



House of Commons  
Foreign Affairs Committee

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**Foreign and  
Commonwealth Office  
Annual Report  
2008–09: Government  
Response to the  
Committee's Fifth  
Report of Session  
2009–10**

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**Fourth Special Report of Session  
2009–10**

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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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### Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at [www.parliament.uk/parliamentary\\_committees/foreign\\_affairs\\_committee.cfm](http://www.parliament.uk/parliamentary_committees/foreign_affairs_committee.cfm).

### Committee staff

The current staff of the Committee are Dr Robin James (Clerk), Dr Rebecca Davies (Second Clerk), Ms Adèle Brown (Committee Specialist), Dr Brigid Fowler (Committee Specialist), Mr John-Paul Flaherty (Senior Committee Assistant), Miss Jennifer Kelly (Committee Assistant), Mrs Catherine Close (Committee Assistant) and Mr Alex Paterson (Media Officer).

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# Special Report

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The Foreign Affairs Committee published its Fifth Report of Session 2009–10, *Foreign and Commonwealth Office Annual Report 2008–09*, on 21 March 2010, as House of Commons Paper HC 145. The Government's response to this Report was supplied to us on 6 April 2010, in the form of a memorandum from the Foreign and Commonwealth Office, and covering letter from Permanent Under-Secretary Sir Peter Ricketts KCMG dated 31 March 2010. These are appended.

## Government response

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### **Letter to the Chair of the Committee from Sir Peter Ricketts KCMG, Permanent Under-Secretary, Foreign and Commonwealth Office, dated 31 March 2010**

I welcome the FAC Report which you published on 21 March on the FCO's Departmental Annual Review for 2008–9, and I am grateful to you and the members of the Committee for your many positive comments on the Department's work.

Given the timing, Ministers and I were keen to be able to respond as fully as possible to the Committee's Report before Parliament is dissolved. So, instead of a Command Paper which we would normally have laid before Parliament within two months, I am enclosing a memorandum containing the FCO's responses to all of the recommendations in your Report.

I hope that the Committee will find this memorandum helpful, and I should be grateful if you would consider, at your meeting on 6 April, arranging for it to be published by the Committee. If this is not possible I hope that you can arrange for a copy to be placed in the House of Commons Library. We would also like to publish the memorandum on the FCO website.

I would like to take this opportunity to thank you and the Committee for the close and supportive interest you have taken in the FCO's work. I believe this scrutiny process makes a valuable contribution to improving the effectiveness of the FCO's global operation.

*Sir Peter Ricketts KCMG*

## Memorandum from the Foreign and Commonwealth Office

### 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)**

We welcome the Committee's support and understanding of the decision to publish a combined document to a slightly later publication timetable than in previous years. We intend to continue this practice in future years, in line with the Treasury's "Clear Line of Sight" Alignment Project.

**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)**

We welcome the Committee's comments on our engagement with Parliament, and on the steps we have taken recently to improve it. The Committee's detailed comments in paragraph 15 offer constructive proposals for further improvement which we will address. The FCO's Parliamentary Relations Team works well with counterparts in other Government Departments and has shared its revised Parliamentary engagement strategy. We will continue to collaborate with other Departments to improve co-operation with Parliament.

### *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)**

Israeli authorities control access into Gaza via the Erez crossing. They continue to allow Embassy and Consulate officials access (our staff do not enter Gaza through Rafah, hence the additional security issues raised by the Committee's proposal to visit via Rafah). But—

as the Committee notes—the Israelis have refused such visits for Ministers and Parliamentarians. They recently allowed access by the EU High Representative and the UN Secretary-General, but have informed us that they made these exceptions to allow representatives of international organisations with wide memberships to see the situation.

When the Committee expressed their wish to visit, the Ambassador in Tel Aviv requested that the Government of Israel grant access for the party. Despite these representations, the Government of Israel declined to allow access. We agree with the Committee that this was regrettable. We will continue to call on Israel to reduce the restrictions it imposes on Gaza, including for the Committee when they next wish to visit.

**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)**

We note the FAC's comments, and the recommendation made to their successor Committee in the next Parliament. The FCO's security and travel advice is provided in the best interests of travellers, and is not driven by political considerations.

## 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)**

We note the FAC's conclusion regarding the impact of the withdrawal of the Overseas Price Movements (OPM) mechanism on substantive spending, financial accountability and budgetary planning. We fully recognise the impact on the purchasing power of our budget caused by changes in the value of sterling and are working hard to manage these difficulties. We have taken a number of steps to manage the impact on FCO purchasing power of changes in foreign exchange rates. These include the introduction of forward purchasing of foreign currency, a rigorous efficiencies programme that includes prioritisation within our own operating spending to further reduce back-office costs, and the implementation of more innovative working practices.

**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)**

We are in discussion with HM Treasury about how best to continue managing pressures on our budget and, as the Committee notes, have already reached agreement on a package of measures which will substantially offset the impact of exchange rate pressures in 2010–11.

#### *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)**

We note the Committee’s conclusion about the rising costs of the UK’s international subscriptions. The FCO is funded for £102 million p.a. for these costs and rises above this figure are shared 60:40 between HMT and the FCO.

**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)**

We note the Committee's conclusions and recommendation to work on a mechanism to distribute more equitably across Government the burden of UN costs for the longer term.

**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)**

We note the Committee's conclusions and recommendations on this issue. We work to promote reform as part of our agenda for international institutional reform. This includes both ensuring that international organisations are fit for purpose in the 21st century and working efficiently and effectively. A major focus of our efforts is to ensure that costs are kept at the lowest level commensurate with achieving agreed objectives. This effort is constant and ongoing. More equitable sharing of costs among Member States is a long standing objective of the FCO. Our efforts continue here too.

### *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)**

We note the Committee's views on the impact of foreign exchange pressures on the activities of posts. We have implemented a rigorous prioritisation of activity in the light of budgetary pressures. We have sought throughout to ensure that reductions fall in areas of lowest priority or with lower chances for delivery. This has enabled us to maintain or even continue to increase spending in areas of highest priority, for example counter-terrorism work. The Government is committed to ensuring that the UK maintains a world class global network which enables us both to fulfil our historic responsibilities and to pursue our modern priorities.

**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)

We welcome the Committee's views on the importance of maintaining a global network of posts. The network must remain flexible and able to respond to changing priorities and challenges. We review the network regularly to ensure it reflects current priorities, and as the Committee notes, have in recent years opened posts in areas of growing importance such as Goma and Juba, as well as closing posts in areas of lower priority. We believe that innovative working practices, including for example laptop ambassadors, can make an important contribution to maintaining an effective and flexible network.

**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)**

We share the Committee's view that it is most cost-effective for British Government Departments operating overseas to share locations and services. We are leading work with other Government Departments to this effect.

**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)**

We note the conclusions and recommendations of the Committee on this issue.

**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)**

We are now co-located with the Department for International Development in 28 locations and we are looking at options to co-locate in a further 9 locations. In the next CSR 07 period DFID plan to move into our Visa office in Accra, and we are looking to occupy a new office with DFID in Juba.

Co-location remains the preferred option for both the FCO and DFID and each proposal is assessed on both its financial and non-financial merits with a focus on achieving best value for the Government.

The number of co-locations is now lower than originally planned for the following reasons: DFID have now decided not to co-locate in Pristina. In Abuja, DFID have withdrawn from our project to construct a new high commission in Abuja, preferring to remain in their existing offices in the city. However, in order to provide flexibility, we have designed the new mission to allow future co-location with DFID should circumstances change. DFID have also decided not to co-locate on our FCO compound in Pretoria, due to the substantial investment which would be required to build a stand-alone building on the site. Apart from these examples the programme of co-location that was agreed for this CSR period has now taken place.

**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)**

We welcome the Committee’s acknowledgement of the introduction of regional networks of posts. This is an example of the innovative working practices through which we are able to maintain our effective global representation while also delivering efficiency savings for redeployment elsewhere. We will ensure that we inform the successor Committee of progress in this work.

**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)**

The Commission had over 130 overseas delegations, which have now become EU Delegations. The Lisbon Treaty will make these delegations more accountable, via the High

Representative, to the Member States and will ensure that they represent the interests of the Union as a whole, as defined by the Member States—rather than those of just one of its institutions (i.e. the Commission). There are no current plans to expand this network because the delegations have now become EU Delegations.

It is also about making better use of the existing Union resources to ensure improved policy implementation. Commission delegations have had a responsibility since the Maastricht Treaty for working with Member States' Embassies to implement CFSP decisions, and that will not change under the Lisbon Treaty.

On the question of the closure of Embassies and High Commissions, the establishment of the EEAS will not lead to our Embassies being replaced with Union Delegations. The Lisbon Treaty makes clear that the EEAS “shall work in co-operation with the diplomatic services of the Member States.”

EU delegations replace the existing network of Commission delegations around the world, but as part of the EEAS they will include staff from the Council Secretariat and secondees from the Member States. They will complement, not replace, national diplomatic networks.

A decision to close a post in any country is never taken lightly by the FCO. Our global network is an important asset for this country and one which we intend to maintain and enhance. As the demand for FCO services—political, commercial, consular or visa—changes, then we must be able to deploy our resources in response to that, opening and closing posts and relocating resources to where they are most needed.

On the question of ensuring the High Representative and the EEAS function within the parameters of the Lisbon Treaty, the Treaty makes clear that the EEAS “shall work in co-operation with the diplomatic services of the Member States”. The EU delegations complement, rather than replace, national diplomatic services. The UK and other Member States retain the right to decide how they are represented internationally on areas of national competence—that means, for example, that we retain our rights at the UN, and our own responsibilities for consular and diplomatic representation. Indeed, Declaration 14 accompanying the Treaty also clearly states that the Treaty’s provisions covering CFSP “will not affect the existing legal basis, responsibilities, and powers of each Member State in relation to the formulation and conduct of its foreign policy, its national diplomatic service, relations with third countries and participation in international organisations, including a Member State’s membership of the Security Council of the UN.”

Regarding consular tasks, our view is that a Directive made under Article 23 TFEU does not provide for any entity other than the Member States to undertake consular functions (e.g. the EEAS). Lisbon simply allows for the Council to make Directives establishing “co-ordination and co-operation measures”.

We are not arguing against looking for useful synergies, or areas where EEAS can genuinely add value on the consular side. But we are arguing for an approach that allows Member States and EEAS to look at all the issues before making commitments.

We have not ceased collecting data on the numbers of non-UK nationals assisted by our overseas posts. While currently we are not able to extract the relevant figures automatically from our database, we are in the process of developing our system so that we can do so.

Prior to April 2008 Consular assistance statistics were obtained from posts through the Consular Annual Return. We asked posts to tell us where they gave assistance to unrepresented EU and Commonwealth nationals. We did not ask for any further breakdown by nationality.

From April 2008 onwards, following the withdrawal of the Consular Annual Return, our Consular assistance statistics have been obtained directly from COMPASS (the Consular assistance casework database). Although for each case where we have assisted a third country national, such as unrepresented Commonwealth or EU nationals, their nationality will be held on COMPASS, we are currently unable to report on this field. A new report is currently under development with the suppliers of COMPASS (WorldReach) allowing us to report on this and other fields.

**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)**

The High Representative's draft Council Decision on the EEAS was deposited in the House on 30 March.

#### *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)**

HMG is committed to funding a range of peacekeeping, conflict prevention and stabilisation activity, including in the Western Balkans. As the Committee notes, the Foreign Secretary issued a joint Written Ministerial Statement (WMS) on 25 March 2009, announcing the reprioritisation of conflict funding for 2009/10. Although there were some cuts to activity, the reprioritisation of conflict funding allowed us to meet our international peacekeeping obligations and maintain a range of activity across priority regions. As

highlighted in the recent WMS of 25 March 2010, HMG remains committed to conflict prevention funding in the Western Balkans as a part of our overall contribution to the EU's Common Security and Defence Policy. We will continue to retain secondees in key positions, making a direct contribution to the missions and their objectives of improving rule of law and stability in the Western Balkans.

**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)**

The Foreign Secretary announced in a Written Ministerial Statement on 25 March 2010 the funding available for conflict prevention, peacekeeping and stabilisation activities in 2010-11:

[http://www.publications.parliament.uk/pa/cm/cmtoday/cmwwms/archive/100325.htm#hdd\\_r\\_17](http://www.publications.parliament.uk/pa/cm/cmtoday/cmwwms/archive/100325.htm#hdd_r_17)

This confirmed that HMG will continue to fund a range of conflict prevention, stabilisation and peacekeeping activity in priority regions, including significant support to international civilian missions. Although we are not yet in a position to confirm the exact number of UK secondees in 2010–11, this financial year (2009–10) we have funded an average of 69 secondees to civilian CSDP missions and the central Brussels HQ. We will continue to give these contributions priority where we judge they can have the most impact and add most value. The creation of the Civilian Stabilisation Group (CSG), which will help us identify, train and deliver skilled civilian experts more effectively, is a significant commitment to building the UK's capacity to deploy civilians overseas.

### *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)**

In the 2007 CSR Settlement in the autumn of 2007, HM Treasury told us that they would end their underwriting of the Overseas Price Movements (OPM) mechanism. To help us to manage the impact of this change the Treasury agreed that we would be able to forward purchase our foreign currency requirements. The decision to accept the offer to forward purchase foreign exchange exposure was not taken lightly or without professional advice. From the outset, doing nothing was ruled out as high risk and speculative, but we had to take the time to build our own expertise and understanding of how forward purchase could work.

All proposals for managing our forward purchases considered by the Finance Committee were based on external professional finance advice provided through a contract with HiFX Intelligent Finance Services. Separate advice was also provided by several commercial banks and the Bank of England. Principal guidelines were that foreign exchange management should maximise cost certainty and be low risk and non speculative.

We agree we have incurred extra direct costs as a result of the professional contracted advice we receive and in staff costs managing forward purchase. There was only a very small fluctuation in the Sterling/Dollar rates from the autumn of 2007 to May 2008 when our first purchases were made.

We note that there were also areas in the CSR Settlement—for example, in arrangements for funding the UK's subscriptions to international organisations—where the Settlement made additional resources available to the FCO.

**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)**

In April 2008, we set up a Strategic Treasury Team, with one of its remits being to manage our foreign exchange purchases. Managing the impact of the loss of purchasing power has inevitably required difficult prioritisation decisions and hence taken up senior management time.

**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)**

We welcome the Committee's positive conclusion on the operation of our forward purchase system. We agree that forward purchasing in itself is not able to provide additional resources to manage the impact of Sterling's loss of overseas purchasing power since 2007.

**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)**

The principal guidelines from HMT were that our forward purchase and foreign exchange management policy should maximise cost certainty and be low risk and non speculative. We have agreed a policy with HMT that sets out how the operation will function. In the long-term the forward purchase system smoothes out currency fluctuations. The forward contracts we purchase are at the rates the currency market will give us for future delivery. We don't make judgements as to whether a forward purchase might not be as advantageous as buying at spot. Once a forward purchase system is in place, we need to continue it. This is in accordance with the key principles of our forward purchasing policy, which are that it is non speculative, risk averse, and predicated on the need to support planning by delivering as much cost and therefore budget certainty as possible.

**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)**

We have had regular discussions with Whitehall Partners who operate a forward purchase system and also with those who are considering introducing one in order to learn lessons and see if there are better practices we can use. HMT guidance was that foreign currency management should be non speculative, risk averse, and predicated on the need to support planning by delivering as much cost and therefore budget certainty as possible.

### *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)**

Budget settlements for 2010–11 were agreed with HMT as part of the three-year CSR07 agreement. As we announced in February 2010, we have agreed with HMT some assistance measures for 2010–11 and this has enabled us to plan and allocate internal budgets before the start of 2010–11. As part of the push to 5 Star Finance, we are rolling out a new system to enable Posts to manage their budgets in local currency for the first time in 2010–11.

**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)

We welcome the Committee's acknowledgement that our work with HM Treasury to address the budgetary pressures from exchange rate movements in 2010–11 will substantially offset those pressures. We seek to manage such pressures constructively through engagement with partner organisations, including the Treasury and the organisations within the FCO family, and through rigorous prioritisation of our activity. Details of the contributions to the FCO budget from the BBC World Service and British Council are set out in our answer to recommendation 27. In addition, FCO Services Trading Fund will make a special dividend payment of £3 million to the FCO. The foreign exchange adjustment account mentioned in the Foreign Secretary's Written Statement of 20 February will be a departmental unallocated provision (DUP) which we will draw on as necessary to manage the impact of foreign exchange fluctuations. It is not a return to the Overseas Price Movements Mechanism under which our budget was adjusted from the Treasury Reserve to reflect foreign exchange rate movements. Details of our programme of streamlining referred to in the statement have yet to be finalised.

**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)**

The FCO notes the Committee's concern on this point. The BBC World Service will make available £7.7 million to FCO finances in 2010–11 (including an under spend of £4 million from 2009–10). The British Council will make £5 million available. Agreement on these contributions was reached through negotiation and will not affect the baseline budgets for those organisations for future years.

**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)**

HM Treasury and the FCO are in discussion about how best to continue managing pressures on the FCO budget. There are currently no plans to reintroduce the OPM

mechanism. Future decisions on how best to manage exchange rate pressures on FCO purchasing power—taking into account the unique circumstances outlined by the FAC that affect the FCO, including over half the FCO’s budget being spent in local currencies—will be discussed by the FCO and HMT in the next Comprehensive Spending Review. We note the Committee’s recommendation that OPM, or an alternative, should be re-established.

**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)**

The FCO notes the Committee’s views. As the Committee notes, there is no absolute correlation between budgets and influence. While the FCO remains committed to maintaining a world-class and comprehensive diplomatic service, and ensuring that our highest foreign policy priorities continue to be funded, it is also committed to ensuring that that diplomatic service is delivered in the most cost-effective way possible. The FCO network and our programmes of activity are of course established on the basis of foreign policy needs and priorities. We shall continue to prioritise our activity rigorously, so that it reflects changing demands and challenges, and to seek savings wherever possible for redeployment in the light of those changing requirements.

**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)**

The FCO welcome the Committee’s appreciation of the value of the FCO’s work in the national interest. The FCO has consistently delivered efficiency savings in line with Government targets. It is right that we should continue to seek to find further efficiency savings. We shall at the same time work constructively with other Departments, including the Treasury, and organisations within the FCO family to ensure that funding arrangements for the FCO family are secure and sufficient to support a world class and comprehensive diplomatic service for the UK, and that the Government’s highest foreign policy priorities will continue to be funded effectively.

### ***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)**

We welcome the Committee’s recognition of the FCO’s efforts to become a more efficient organisation. As the Committee has noted the FCO exceeded its SR04 savings target and expect to do the same for CSR07. Following our report on VFM efficiencies in the Autumn Performance Report 2009 we continue to remain on track to achieve our target of £144 million. As an organisation we continually strive to reduce costs where necessary while at the same time ensuring that we are able to fulfil our Departmental Strategic Objectives. A lot of planning and implementation work has been undertaken to make us a leaner, more efficient Department and under the CSR07 programme we are able to recycle additional savings we achieve. We are, however, mindful not to rigorously pursue a programme that will hamper either our operations or capabilities.

**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)**

The “10,000 days” project was designed to cut red tape wherever possible in an attempt to save 10,000 work days globally. Days were saved by eliminating unnecessary or time-consuming activity. Examples included simplifying procurement processes, reducing the amount of form-filling and streamlining corporate guidance. The calculations were based on estimates of the time taken to carry out the relevant activity before and after the change at a range of Posts, and the volumes of each activity recorded. Over 50,000 days have been removed from the system so far.

In 2010–11, the Corporate Services Programme will continue to modernise our corporate services, saving time and money for the FCO. Approximately £13 million in efficiencies are expected to be delivered. These efficiencies will come from localising some management jobs overseas, consolidating corporate services work overseas and in the UK, outsourcing facilities management where it makes sense to do so, improving our use of technology and reducing bureaucracy.

The Corporate Services Centre opened in January 2010, bringing together some of our finance, human resources and procurement services in the UK under a single roof. Over the months ahead, the Centre will implement a new operating model designed to secure headcount savings and a better service for staff. Some early efficiencies have been made by releasing external contractors, with minimal disruption to business.

### *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)**

The proportion of FCO finance staff with professional qualifications, including accounting technicians and accountancy certificate and diploma holders, rose to 18% by the end of 2009-10.

The Department is developing a strategy for the deployment of professionally qualified staff. This will include a process of identifying jobs that carry a professional skills requirement to ensure that the Department's needs are being met by allocating staff with the right skills to those jobs.

**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)**

We estimate that our spending on consultancy for 2009–10 will be £22 million, down from £29.9 million in 2008–09 which was lower than the £63.6 million estimate in the annual report, which included the costs of managed service delivery and other professional services which do not in fact fall within the Office of Government Commerce definition of consultancy spend.

The FCO remains focussed on reducing this amount further. To this end, the FCO have adopted the Consultancy Value Programme, a Treasury-sponsored cross-departmental initiative to ensure increased visibility of spend and requirements at the highest levels. The Permanent Under-Secretary is actively engaged in this programme.

**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)**

In November 2009, the FCO Board endorsed a strategic programme and project management (PPM) Roadmap for the FCO. This framework will support us in the delivery of our policy objectives by embedding core PPM with policy skills in the FCO. We anticipate this will lead to improved performance with better decision making on programme resources, clearer prioritisation and improved risk management.

The FCO has a well-established and recently updated policy PPM training course that is held monthly either in London or at an FCO Regional Training Centre overseas. Training is done by an external PPM expert and internal FCO trainer who ensures the FCO context is fully considered. Feedback regularly describes the course as one of the best FCO courses that staff attend. We have recently established a new policy project evaluation procedure so the impact of projects can be evaluated. An increasing number of policy projects are now being considered for evaluation. A new team is shortly to be established bringing together business planning and policy PPM, one of the objectives of the new team will be to further embed PPM into the FCO which will include a generic introductory course for staff.

**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)**

The FCO will be glad to provide the Committee shortly with an update on its procurement improvement plan, together with savings estimates.

**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)**

The FCO welcomes the Committee’s recognition of the improvements to in-year budget monitoring. Key to this has been the focus on improving the quality of management information to support senior decision-making - the central aim of the 4 star phase of the 5 Star Finance programme. The aim of the 4 star phase, which was completed in December 2009, was to enable senior leadership in the UK to 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.

During 2009–10, the FCO introduced a new process of quarterly budget reviews. This review process increased visibility of spending patterns and enabled the re-allocation of resources from areas of the Department with an excess of funds to those with an identified need for more. Alongside this, the FCO Board undertook revised financial management training to develop their understanding of how to make best use of the management information they receive. The FCO has implemented a new IT system for monitoring budgets and forecasting spend. This system has been made available to budget holders located in the UK, and will shortly be rolled-out to all overseas Posts with access to Prism for use in 2010–11.

As a result of improved visibility of budgets, the FCO is able to take informed, strategic decisions in-year, responding to external events, making the most effective use of the Department’s annual resource allocation.

**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)**

The FCO welcomes the Committee's appreciation of the significant progress made under the 5 Star Finance Programme, and the strong support the Department received from the Public Accounts Committee (PAC) in October 2009.

As this transformational programme progresses, we are placing greater emphasis on embedding cultural change and practice alongside the continuing implementation of technical upgrades. The judgement of progress is increasingly about the maturity of our financial management performance, mainstreamed throughout the Department. We are working closely with the National Audit Office (NAO), including on the methodology for assessing our progress, as they will conduct an objective assessment of the maturity of the FCO's financial management after the 4.5 star phase. We will design the final 5 star phase of the transformation in light of the NAO's findings and recommendations at 4.5 star and continuing advisory support. Our objective for that design process is to put together the final transformation phase and to hand back continuous development and improvement into regular flow of work in the department. This will ensure that the emphasis on quality will endure, giving coherence, visibility and sustained leadership to ongoing development as part of 'business as usual'.

We have shared our experience of the 5 Star Programme and the transformational, maturity-based approach with other Departments who are developing their own change programmes. This collaborative approach supports our goal of being a beacon of good practice in Whitehall and establishing the habit of shared support across government. Taken together, this helps us to maintain our push for excellence at the FCO.

### **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)**

We note the Committee's comments and recommendations on asset sales and will continue to report sales of assets to the Foreign Affairs Committee quarterly in arrears, and will highlight any major changes to the estate in the same way. As Chris Bryant said in his written answer to the House on sale of departmental assets of 8 December 2009 we continue to keep our entire property portfolio under review, ensuring it provides value for money, fitness for purpose, and security for our staff.

**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)**

Generating income from the FCO estate by hiring out properties for selected events is governed by FCO policy and guidelines which establish how and where the estate may be

used in this way. Consideration is given to a number of factors including the reputational impact of such use and any resulting liabilities.

In 2009–10 the FCO received £1.46 million from these activities including the use of Lancaster House by DFID, the use of the Ambassador’s Residence in Paris for a major British fashion show and the use of Ambassador’s Residence in Tokyo for a Nature Mentoring Awards in Science ceremony.

**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)**

The March 2010 report by Concerto Consulting into the Harare Embassy Construction Project commented that “Despite its problems, the construction of the new embassy in Harare was something of an achievement. With raging hyper-inflation, widespread corruption in Zimbabwe and a breakdown of conventional procurement and management disciplines, the fact that the embassy was delivered at all is remarkable. The Chinese gave up on their equivalent project in Harare, and this was the only significant building completed in Harare in recent years.” Concerto identified five project specific issues and two generic issues which impacted upon delivery and had made a number of recommendations on how the FCO can address these. The issues are:

Project specific issues:

- A number of failures in the project governance
- Insufficient management by the FCO of the significant risk associated with the project
- Insufficient management by the FCO of its construction partner, resulting in limited value from the partnership arrangement
- Lack of capacity and capability in Estates
- Overlap of roles and overloading of staff in Estates

Generic issues:

- Lack of an asset management approach
- Poor integration between Estates, Procurement and FCO Services

**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)**

The Moscow Residence renovation project was launched in 2005. The bids for this project were considered following best practice at the time, including construction professionals checking the bidders' financial positions and detailed questioning over the costs associated with their bids.

Since January 2008, the recommendations related to other elements of project management have become standard practice and we are implementing them together with our appointed project managers on estates projects. However because the Islamabad/Karachi project was so different from the Moscow one in terms of scale, type of project and contractual approach, most of the recommendations from Islamabad/Karachi do not apply. We recognise that many of the issues we faced on this project were linked to difficulties in securing detailed approval of the design by the relevant planning authorities prior to contract award. Following this project, we recognise that we should pay more attention to building clearer accountability into estates projects.

We are in the process of commissioning a project evaluation report for the Moscow Residence project. We will share the results of this with the Committee, and will make any further changes to our processes which the review might recommend.

**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)**

FCO response to recommendations 43 and 44: We thank the FAC for their comments. We have sent a copy of our new global estates strategy document to both the Committee and to the Public Accounts Committee on 1 April.

## 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)**

The localisation of around 100 management positions overseas will deliver cashable savings of approximately £12 million, freeing up FCO resources for our core business. It also enables us to modernise the way we deliver our corporate services by bringing in a broader range of skills and experience, increasing our professionalism. Processes are in place to ensure localisation does not compromise our internal controls. Those UK-based management jobs that remain will have greater responsibility and more strategic control.

Decisions on which slots to localise have been made with Posts and relevant Directorates in London and with the full agreement of Regional Directors. We recognise that localisation has a real impact on UK-based staff. Support has been put in place for those whose jobs have been impacted, including priority access to coaching, online training resources and advice to help them with the process of applying for their next job. The TUS have been consulted and we continue to meet regularly to discuss progress and concerns.

The positions being localised cover the whole range of corporate services work. Where language skills are required for these roles, they are generally at a significantly lower level than that needed for the diplomatic and public services work necessary to achieve our Departmental Strategic Objectives. We don't therefore anticipate that these localisations will impact in any way on our core language capability which we are determined to maintain and strengthen. An example is the Embassy in Beijing where none of the jobs for which we provide operational/extensive language training will be affected by this project.

**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)**

We are happy to provide a breakdown of the 2009 Staff Engagement Survey results for UK based and locally engaged staff for all survey questions, under separate cover. The results are in the form of a percentage of positive, neutral and negative responses and demonstrate how they compare with the overall FCO benchmark. The exercise was part of the newly launched Civil Service wide staff survey and shows that on the whole Local Staff morale is higher than in 2008.

**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)**

The FCO aims to be a good employer. We continue to operate according to HM Treasury guidelines, providing an affordable, attractive employment package, keeping a constant eye on long-term sustainability.

### *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)**

We share the FAC’s view that the action taken by the Iranian authorities against the British Embassy’s Iranian staff is deplorable and agree that diplomatic immunity would not have prevented it taking place. There are constraints on seeking diplomatic status for local staff. However, Heads of Mission will be encouraged to consider, on a case by case basis, appointing local staff, who fall within the criteria set out in the Vienna Convention on Diplomatic Relations, as diplomatic agents. The accreditation of local staff overseas does not form part of the FCO’s Diplomatic Service Regulations, so we will amend our Guidance to reflect that Heads of Mission should consider requesting conferral of diplomatic status for local staff where appropriate circumstances exist.

### *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)**

Our staff survey showed we have very high levels of staff commitment (“engagement”), i.e. staff readiness to say good things about the FCO, stay in it, and strive to deliver better for it. Our engagement score (69%) is 10% over the Civil Service average, 6% above the average of the highest performing group in the survey, and the best of all the big government departments. The biggest driver of these high levels of engagement is leadership and the way we manage change. Our scores here are much higher than the Civil Service average, for example staff confidence in decisions made by FCO senior managers is 17% higher; belief that change is managed well is 21% higher.

The March 2009 Capability Review of the FCO reported on leadership that “strong progress has been made in redefining FCO’s agenda, developing a more effective corporate Board and empowering staff to change the way they work” It also noted that “the Civil Service Corporate Functions Board reports that FCO’s HR function is now much stronger and is interacting with the FCO change team effectively. The development of the Strategic Workforce Plan, Five-year Diversity Strategy and Local Staff Strategy indicates that the Department is committed to these changes in the medium to long-term”.

We are not complacent about these high scores and positive assessments. We will continue to work to ensure that change programmes are well-led and include effective two-way communication with staff on the changes that affect them. Our Human Resources Directorate will continue to offer professional and expert support on the human resources aspects of change programmes across the Office. During major change initiatives, for example the localisation of Management Officers and the review of overseas allowances, we have made effective use of Equality Impact Assessments to factor equality considerations into the decision-making process. We have striven to achieve agreement with the TUS on changes to overseas allowances. We have also offered extensive support to officers affected by the localisation of Management Officer positions, including priority access to coaching, online training resources and advice to help them with the process of applying for their next job.

**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)**

The nature of the FCO’s business means there will always be some staff who are between jobs, when they move between postings at home and overseas. The Corporate Pool was introduced to end the system whereby staff who were between jobs or had gaps during pre-posting training were paid to be on “gardening leave”. The number of staff in the Corporate Pool is relatively steady (248 at end Feb 2010; 239 end-Feb 2009; 291 end-Feb 2008), at around 6% of the overall workforce. The introduction of the appointment by interview system has had little impact on the numbers in the Pool.

The Corporate Pool is an essential tool which allows us to supply staff at short notice for crises, new initiatives, and temporary gaps as people move on to new jobs. Between 80% and 90% of staff in the Pool are deployed at all times.

In the past year the Corporate Pool has been essential for finding staff for the full range of home departments and overseas posts for periods ranging from a few days to several months. Urgent and high-profile deployments have included the Iraq Inquiry Team, Afghan conference and the Libya/IRA desk.

The Pool is actively managed to ensure maximum use of the people in it, and movement through it. Staff who do not have an onward destination when they join the Pool are expected to bid widely and realistically for jobs, and they are encouraged regularly to do so. Working from the Pool can be a rewarding and developmental experience. Staff deployed

on temporary assignments often find that they pick up new skills, and broaden their experience in a short space of time.

The majority of staff spend only a short time in the Pool, with around 30 to 40 leaving it each month. The HR Operations team call in staff who remain in the Corporate Pool for lengthy periods to review their options, remind them of the need to bid widely and realistically for London jobs, and offer guidance for those struggling to find success with their bids. A change agreed recently requires all hiring managers to consider a “Pool shortlist” of staff if they have a London vacancy which is unfilled after the first advert, in an effort to assist staff who are finding it more challenging to pick up a position. This should significantly reduce the number of people staying in the Pool for more than a few weeks.

The new internal appointments by interview system, introduced in January 2009, is clearer, more transparent and more flexible than the old bidding and boarding system. It allows those interviewing and those being interviewed for jobs an opportunity to make more informed choices; staff can drive their own careers with more freedom; managers can advertise their vacancies when it suits them and offer the job to the best candidate within a less restrictive timeframe and without reference to a Board.

**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)**

FCO response to recommendations 51 and 52: The FCO has a “Zero Tolerance” policy on bullying, harassment and discrimination. We take any reports of such behaviour very seriously. As part of our Zero Tolerance campaign, we are taking a range of measures to support those coping with or tackling unacceptable behaviour. For example, we are setting up a network of volunteer “Dispute Resolution Caseworkers” to help address concerns where they arise. We are also encouraging Posts to continue to develop the ways that staff can report concerns promptly and confidentially, including through “First Response Officers”. As in 2009, our follow up to the staff survey during 2010 includes specific support to groups or parts of the organisation that have expressed higher levels of concern.

We are disappointed that our efforts so far have not yet reduced the levels of reported concern. In some cases, we believe that our high-profile campaign to raise awareness may have contributed to higher reporting of concerns. This is important to enable leaders across the organisation to address concerns more effectively. We are therefore not changing our Zero Tolerance policy or approach, but rather seeking to refine it and further

promote the good practice from parts of the organisation that have successfully reduced concerns about unacceptable behaviour over the past year.

### ***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)**

We take getting good UK candidates into the EEAS very seriously. Coreper Ambassadors have been discussing the details of a possible organisational structure and resources for the EEAS to help guide the High Representative.

The creation of the EEAS will give us an opportunity to boost secondment numbers. As set out in the Lisbon Treaty, Member States’ nationals will form a major element of the staffing in the EEAS. We are keen to take this up as it offers the opportunity for UK diplomats to work to shape EU external policy.

There has been no overall decision on the numbers of UK secondees but we would expect to second up to 25 UK representatives when the EEAS is fully up and running. 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. To manage this, we have set up a dedicated EEAS secondments unit within the FCO that will maintain links and help with their return to the FCO.

For EEAS recruitment generally we will work hard to ensure that the best qualified candidate gets each job and as such we will ensure that our candidates are well suited to the jobs they apply for by having appropriate experience or language skills.

**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)**

We welcome the FAC recommendations and shall keep the Committee informed of any developments in this area.

**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)

We have noted the Committee's recommendation. Ministerial appointments are at the discretion of the Prime Minister. We refer to the letter sent by the Secretary of State for Foreign and Commonwealth Affairs to the Chairman of the Committee, published on 29 October 2009.

### *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)

We note the Committee's comments regarding Prime Ministerial appointments. We acknowledge the significant role that special representatives, envoys and advisers play in championing international policy and will continue to ensure that the work of such appointees is well co-ordinated and integrated into achieving the objectives of the FCO.

### *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)**

Effective policy development on many global issues depends on being able to understand and deploy the best available scientific evidence. Our requirement is therefore for high-level guidance on the relevance and robustness of the science which underpins many of our foreign policy priorities or can be harnessed to better enable their delivery overseas. We also need to engage Whitehall colleagues at a senior expert level on scientific issues, from climate change to counter-proliferation, to ensure that HMG science commissioning and policy processes take account of FCO needs and interests.

We see a Chief Scientific Adviser, together with a global network of scientifically literate FCO officers (the Science and Innovation Network, SIN) as being the best way to achieve these aims. The part-time (40%) nature of the CSA role reflects the level of guidance needed by the FCO as compared to other Departments. The FCO CSA salary is within the normal range for an SMS3 officer in the FCO.

In his first eight months in the role, David Clary has supported, enhanced and challenged the work of the FCO and HMG on a range of issues. This has included working with Ministers and senior officials (e.g. co-ordinating a speech by the Foreign Secretary on "Science and Diplomacy in the Modern Age" at the Royal Society), introducing science diplomacy to the FCO as a way of improving international relations, and engaging with Whitehall, academic, and international science policy communities (e.g. presenting on science in foreign policy at UK, US and European learned societies).

Professor Clary has been actively involved in FCO policy development and delivery. On climate change, this has included facilitating FCO events with climate science experts; bringing explanation and discussion of scientific issues to the public through videos on the FCO and ActOnCopenhagen websites; and representing the FCO at senior level in cross-Whitehall climate and energy projects (e.g. Government Office of Science Foresight projects). Similarly, the CSA has worked on issues around counter-proliferation, migration, and polar regions, advising on science aspects of project and policy work and

representing the FCO on senior bodies with an international dimension to their science remit (e.g. Space Leadership Council). He has taken an international representational role (e.g. co-chairing an Antarctic Treaty climate science conference in April 2010) and brought a range of new contacts, both academic and science policy related, into the FCO.

The FCO-BIS Science and Innovation Network (SIN) has approximately 90 full-time equivalent staff, including locally engaged, in around 40 cities across 25 countries. The FCO CSA acts as a senior focal point for the SIN in the FCO, sitting on the SIN management board, engaging directly with SIN staff, and advising FCO budget holders on SIN issues. In partnership with BIS and FCO stakeholders, the CSA has taken a leading role in work to improve the governance and strategic direction of the SIN. This builds on recommendations from a recent independent review and should help link the work of the SIN more closely to FCO and HMG priorities, giving greater effectiveness and value for money.

Having a CSA has strengthened the FCO voice in cross-Whitehall and wider science fora (e.g. the UK Collaborative on Development Sciences and the Global Science and Innovation Forum) and ensured that FCO interests are reflected in HMG work on cross-cutting science issues, such as considering broad future government science needs. It has also meant that the FCO is now able to credibly represent the UK in international fora where we have clear foreign policy interests in science issues.

For the remainder of his contract the CSA will continue to advise Ministers and officials, contribute to achievement of FCO strategic objectives, embed the use of science in foreign policy, and strengthen the science and engineering capacity of the FCO. He will be giving priority to visiting scientific institutions in key countries to initiate collaborations and in deploying the SIN for science diplomacy work. Professor Clary would be pleased to attend the FAC to talk further about his role, should the Committee invite him to do so.

The CSA role will continue to be reviewed in the normal cycles of FCO public reporting, including Annual Departmental Reports. In addition, the FCO will be taking part in an HMG Science and Engineering Assurance (SEA) CSA review in August 2010. We are preparing for the SEA review in co-operation with the Government Office of Science.

### ***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)

We note the Committee's comments.

## 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)**

As the Committee has noted, we have already communicated our intention, for the 2009-10 report, to produce a few hundred copies of a simple report with limited design features. As with the 2008-09 report, it will contain all the information stipulated by Treasury guidance. Our intention is to lay and publish this report on 25 June or thereabouts.

We note the Committee's comment about restoring an index.

### *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)**

We are grateful to the Committee for their comments. Our public engagement activities are long-term campaigns. It is too early to say exactly what impact they have had on public understanding and support for the Department, but this something we shall be monitoring and we shall cover this issue in future reports to the Committee.

**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)**

We shall consider carefully the Committee's suggestions. We accept that there is a good case for content streams which reflect research and policy interests.

### **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)**

We welcome the Committee's approval of the Foreign Secretary's decision to chair the new Strategic Communications and Public Diplomacy Forum. He held the first meeting on 11 January with the FCO Communications Directorate Senior Management Team and Chris Bryant as Minister responsible for Public Diplomacy in the FCO. The meeting reviewed the FCO's successful introduction of a more campaigning approach in support of priority policy DSOs and the building of capacity and acceptance across HMG's global network of posts to enable it to happen. The Foreign Secretary welcomed the merger of the campaigns and public diplomacy teams as a logical step towards better connecting delivery across the FCO and Public Diplomacy partners including the British Council, BBC World Service and Wilton Park. He also welcomed the move by the FCO press office to develop its strategic planning and greater interaction with the regional media. He supported the continued drive by the digital diplomacy team to concentrate on engaging audiences (as opposed to just depositing information on websites). On FCO corporate communications, the Foreign Secretary endorsed efforts to better explain foreign policy (and the role of the FCO and its staff) to the UK public. It was agreed to continue with this forum as a more focussed strategic exercise than the previous Public Diplomacy Board. As requested, we will update the FAC after the next meeting, scheduled in principle for July.

## **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)**

The FCO co-ordinates its internal business planning process with external reporting requirements. Both processes give direction and focus to the FCO achieving its public commitments. However, there is currently no precise way to link the measurement of inputs and outputs to high level outcomes. This measurement methodology will be looked at by HMT, Cabinet Office and the FCO in the next CSR.

Although the FCO follows Treasury guidance, we decided not to allocate a strong performance rating for three of our DSOs despite them meeting the relevant benchmark. In each of these cases we had made good progress against our indicators, but we judged that a strong progress assessment against DSOs 5, 6, and 7 would have been inappropriate. For DSO 5, we had to take into account the fact that Iran, our most serious proliferation concern, continued to defy the international community with its nuclear programme. For DSO 6 we did not feel that the situation had changed so significantly since the time of the 2008 Autumn Performance Report to warrant such a positive, improved assessment. And for DSO 7 our assessment highlighted the set backs from the global economic crisis, and the risks to delivery of DSO 7 goals, for example the insufficient momentum on climate change to be confident of a global deal at Copenhagen.

### ***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)**

UKTI has played a key role in responding to the economic crisis and in helping UK businesses prepare for the upturn. As a result, the number of companies supported by UKTI has continued to rise, with 23,700 companies supported over the 12 months to end-2009. Additional UKTI support to business has included;

- Additional £10 million funding to 'support high impact events in the UK or overseas', in the sectors highlighted in New Industry, New Jobs;
- Fiscal Stimulus Initiative providing targeted help from business specialists for UK companies, to access fiscal stimulus packages in other countries;
- Gateway to Global Growth, a £3.5 million package of support to help experienced exporters diversify into new overseas markets;
- New funding rules for the Tradeshow Access Programme (TAP) now help SMEs take part in more overseas trade fairs and explore more overseas markets (previously three, now six tradeshows per company);

- A partnership with stakeholders and other multipliers to promote UKTI's trade support services to more UK companies. For example, in 2009 UKTI signed a statement of intent with HSBC, to work together to help UK exporters to capitalise on trade opportunities;
- UKTI entered into a partnership with British Airways whereby BA and British American Business (BAB) offered its customers some 5,000 free flights worth £15 million. Further partnerships are being negotiated;
- The Business Ambassadors Network was launched in October 2008. The Network of 25 (initially 18) of the UK's foremost business and academic leaders works with Government to promote the UK's excellence internationally, and highlight trade and investment opportunities;
- Launched as part of the Manufacturing Strategy, an initiative to help UK SMEs access global value chains, initially in China and India, has assisted more than 600 companies over the last year.

Year-end figures for UKTI performance against high level targets will be included in the 2009-10 UKTI Departmental Report and Resource Accounts which is expected to be published in July 2010.

UKTI has helped to maintain the UK as one of the primary locations in Europe for foreign direct investment (FDI) with significant involvement in over 600 inward investment projects, of a record total of 1,744 new investment projects to the UK in 2008/9. FDI figures are only updated annually and the next figures will be available in June 2010.

The National Audit Office reviewed the PIMS methodology in depth, and assessed it to be a robust performance measurement system. They did not identify need for any changes in the established methodology, but recommended that it should be supplemented by 'a rolling programme to estimate the actual benefits accrued to businesses, reviewing, two to five years after support is given, the impact on business performance'. They suggested that 'this could include extending the current follow-up surveys to seek out further robust evidence'.

UKTI is addressing the need for longer term impact evidence partly through its rolling programme of in-depth economic impact evaluations. These include a quantitative assessment of the longer term impact of the Passport to Export and Export Marketing Research Scheme, including effects on asset growth and innovation as measured by data on Intellectual Property, which is being carried out by researchers at Oxford, with results due in May 2010.

**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)**

At the end of December 2009 UKTI Defence and Security Organisation (DSO) received its first PIMS results. These are posted on the UKTI website in the summary PIMS results for all UKTI trade services, at [www.uktradeinvest.gov.uk/ukti/pims](http://www.uktradeinvest.gov.uk/ukti/pims). The feedback from the defence and security industry on the quality and impact of DSO advisory services was very good. The headline statistics were that UKTI DSO “Significant Assists” achieved a quality rating of 93% (UKTI target 80%) and also achieved a business performance improvement rating of 72% (UKTI target 50%). For DSO events, impact was 43%, which is in line with other UK based events and inward missions, although satisfaction was disappointing.

These DSO results are based on the standard PIMS methodology, which has been reviewed in depth by the National Audit Office and recognised to be a robust performance measurement system. However, PIMS results are normally published as a rolling four quarter average to smooth out statistical variation, and these initial DSO results are based only on a limited number of interviews carried out in a single quarter, hence are sensitive to statistical variation, and should be treated as provisional. PIMS results for the year ending March 2010 are not yet available and the first full year of DSO results will not be available until Autumn 2010.

**Comparison between UKTI DSO and DESO**

The former Defence Export Services Organisation (DESO) measured its performance in terms of the UK’s activities in the global defence export market. UKTI DSO will continue to publish its export figures in a form which is comparable with earlier published data. The export data is the only data available which is able to offer a performance comparison between the two organisations. DSO export figures for 2009 will be available in Q2 2010. DSO will provide the Committee with these figures when they become available.

**Conflicts of Interest**

UKTI DSO’s work is in support of FCO’s departmental strategic objective (DSO 2) to promote UK business around the world, and attract business into the UK. UKTI DSO activities have not given rise to any potential conflicts of interest or negative consequences for the Department’s work.

**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)**

We welcome the FAC's acknowledgement of the continuous improvements that we are making to our Consular Services. Over 180 posts worldwide are now using the global out of hours service operated by our Global Response Centre. The Centre resolves over 95% of out of hours consular calls worldwide without escalating queries to staff overseas. The LOCATE database has been further developed, and proved to be a valuable tool in locating and providing support to British citizens after the earthquakes in Chile and Haiti, and mudslides in Madeira earlier this year. Since the FAC's visit to Madrid, we have secured agreement and funding to roll out Iberia's regional Consular Contact Centre—this will improve consistency of service, improve customer insights, and enable front line consular staff to focus on case work and outreach in the community. And we plan to build on innovations already made, for example by using the new ways of working with partners developed in Iberia as a model for work in other consular regions.

As the FAC Report notes, a major priority for 2010 is a safe World Cup for travelling British fans. Planning is well underway involving an integrated team of Consular staff from London and our Africa network of Posts, a dedicated Football Liaison Officer, and through close working with the FA, UK police, Home Office and South African authorities. In February we ran a very successful emergency planning exercise in South Africa with consular staff. The focus is on raising awareness amongst fans before they travel, for example through the "Be on the Ball" campaign, and providing timely and professional consular services to those who need them on the ground in South Africa.

We are pleased to report that the Consular Change Programme which underpinned the 2007–2010 Strategy has formally closed, with a rare full green rating from the Office of Government Commerce's review team. The reviewers reported that the Programme not only delivered its anticipated benefits but exceeded those expectations. The new 2010–2013 Consular Strategy seeks to build on achievements, using customer feedback to improve the quality of services; investing in staff to further strengthen professionalism; having the necessary clarity and control over our finances to be cost effective; and increasing the flexibility of our network. We welcome the FAC's recommendation to provide further information on the new Strategy to its successor Committee following its publication later in 2010.

Work is underway to understand and manage the impact on customers of full passport rationalisation and the centralising of passport printing in the UK from the end of 2010. These measures are necessary in order to hand over to the Home Office Identity and Passport Service, a more efficient, secure and sustainable overseas passport operation. We are working with IPS to ensure a seamless transition to a single unified service from April 2011. Mitigating action includes extensive improvements to our public facing communication—websites, enquiry lines and other material—to ensure customers are kept informed in a timely, clear and consistent manner. Where appropriate, this is being done jointly with IPS. We are continuing to refine procedures in the new processing centres, aligning business targets, for quality and delivery, with IPS where possible. And we are working with suppliers to put in place a secure and efficient delivery service, to return

personal documents and passports to the customer. Customer interests remain at the forefront of our analysis and our highest priority.

### ***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)**

Ministers and staff at all levels of the FCO, Home Office and UK Border Agency are in regular touch to discuss migration policy and operational matters, especially those that may have an impact overseas including in specific country contexts.

Under the terms of the Memorandum of Understanding signed in January 2008 by the FCO and Home Office, the FCO retains a full say in policy on migration and related issues. FCO and Home Office Ministers communicate regularly to discuss departmental priorities and agree strategies. An example of this is the FCO and UK Border Agency's International Strategy launched in March 2010 by respective Ministers, Ivan Lewis and Phil Woolas. The strategy outlines close co-operation on the international stage and recognises the need to work with our international partners on migration. In addition, the FCO Director-General responsible for Migration, James Bevan, is a member of the UKBA and UKBA Extended Boards. He chairs a quarterly Migration Delivery Board with the Chief Executive of the UK Border Agency. FCO staff and their UK Border Agency counterparts meet regularly to review operational practices and Service Level Agreements on finance, human resources and IT. By working together, we are committed to ensuring that migration policies operate in the best interests of the UK.

**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)**

We note the Committee's comments.

### ***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)**

The Government's overall approach to the Overseas Territories is set out in the 1999 White Paper "Partnership for Progress and Prosperity".

The Government recognises that the Overseas Territories present particular challenges and responsibilities concerning their governance, including those identified by the Committee.

These challenges, and the associated risks, have increased as Territories have been severely impacted by the global economic and financial crisis, particularly those that rely heavily on the US tourist market and financial services. This has come at a time when the resources of all those departments of Government engaged in the Overseas Territories are under pressure.

The FCO takes its responsibilities for the Overseas Territories extremely seriously. This is reflected in the prominence the FCO Board has given to the Overseas Territories in the Top Risk Register, as the Committee has noted.

The FCO keeps its priorities and the allocation of resources under continual review. The key mechanisms for doing this are the Risk Management process and the Business Planning system. Where the Board has identified specific risks in the Overseas Territories it is able to ensure that appropriate mitigation measures are implemented and, where necessary and possible, resources are increased. The FCO has therefore increased the programme and staff resources in the Overseas Territories Directorate allocated to the economic and financial risks (including by bringing in relevant expertise from HM Treasury and the Government Economic Service) and the particular circumstances of the Turks and Caicos Islands. Overall, despite a background of constraints and reductions in other areas, the FCO has maintained or increased its level of effort on the Overseas Territories. The FCO encourages other Government departments who have responsibilities to the Territories to do likewise.

The FCO is conscious of the need to ensure staff working on Overseas Territories issues, including Governors, have the right skills and experience. We continue to develop the special briefing and training programmes for Governors and Administrators. In the case of recent appointments of Governors to Anguilla and the British Virgin Islands the FCO Board decided to appoint officers more senior than the formal level of the post. Following the upgrading of the Governor of the Turks and Caicos Islands in 2008, all Governors in the Caribbean Territories and Bermuda are now at SMS2 grade or above.

2009 marked the tenth anniversary of the White Paper “Partnership for Progress and Prosperity”. The Government launched a review of the White Paper at the Overseas Territories Consultative Council in December 2009. That review is continuing.

**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 welcomes the attention given by the Committee to the Overseas Territories and supports its recommendation that its successor Committee continues that scrutiny.

### *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)**

The FCO welcomes and supports the Committee's view that the FCO should have sufficient resources to enable it to continue to deliver a world-class and comprehensive diplomatic service for the UK. The Government is very clear that the FCO's expertise and global role are vital assets for the UK. They provide essential reach and influence for all parts of Government, and are more important than ever in an increasingly complex global environment. Future funding levels for all Departments for the period beyond 2010–11 will be set in the next Spending Review.

**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)**

We note the Committee's views. This will be a matter for the next Government.