	

\* A technical adjustment under vote accounting rules to ensure voted DEL (either Resource or Capital) is not reduced from its previously voted position.

The UKTI's Spring Supplementary Estimate for 2009–10 seeks the necessary resources and cash for its programme and capital Vote. UKTI's administration costs are met from within the resources of the

Department for Business, Innovation & Skills (BIS) and the Foreign & Commonwealth Office (FCO) and consequently any changes related to Administration costs are shown in the BIS and FCO Spring Supplementary Estimates.

An explanation of key terms used in the memorandum is provided in the glossary of key terms located at the end of this memorandum.

#### FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The adoption of IFRS is the most significant change in financial reporting in the UK public sector since the adoption of resource accounting. All departments must now prepare their accounts in line with International Financial Reporting Standards (as applicable to Central Government) and reflect changes arising in this Spring Supplementary.

The impact on UKTI is that expenditure previously classified or treated as off-balance sheet under UK GAAP is now required under IFRS to be on the balance sheet. This includes expenditure which lay within UKTI Programme and BIS Administration. This results in an internal switch of £1,067,000 from UKTI's resource DEL to Capital DEL and the transfer of £2,673,000 from BIS, with the relevant depreciation cover of £81,000.

#### SUMMARY OF THE MAIN SPENDING CONTROL FIGURES CONTAINED IN THE ESTIMATE VOTED PROVISION

##### *Voted Provision*

The Supplementary Estimate provides for a 3.9% increase in net Voted resource:

<i>Resource and Capital DEL</i>	<i>Change Voted</i>	<i>Change Non-Voted</i>	<i>Total Increase £'000s</i>
Resource DEL	1	—	1
Total Resource DEL	1	—	1
Capital DEL	3,740	—	3,740
Total Capital DEL	3,740	—	3,740
TOTAL DEL	3,741	—	3,741

##### *The Net Cash Requirement*

The Net Cash Requirement (NCR) has increased by £4,174,000 from £97,003,000 to £101,177,000. As the table below shows, this is mainly due to IFRS changes and the settlement of creditors; in relation to prior year spend.

<i>Net Cash Requirement</i>	<i>Increase/Reduction £'000s</i>
Resource DEL:	
IFRS change, transfer to capital DEL	-1,067
IFRS change, increase in depreciation	81
Transfer from BIS	500
Estimates exclusion adjustment	486
Token increase	1
Capital DEL:	
IFRS change, transfer from UKTI Resource	1,067
IFRS change, transfer from BIS Admin	2,673
Depreciation	-1,046
Decrease in Creditors	1,479
<b>TOTAL NET CASH REQUIREMENT INCREASE</b>	<b>4,174</b>

##### *Budgetary data*

The effect of the Vote changes on UKTI resource is as follows:

Total Departmental Expenditure Limit (TDEL) increases by £3,741,000

*Of which:*

Near-cash in RDEL due to token increase £1,000

Capital DEL due to IFRS change increase £3,740,000.

There is also an increase in gross expenditure offset by increased appropriations-in-aid arising from income generated from UKTI chargeable services being higher than forecast in the Main Estimate. This entails a net change in RDEL of £1,000, as a token increase. This token transfer is required to allow Parliament to affect the changes sought by UKTI. This is shown in the following table:

<i>Resource DEL</i>	<i>Increase/ Reduction £'000s</i>
Increase in Appropriations-in-Aid due to take-up of UKTI's chargeable services being higher than expected in the Main Estimate	- 1,194
Increase to UKTI's Gross Resource DEL to off-set the increased Appropriation-in-Aid	1,195
<b>TOTAL RESOURCE DEL INCREASE</b>	<b>1</b>

*Detailed explanation of changes in provision sought in the Supplementary Estimate, and implications for budgets*

<i>Description</i>	<i>Amount £'000's</i>
<i>Movements in provision related to Resource DEL</i>	
A transfer to capitalise assets purchased in current year due to IFRS changes	- 1,067
An increase in depreciation due to IFRS changes	81
An increase/transfer from BIS to fund the inward investment conference	500
An increase as a result of the Estimate Exclusion Adjustment	486
An increase of a token £1,000 to allow the increase in Appropriations-in-Aid (increased income of £1,194,000, increased expenditure of £1,195,000)	1
<i>Movements in provision related to Capital DEL</i>	
An increase due to IFRS changes	1,067
An increase/transfer from BIS to capitalise assets purchased in the current year	2,673
<b>TOTAL RESOURCE DEL CHANGE</b>	<b>3,741</b>
<i>Movements, neutral in provision</i>	
Gross expenditure offset by increased appropriations-in-aid arising from income generated from UKTI chargeable services being higher than forecast in the Main Estimate	+ 1,194

*Departmental Expenditure Limit*

This Supplementary Estimate will result in an overall increase in Resource DEL of £1,000.

Capital DEL increases by £3,740,000. Details of DEL in Estimates are:

<i>Resource DEL</i>	<i>Voted</i>	<i>Non-Voted</i>	<i>Total £'000's</i>
Main Estimate	96,362	—	96,362
Spring Supplementary Estimate	96,363	—	96,363
<i>Capital DEL</i>			
Main Estimate	248	—	248
Spring Supplementary Estimate	3,988	—	3,988
<b>REVISED TOTAL DEL*</b>	<b>100,351</b>	<b>—</b>	<b>100,351</b>

\* Depreciation, which forms part of RDEL, is excluded from total DEL since CDEL include capital spending and to include depreciation of those assets would lead to double counting.

The only significant movement in DEL Budget is due to IFRS of £3,740,000.

## FINANCIAL PERFORMANCE

The table below compares final outturn from 2004–05 onwards with planned DEL for the previous and current years. These figures are available from the relevant UKTI Accounts:

<i>Year</i>	<i>Voted</i>	<i>Non-Voted</i>	<i>Total</i>	<i>Outturn</i>	<i>Variance</i>
<i>Resource</i>	<i>£'000s</i>	<i>£'000s</i>	<i>£'000s</i>	<i>£'000s</i>	<i>%</i>
2005–06	100,057	—	100,057	95,374	–4.68
2006–07	95,329	—	95,329	94,088	–1.30
2007–08	89,329	—	89,329	87,807	–1.70
2008–09	91,527	—	91,527	90,927	–0.66
<i>Capital</i>					
2005–06	248	—	248	155	–37.50
2006–07	248	—	248	176	–29.03
2007–08	248	—	248	176	–29.03
2008–09	48	—	48	28	–41.66%

These figures do not reflect retrospective IFRS adjustments

The Resource DEL outturn for 2008–09 of £90,927,000 was an underspend of £600,000 compared to the final provision of £91,527,000 (equivalent to 0.7% of Resource DEL). The underspend was largely due to late cancellation or postponement of events and the over estimation of cost for overseas activities.

The Capital DEL Outturn for 2008–09 of £28,000 compares against a final provision of £48,000. This large variation was due to UKTI continuing to utilise its asset base efficiently.

## DEL END-YEAR FLEXIBILITY

	<i>Resource</i>	<i>Capital</i>
	<i>£'000s</i>	<i>£'000s</i>
EYF at start of 2009–10	11,963	1,667
EYF drawn down in Winter Supplementary Estimates	—	—
EYF drawn down in Spring Supplementary Estimates	—	—
Current EYF balance	11,963	1,667

This Supplementary Estimate will not draw down any EYF. The stock of EYF arose due to the managed planned reductions in resource resulting in a limited underspend over a number of years.

*Administration Budget*

UKTI's Vote does not include Administration provision, which is included in the Estimates for our parent departments, BIS and FCO. UKTI Spring Supplementary Estimate includes a transfer from BIS Administration to UKTI Capital of £2,673,000 as a result of IFRS changes.

*Provisions*

UKTI does not have any provisions.

*Contingent Liabilities*

UKTI does not have any contingent liabilities.

*Approval of Memorandum*

This memorandum has been prepared with reference to guidance in the Supply Estimates: a guidance manual provided by HM Treasury. The information in this memorandum has been approved by Sir Andrew Cahn, KCMG, the departmental Accounting Officer.

**Annex B**

## SPRING SUPPLEMENTARY 2009–10 WRITTEN STATEMENT

The statement below follows the format guidance as set out in *Supply Estimates: a guidance manual*, available on the HMT website.

Subject to parliamentary approval of any necessary Supplementary Estimate, UKTI's total DEL (Resource and Capital) will be increased by £3,255,000 from £96,610,000 to £99,865,000. This reflects the net transfer of £500,000 in Voted resource from BIS's Vote to UKTI's Vote and the relevant IFRS changes.

Within the total DEL change, the impact on resources and capital is set out in the following table:

	<i>Change</i>		<i>New DEL</i>		<i>£'000 Total</i>
	<i>Voted</i>	<i>Non-Voted</i>	<i>Voted</i>	<i>Non-Voted</i>	
Resource DEL	- 485	—	95,877	—	95,877
<i>Of which:</i>					
Near-cash in RDEL	- 1,531	—	94,744	—	94,744
Capital DEL†	3,740	—	3,988	—	3,988
Less Depreciation††	- 1,046	—	- 1,212	—	- 1,212
Total DEL	2,209	—	98,653	—	98,653

† Capital DEL includes items treated as resource in Estimates and accounts but which are treated as Capital DEL in budgets.

†† Depreciation, which forms part of resource DEL, is excluded from total DEL since Capital DEL includes capital spending and to include depreciation of those assets would lead to double counting.

UKTI's Vote does not include Administration provision, which is included in the Estimates of our parent departments, BIS and FCO.

The change in the resource element of Departmental Expenditure Limit (DEL) sought in this Supplementary Estimate relate primarily to:

- A decrease of £1,067,000 to allow more cover in capital due to IFRS.
- An increase of £81,000 to allow for depreciation cover due to IFRS.
- An increase of £500,000 as a result of the BIS transfer to UKTI for the inward investment conference.
- An increase of £486,000 as a result of the Estimate Exclusion Adjustment.
- An increase of a token £1,000 to allow the increase in Appropriations-in-Aid.

The change in the capital element of DEL sought in this Supplementary Estimate relate primarily to:

- An increase of £1,067,000 due to IFRS.
- An increase of £2,673,000 transferred from BIS due to IFRS changes.

UK Trade & Investment

February 2010

#### Written evidence from BBC World Service

FCO/BBC WORLD SERVICE: FUNDING AGREEMENT FOR 2010–11.

In the light of the current challenging financial circumstances facing the FCO, the FCO and BBC World Service have examined how best they can make maximum use of the financial resources granted by Parliament. The following points have been agreed:

1. As is normal practice, BBC World Service's projected underspend of £4 million for the fiscal year 2009–10 will be offset against the FCO's projected overspend in 2009–10 resulting from the withdrawal of the Overseas Price Mechanism (OPM).
2. For the financial year 2010–11 only, the FCO and BBC World Service have also agreed that £3.7 million of the allocated World Service resource be made available to the FCO with the express understanding that this will not be a permanent reduction in the BBCWS baseline.
3. The additional assistance in 2010–11 is an exceptional measure arising from pressures on the FCO caused by the withdrawal of the OPM. The FCO recognises the valuable contribution of the BBC World Service and will make every effort in the forthcoming Spending Review to support BBCWS in negotiating satisfactory funding beyond 2010–11. This support will include priority backing for any BBCWS bid to access HMG modernisation funds in line with the scale of contribution made by BBCWS to help meet the FCO's OPM pressures in 2010–11. The FCO will also agree greater flexibility for BBCWS working capital.

4. This breach of the ring-fence arrangements is designed to protect BBCWS budgets within the FCO grant in aid and is regarded as exceptional to this year.

*Peter Horrocks*  
*Director*

*10 February 2010*

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### **Written evidence from the British Council**

#### **FINANCE**

This note sets out the British Council response to the impact of the loss of the overseas price mechanism; as well as how we plan to contribute £5 million to the Foreign Office Departmental Expenditure Limit (DEL) in 2010–11 following the recent statement by the Foreign Secretary on FCO finances.

#### **IMPACT OF THE LOSS OF THE OVERSEAS PRICE MECHANISM (OPM)**

The weakening of sterling in 2008–09, combined with the loss of the Overseas Price Mechanism, resulted in a significant reduction in our overseas purchasing power. We estimate this to be approximately £20 million.

In response to this, we are implementing a major business modernisation programme which has reduced our UK headcount by 330. The majority of the associated voluntary and early redundancy costs have been met from our reserve. We are continuing to explore with the FCO and HMT whether any additional modernisation monies will be available in 2009–10 to meet the remainder of these costs.

We will seek a further reduction of staff this year giving a total reduction in UK headcount of 500. This will have a significant impact on finances for 2010–11.

Against the background of its tight financial position, the British Council has decided to prioritise its programme work overseas above all other expenditure. The staff reductions in the UK, the increased efficiency of support functions such as IT and Finance and a programme of significant pay restraint globally all contribute to maintaining spending on programmes for the UK overseas.

#### **IMPACT OF THE BRITISH COUNCIL'S CONTRIBUTING £5 MILLION TO FCO DEL 2010–11**

Nevertheless, as part of the coordinated response to the severe financial pressure experienced by the FCO, we have agreed to contribute £5 million to FCO DEL in 2010–11. This figure was approved by British Council Board of Trustees in their 23 February meeting. Our ring fenced DEL remains as agreed by HM Treasury in the settlement for the period 2008–11.

#### *Drawing down £2.6 million less from our ring-fenced DEL*

We will draw down £2.6 million less in 2010–11 from our ring-fenced DEL allocation (£185 million).

We will achieve this by refocusing our programme activity under the Reconnect initiative but seek to maintain impact in Pakistan and Afghanistan. We expect this exercise to identify £1.5 million.

In addition, we will identify further operating budget cuts of £1.1 million in 2010–11; we will manage the impact of these internally by prioritising programmes in order to make cuts.

#### *Pass on the net surplus of the sale of our Mumbai office (£2.4 million)*

We will pass on the net surplus of the sale of our Mumbai Office, which we anticipate to be £2.4 million. This will create an overspend in 2009–10 offset against the FCO's capital underspend for 2009–10.

This transfer will have no impact on the British Council's capital DEL though the capital grant draw down will be reduced by £2.4 million.

#### **FUTURE FINANCIAL PLANS**

The British Council's financial plans for 2010–11 are dependent on establishing a global service centre in India and new operating subsidiaries for income growth. These are complex issues and we are in detailed discussion with FCO and HM Treasury to secure the necessary approvals imminently.

*1 March 2010*

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