



House of Commons
Committee of Public Accounts

Adapting the Foreign and Commonwealth Office's global estate to the modern world

Twenty-fifth Report of Session
2009–10

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

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The Committee of Public Accounts

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Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

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 <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

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Summary

The Foreign and Commonwealth Office (the Department) has over 4,000 buildings across its global estate, in 279 different locations. The estate is a mix of properties including embassy, High Commission and Consular offices, Ambassadorial residences, prestige and historical buildings and staff accommodation. The estate is valued at £1.6 billion and capital and revenue expenditure in 2008–09 totalled £269 million. 13,000 of the Department's staff work in its offices overseas.

The many functions of the Department's properties overseas mean they are not easily comparable to typical government buildings in the UK. No two locations are the same and difficulties created by security, terrorism, turbulent markets and exchange rate fluctuations all affect the Department's ability to control costs and make best use of its estate.

We welcome the improvements the Department has made in managing its estate more effectively, including the recent appointment of an estates specialist as Estates Director and the development of a new estate strategy.

The Department, however, has a poor understanding of its estate and the information it holds on its properties is basic, incomplete, out of date and inaccurate. In addition, the Department does not collect data, such as the cost and amount of space per person, recommended by the Office of Government Commerce for the effective management of government offices in the UK.

The Department has unused space in its offices even in locations where other UK government organisations are based in separate premises. Other organisations are often deterred from co-locating with the Department because of the security measures necessary in embassies as well as the high charges they must pay to use the Department's buildings.

The Department now needs a better managed estate with improved data to enhance understanding of the estate, and its new strategy to be implemented effectively at each location. It needs to achieve better outcomes—lower costs, better use of its space and improved project management, as it has delivered a number of projects late and over budget. The Department made a commitment to us that it would be able to report a much improved picture within 18 months as a result of the extra focus and attention that it intends to place on its estate.

On the basis of a Report by the Comptroller and Auditor General,¹ we took evidence from the Foreign and Commonwealth Office on the management of its global estate.

1 C&AG's Report, Session 2009–10, *Adapting the Foreign and Commonwealth Office global estate to the modern world*, HC 295

Conclusions and recommendations

- 1. The Department has made a number of improvements to help it manage its estate more effectively, including the appointment of an estates specialist and the development of a new strategy for its estate.** In making recommendations on the areas of weakness we found in the Department's management of its estate, we nonetheless recognise this work and the difficulties that the Department faces.
- 2. The Department is developing a new estate strategy but has limited resources for its implementation.** The Department should draw up a realistic and affordable plan of implementation, showing clearly what it will cost to deliver. The plan should also include milestones for the delivery of real improvement and should prioritise its actions to match the funds available.
- 3. Staff overseas who will implement the strategy are not estates specialists. The appointment of a qualified chartered surveyor as Estates Director is an encouraging step in improving the professionalism with which it manages its estate.** For the strategy to be implemented effectively, the Department must provide professional support to its staff overseas so they can drive through the changes required. It should identify what support they need and how the relevant skills can best be provided.
- 4. The Department collates some management information on its estate, but does so inconsistently. Its new Estates Director currently does not have the information he needs to do his job.** The Department must improve the quality of data on its estate by enforcing the accurate and prompt input of data on all properties into its Pyramid estate database.
- 5. The Department has unused space in many of its buildings but does not collect basic information on space and cost per person.** The Department needs to collect and analyse data on all its properties along the lines of that required by the Office of Government Commerce for UK based government properties. It should seek to increase the efficiency with which it uses its offices by setting local targets for use of space, taking into account the particular business needs of the Department in each location and the nature of the building occupied.
- 6. The Department is not taking sufficient account of particular difficulties when undertaking construction projects overseas. It is not making enough allowance for fluctuating exchange rates, security requirements and the challenging nature of certain locations when planning projects.** Two-thirds of projects examined by the National Audit Office were late and the Department continues to make expensive mistakes, such as on the new Embassy in Damascus, Syria. The Department should implement rigorous risk assessment when planning such projects so that it sets more realistic timetables and budgets. It should also make more systematic use of post project reviews to learn lessons for the future.

7. **It is a poor use of public money when the Department has unused space in many of its offices while other UK government organisations overseas are paying for office space in the same city.** The Department should actively promote the use of spare space in its offices to other UK government organisations. The Treasury should require other government organisations that are considering opening new offices overseas to submit a business case showing the costs and benefits to the taxpayer of locating elsewhere compared with the costs and benefits of sharing with the Department.
8. **Reflecting Treasury requirements, the Department charges other users of its estate full costs even when space would otherwise remain empty. This deters other potential users, some of whom find it prohibitively expensive to use the Department's office accommodation.** Through its Shared Services Group, the Treasury should develop a method of charging that passes on to other UK government organisations a fairer reflection of the actual cost to the Department of accommodating them, while protecting as far as possible the contribution that they make to the Department's fixed costs.

1 Strategy and Implementation

1. The Foreign and Commonwealth Office's (the Department's) previous estate strategy provided a high level description of the estate's strategic aims but lacked detail on its estate requirements, whether the estate met these requirements, and how any gaps would be addressed.² The Department said it was in the final stages of agreeing a new estate strategy which would provide a fuller explanation of the estate it aspires to run and the principles it will operate in doing so.³

2. The Department conceded that resource constraints meant it was not able to implement the strategy as fast and as comprehensively as it would like, although it was able to do essential work to refurbish out-of-date embassies and replace those which are not secure.⁴ The Department was also tackling a backlog of maintenance, security and health and safety works caused partly by budget pressures in recent years.⁵ The Department agreed that it was unacceptable that 40% of the estate no longer complied with legal and Foreign and Commonwealth Office (FCO) standards, and was putting extra money into the budget in both 2009-10 and 2010-11 for health and safety works.⁶

3. The Department's new Estates Director is a qualified chartered surveyor and expert on estates management.⁷ The Estates Director will be responsible for implementing the new strategy. The Department was confident he would have the authority required to drive through the necessary changes throughout the Department's global estate, and that there was also an appetite for progress amongst staff overseas who would be responsible for implementing the strategy on the ground.⁸

4. The diverse nature of the Department's estate means that its overseas staff, few of whom are estates professionals, must be capable of implementing the strategy in all of the Department's locations around the world. They must be capable of producing data, managing projects and preventing overspends.⁹ To help overseas staff implement the strategy successfully, the Department said it planned to set up a regional network of estates professionals. This network would give ambassadors in Africa, Asia and the Americas access to estates expertise, and would also enable the Department to ensure that staff overseas are complying with their responsibilities.¹⁰

2 C&AG's Report, para 5

3 Q 2

4 Q 4

5 Qq 4 and 108

6 Q 108

7 Qq 1 and 29-30

8 Qq 7 and 8

9 Qq 35-37

10 Q 37

5. Decisions about whether to invest in, or dispose of, properties are taken centrally by the Department in London. Staff overseas are empowered to take day-to-day decisions on how they run the estate on the ground.¹¹ The Department recognised that it had not necessarily got the balance right in the past between central direction and local level empowerment, and hoped to provide a clearer framework through its new strategy. For example, it planned to have a professional project sponsor for its major projects, but for embassies to manage smaller projects themselves.¹²

11 Qq 38 and 40

12 Qq 46 and 47

2 Better management information

6. The Department will be unable to implement its estate strategy successfully without good, robust management information and yet it appears to have been operating in an information vacuum.¹³ The Department does not have some of the basic information needed to manage its business such as comprehensive figures on the number of staff from other organisations using the estate, how much money the Department has charged these other organisations for sharing its property, and how this amount has changed over time. The Department does not have accurate data for all of its properties on space and use. The lack of information meant it could not assess whether co-location was successful and whether there was scope to extend the use of the Department's properties by other organisations.¹⁴

7. The Department's management information system, Pyramid, was designed to record estate information and performance data, but much of the data it generates is incomplete and of poor quality. Furthermore, the system is not updated regularly. Of the 188 locations who responded to the National Audit Office's (NAO) survey, almost a third did not use the database and in most locations the NAO visited, the system was only updated twice a year. A number of records, such as details of office space, were inaccurate and incomplete and had not been updated since 2006.¹⁵ The Department agreed that this was unacceptable, and confirmed that it had an action plan in place to achieve 100% returns from database users so that it had a complete and accurate picture of usage of space across the estate.¹⁶

8. The Department agreed that its management information and estate data were poor and that it needed to do more to ensure it was collecting the right data consistently across the estate. The Department assured the Committee that work was in hand to fill in the gaps in the data set and to collect the additional information needed for the new Estates Director to do his job, and that it hoped to be able to report a much improved picture in 18 months time.¹⁷

9. The Department did not have the data it required to be able to show the average space per employee and the cost, compared to other government departments. The Department agreed that while not mandatory, it should collect data in line with the key requirements set out by the Office of Government Commerce for UK government buildings, so that it could demonstrate how its estate performance compared to the guidelines, and identify what it needed to do to improve.¹⁸ The Department was not surprised that it did not fall within the Office of Government Commerce guidelines on space per person as the nature of its buildings and the additional space for business requirements, such as diplomatic functions or interviews, meant that its offices were not directly comparable to typical

13 Qq 6 and 30

14 Qq 30 and 70; C&AG's Report, para 5.4

15 Q 70; C&AG's Report, para 3.2

16 Q 70

17 Qq 6–7, 30 and 109

18 Q 5

government buildings in the UK.¹⁹ However, it accepted that it needed to drive down the unnecessary space that it has in properties around the world.²⁰ In 71% of the Department's overseas properties for which data was available, the average space per person exceeded the current aspiration for domestic central government offices (12m²) by over 50%.²¹

19 Q 5

20 Q 109

21 C&AG's Report, para 3.4

3 Delivering building projects to time and budget

10. The Department's record in delivering its capital projects to time and budget has been disappointing. The NAO examined the performance of 42 projects which had been completed since 2002. Of these, 29 were delivered late and 14 exceeded their budget by over 10%, a total cost overrun of £57 million.²² In 2008–09 the capital programme went £11 million over budget because of poor controls over in-year capital spending.²³ The Department felt this also reflected the need to deal with unexpected events, recently exemplified by circumstances in Madrid, where a faulty sprinkler system in its new top floor offices flooded floors below belonging to other tenants, for which the Department may be liable.²⁴

11. The Department pointed to a number of challenges it faces when building overseas. Many of the capital projects the Department undertakes are in some of the world's most difficult environments, and the Department attributed £40 million of the £57 million overrun since 2002 to buildings in Baghdad, Basra and Harare which went over budget.²⁵ For some work, the Department must use UK labour and contractors for security reasons and this can add significantly to the overall cost of the project.²⁶ For other work, it may be possible in some locations to subcontract non-sensitive areas to local contractors but this is judged on a case-by-case basis.²⁷

12. The Department provided more detail on a recent example of the problems associated with building in insecure environments. Work on the new Embassy in Damascus had to be suspended after the Department discovered that the site was not sufficiently guarded early on in the build, allowing unauthorised access. A subsequent review of the contracting arrangements identified concerns, and financial compliance staff were looking at the project. The Department agreed there had been deficiencies in the way it managed this project and that it should have recognised the security risks at the start of the project and built these into its plans. Work was underway to establish the way forward and the likely costs to the Department.²⁸

13. Exchange rate fluctuations had also caused cost increases and delays on some projects.²⁹ The new Embassy in Algiers was late and over budget due to exchange rate movements although terrorism, security considerations and the retrospective application of Value Added Tax also added to the overall cost of this project.³⁰ The Department reported a

22 Q 93; C&AG's Report, para 3.7

23 Q 106; C&AG's Report, para 3.9

24 Qq 21–24 and 107

25 Q 95

26 Q 41

27 Q 93 and 94

28 Qq 15–20

29 Qq 12–13 and 93

30 Qq 12 and 13

budget shortfall of 12% in 2009–10 due to an adverse exchange rate position.³¹ It admitted it had been caught out by the sharp exchange rate depreciation in 2007–08 as it had not been hedged.³²

14. The Department has an annual target for the sale of its properties. The Department keeps the sale proceeds up to an agreed limit set by Treasury for reinvestment (some £50–60 million over the three years of the Spending Round).³³ The Department has a list of properties which it believes it can sell for a reasonable return, taking account of market conditions. This is not made public in advance to avoid an adverse effect on the market value of the properties listed.³⁴ The Department looks to sell buildings which are no longer relevant to, or too big for its needs, but aims to retain its prestige buildings if used fully. We believe these prestige buildings play an important role in representing British interests overseas.³⁵ Recent disposals include a property in Brussels which was sold after the FCO Embassy staff and those from the UK Permanent Representation to the EU (UKRep) co-located together in a refurbished set of offices.³⁶ The Treasury limit for retaining sale proceeds was increased by £25 million as part of a recent rescue package announced by the Chancellor of the Exchequer. The Department can choose to reinvest these additional receipts in projects to improve the estate, or to cover increased running costs such as those caused by adverse exchange rates.³⁷

31 C&AG's Report, para 4.3

32 Qq 12 and 13

33 Qq 38, 42–45 and 98

34 Qq 38–39 and 45

35 Qq 66, 68 and 75; Committee of Public Accounts, Third Report of Session 2009–10, *Financial Management in the Foreign and Commonwealth Office* HC 164, [incorporating HC 1051–i]

36 Q 26

37 Qq 97–100

4 Sharing space with others

15. The Department's objectives commit it to providing a flexible global network serving the whole of British Government, but other UK government organisations operating overseas are not making full use of the empty space on the Department's estate, often preferring instead to lease their own properties.³⁸ The NAO found 175 teams from other government organisations operating in the same location as the Department, but not using their office space. In 63 of these locations, the Department reported having spare space.³⁹ The UK Border Agency, which is usually based in the Department's offices, is slimming down its operation and bringing its work into regional hubs. This has left many properties with empty visa offices, waiting rooms and interview booths, and it can be difficult, costly and time consuming for the Department to reconfigure these areas into usable space.⁴⁰ The Department invests a lot of money in the security of its buildings, so moving into smaller premises can be very expensive.⁴¹

16. The Department currently shares office space with a number of British government and international organisations and agreed there may be further scope to do so in the future. The Department for International Development had moved back in to FCO compounds in India and in Africa.⁴² The FCO had also co-located with UKRep in Brussels, and was looking at the scope to share offices in Vienna and Geneva.⁴³ The Department confirmed that it has no current plans to co-locate its representatives overseas with those of the proposed new European External Action Service. It would be willing to consider locating one or two British diplomats with an EU delegation in countries where it does not currently operate, as a cost effective way to establish a diplomatic presence. It may also be able to reduce costs by letting out space to other nations in its own facilities, as it had done already in Baghdad and Dar-es-Salaam.⁴⁴

17. Many organisations requiring public access choose not to use the Department's estate overseas because they consider a secure facility to be incompatible with their business needs. The inaccessibility of the embassy may be unsuitable for other potential users, such as trade associations, but these organisations do make use of official residences for business promotions.⁴⁵ The British Council prefers to locate separately to the Department, where security allows, as it requires maximum public access and minimum security for its students taking English classes or using the library facilities. In addition, in some countries the Council's status as a charitable body precludes it from operating from the Department's premises.⁴⁶ The Department agreed that in almost all cases, co-location was better than

38 Qq 9 and 31; C&AG's Report, para 5.1

39 Q 31; C&AG's Report, para 5.3

40 Q 9

41 Qq 9 and 11

42 Q 11

43 Q 28

44 Qq 46, 65 and 76–81

45 Q 55–59

46 Q 31

having a UK embassy and government offices in different locations in the same city, and that more could be done to overcome some of the barriers to other organisations using its estate.⁴⁷ Financial pressures may see a greater move towards co-location amongst government organisations over the next few years.⁴⁸

18. The Department is required to charge other users of its estate full economic cost in accordance with Treasury rules. This charging regime acts as a disincentive to other users of the estate, as it is often cheaper for them to lease their own premises elsewhere.⁴⁹ The charge is set according to the Treasury fees and charges guide, and is made up of direct costs such as water bills, local management costs, and a central overhead, which reflects the amount of time Department staff in London spend on administration.⁵⁰ The full economic cost of sharing space with the Department will always be more expensive than a commercial rate as it is expensive to provide a secure building.⁵¹ The Department agreed that the idea of being able to charge a lower cost to fill its unused space would be attractive, and it would be better value for money for the taxpayer to have all government departments working together in the same place abroad as much as possible.⁵² However, there is a risk that the Department could lose out financially were it to charge a lower cost to other users, as it would still have to meet the fixed costs of the its buildings. It would prefer instead to focus on reducing the overall cost of its operations overseas. Greater use of embassies by other departments would help it achieve this goal.⁵³

19. The Department is a member of the Treasury's Shared Services Group which deals with property management and is currently looking at the tensions between the full economic cost and the cost to the taxpayer.⁵⁴ The Treasury hoped that this group would place greater emphasis on other government organisations to use the Department's estate where appropriate, instead of entering into commercial deals which may be more costly to the taxpayer in the longer term.⁵⁵

47 Qq 30 and 31

48 Q 32

49 Qq 9 and 60

50 Qq 87–90

51 Q 60

52 Qq 9 and 64

53 Q 64

54 Qq 9 and 61–64

55 Q 10

Formal Minutes

Wednesday 17 March 2010

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon

Mr Ian Davidson

Nigel Griffiths

Rt Hon Keith Hill

Mr Austin Mitchell

Rt Hon Alan Williams

Draft Report (*Adapting the Foreign and Commonwealth Office's global estate to the modern world*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 19 read and agreed to.

Conclusions and recommendations 1 to 8 read and agreed to.

Resolved, That the Report be the Twenty-fifth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

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

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Monday 22 March at 4.30 pm]

Witnesses

Monday 1 March 2010

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Sir Peter Ricketts KCMG, Permanent Secretary and Head of HM Diplomatic Service, **Mr James Bevan**, Director General, Change and Delivery and **Mr Alan Croney**, Head of Estates, Foreign and Commonwealth Office

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Oral evidence

Taken before the Committee of Public Accounts on Monday 1 March 2010

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Mr Douglas Carswell
Mr David Curry

Nigel Griffiths
Mr Austin Mitchell

Mr Amyas Morse, Comptroller and Auditor General, and **Mr Tim Banfield**, Director, National Audit Office, gave evidence.

Mr Marius Gallaher, Treasury Officer of Accounts, HM Treasury, gave evidence.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL ADAPTING THE FOREIGN AND COMMONWEALTH OFFICE'S GLOBAL ESTATE TO THE MODERN WORLD (HC 295)

Witnesses: **Sir Peter Ricketts** KCMG, Permanent Secretary and Head of HM Diplomatic Service, **Mr James Bevan**, Director General, Change and Delivery, and **Mr Alan Croney**, Head of Estates, Foreign and Commonwealth Office, gave evidence.

Q1 Chairman: Good afternoon. Today we are considering the Comptroller and Auditor General's Report on *Adapting the Foreign and Commonwealth Office's global estate to the modern world*. We welcome back to our Committee Sir Peter Ricketts, who is the Permanent Under-Secretary at the Foreign and Commonwealth Office and Head of the Diplomatic Service. Would you like to introduce your two colleagues, please?

Sir Peter Ricketts: On my right is Mr James Bevan, who is the Director General in the FCO who superintends our estates and security work and on my left is Mr Alan Croney, who is our new Estates Director and a professionally qualified expert on estates management.

Q2 Chairman: Sir Peter, the Committee has before it the letter that you sent us on 19 February with your estate strategy. Of course this has come in quite late so members of the Committee may not have had time to familiarise themselves with it, so perhaps you could give us an overview of this letter.

Sir Peter Ricketts: Yes, of course, Chairman. We wanted first of all to update the Committee on some of the activities in our estates management over the last six months or so to give you a sense of the projects that we have been working on, some of which I am glad to say have been done on time or early and below budget, one or two have been more difficult and have gone over budget for reasons we can discuss, and to alert the Committee to some continuing issues we have with the estate; and also to foreshadow that in our FCO Board this month, last week, we took an estate strategy very much on the lines of the recommendation in the NAO Report. We had a long discussion on that in the Board. It is not quite finalised yet but we will finalise it very rapidly and I will send it to the Committee as soon as we

have it. That is a much fuller statement of the estate that we aspire to run for the FCO and the principles that we will operate in doing that.

Q3 Chairman: For future reference it would be helpful to have this information a bit sooner before the Committee.

Sir Peter Ricketts: I apologise that it came late.

Q4 Chairman: Do you have the resources to implement this strategy in full?

Sir Peter Ricketts: No, I do not have the resources I would like to implement the strategy as fast and as comprehensively as I would want to. We are resource constrained. We can do the essential work, both in terms of replacing embassies that are not secure, refurbishing those that are old and out-of-date, and we are tackling a backlog of maintenance and security works and health and safety works, however, resources are a constraint.

Q5 Chairman: I was a bit surprised to read that you are basing this strategy now on OGC guidelines. I would have thought that you would have always have based it on OGC guidelines. There is nothing new about this, is there?

Sir Peter Ricketts: I think we should certainly be collecting the data the OGC require. Technically OGC guidelines have only applied to government buildings in the UK and there are some features of embassies that are always going to be different to typical government buildings in the UK. Many of them have space for representational work, for receptions, for trade promotions, for cultural work. Many of them have spaces for visa interviews and waiting rooms and so on that are not typical of Civil Service buildings in the UK. It is a not a surprise that we do not match up fully to the OGC guidelines. I

 Foreign and Commonwealth Office

think we should have been collecting the data more rigorously than we have so that we have the evidence base to see where we are short of the OGC guidelines and what we need to do. We are now putting that right to collect the data. I think an embassy overseas is not necessarily comparable to a classic government building in the UK.

Q6 Chairman: I understand that. You now have a specialist Estate Director sitting here. Is he now going to have the information he needs? Perhaps he might answer. Have you got all the information you need to do your job?

Sir Peter Ricketts: I might pass the floor to Mr Croney but I suspect the answer is we need to work to get him the data but that is in hand now.

Q7 Chairman: Will you have the authority to drive through change in this far-flung empire?

Mr Croney: We do not have the data at the moment but we are already working to fill the gaps in the data set and also to collect additional information as well. Clearly, that will take some time, but I see no reason why we cannot collect that across the network and I certainly believe that the Board has empowered me and my colleagues to achieve collecting that data.

Q8 Chairman: And you will have the authority within the Office, will you?

Sir Peter Ricketts: I will certainly make sure that he has my authority in following this up. I think our heads of mission out and around the embassy network are keen to get on with modernising our estate, correcting the problems with it in terms of maintenance work or it not being a sufficiently modern environment in terms of IT and open planning and so on. I do not think we have a problem of incentivising people to get on with it. We do have a problem with resources and we have an opportunity now, on the back of the NAO recommendations, to do more centrally in our Estates Directorate, to give more direction out to people as to what we expect them to be doing.

Q9 Chairman: It seems to me that the problem is that we have a lot of unused space here, maybe for historical reasons and also because other government departments which are coming out to these places are often leasing their own properties. You are obliged to lease your property at commercial rates so they may think they can get a better deal by taking their own properties instead of using your unused space. As a result, we have the taxpayer effectively paying twice. What I want explore briefly with you and the Treasury is how we can get a commitment from other government departments to use your unused space?

Sir Peter Ricketts: Thank you for opening up that area, Chairman. I think you are right. Our estate is not very flexible in the sense that we invest a lot of money in the security, so moving from an embassy to a smaller place is very expensive. Some government departments have been changing very fast the way they operate around the world for reasons that are perfectly rational for them. UKBA, for example, has

stopped issuing visas in a lot of places around the world and is bringing that work back to some regional hubs. That has moved fast and it has meant that we have a lot of empty visa offices and waiting rooms and interview booths in our embassies around the world. Reconfiguring that into space that we can use or slimming down our buildings to take account of that is an expensive and quite time-consuming operation. That is one problem—the speed at which other departments have been changing the way they operate, leaving us with rather inflexible space. The second issue, as you rightly indicate, is that from the point of view of overall value for money for HMG I would have thought the right answer as far as possible is to have government departments all working together in the same place abroad. It is true that the Treasury's full economic cost model, which is what we have to charge for people using our space, puts them off sometimes.

Q10 Chairman: Over to the Treasury now, how are you going to drive this process forward so that we can encourage other government departments to use this unused space?

Mr Gallaher: I believe there is a Shared Services Group of which the Treasury is a member and it works with the FCO and other key players overseas, and we are striving, where possible, to improve procurement, IT and property management together. We hope that this group will lay greater emphasis on departments using FCO space where appropriate and avoid going into commercial deals which may be cheaper but in the long run are more costly to the taxpayer.

Q11 Chairman: Do we have enough information that we need, Sir Peter, on the average space per person that you employ and the cost, compared to other government departments? Maybe it is not comparing like with like. The Treasury told us the Treasury had to do a lot more thinking than other government departments and they need more space. What is your thinking on this?

Sir Peter Ricketts: We can think in a very small space, Chairman. I do not think we do have the data that we need, to be absolutely honest, to be able to show that. I think that is part of the requirement Mr Croney is pursuing to get better management information so we have that sort of information. Nonetheless, your general point is right. In some cases we have been able to agree, for example with DFID, to co-locate DFID back on to our property. In Delhi, for example, DFID are moving back into the compound, which is good, and they have done that in Africa as well. The pace at which some of the larger tenants of our space have been moving, particularly UKBA, has left us running to catch up with a rather inflexible estate with a lot of sunk investment in it.

Q12 Chairman: I saw in your letter that you had a bit of a problem with Algiers. Is that right? You were over budget and over time?

Sir Peter Ricketts: Yes.

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Q13 Chairman: You said it was to do with exchange rate movements but could this not have been planned for? You opened new embassy offices in Algiers in June 2009. It was late and over budget. “This was due to exchange rate movements and a change in our liability to pay tax on the project.” I suppose none of this was foreseeable, was it?

Sir Peter Ricketts: There was also a problem of terrorism and the domestic security situation which did not help, the retrospective application of VAT certainly added a lot to our costs, and exchange rate movements there and in other places such as Warsaw have added to the costs. I think the sharp exchange rate depreciation in 2007–08 did catch us out. We were not hedged and so we took a hit on the currency there.

Q14 Chairman: What is your overall strategy in terms of new buildings for your staff? Presumably you do not want to go down the American line of moving all your staff into fortified bunkers on the edge of town. You want to keep our traditional offices, embassies and residences as much as possible in the middle of towns and you cannot always be thinking they are more of a terrorist target. You see what I am getting at. What is your thinking on this compared to the Americans?

Sir Peter Ricketts: Exactly as you say, not to be building bunkers that completely exclude all members of the public. I am very much in favour of risk management. We have to protect our staff. That means we have to be secure but that does not mean to say we should deny all public access and build a 20-foot wall around all our buildings. In some parts of the world we can still be pretty open to members of the public where the risk is low. In places we have been building such as Sana’a in Yemen or in Baghdad or in Kabul, of course, it is going to be a very secure place. By and large, we want to be in the centre of town, modern, flexible, with as much public access as we can, given the security.

Chairman: Thank you very much. Richard Bacon?

Q15 Mr Bacon: Perhaps I can just continue with the point you made a minute ago about the need for greater security in certain places. Damascus would be pretty high up on anybody’s list of places where you need high security. Your letter to us says that you have had to suspend work on the new embassy offices in Damascus after evidence came to light that aspects of the security of the site may have been compromised. This was presumably during the development and building phase it was compromised?

Sir Peter Ricketts: Yes.

Q16 Mr Bacon: But also that you have asked your financial compliance unit to investigate and report, so it sounds like on the face of it there are concerns from the security point of view and that people have got their hands in the till. Is that right?

Sir Peter Ricketts: The second part is not right. I do not want to go too far into the security issues but I think the Committee will understand, yes, we came across a problem which seems to have meant that

unauthorised access was allowed to the site when it was at a very early stage of being built, which has obvious security implications, which are very worrying. When we then dug into it and looked into the contracting arrangements, we were not satisfied with the way the contracts had been done and therefore we have asked our financial compliance people to look carefully at it. I do not have any evidence of fraud or corruption.

Q17 Mr Bacon: It is a security problem.

Sir Peter Ricketts: There is a problem. I might ask Mr Bevan, who has looked in more detail at this than me, to say another word but there is both a security and a contracting problem.

Mr Bevan: There is a security problem in terms of operating in Syria and the potential threats that that might pose to our embassy, which obviously we cannot go into in detail in public on, where, as the Permanent Secretary said, there has been evidence that the site was not sufficiently guarded at an early stage.

Q18 Mr Bacon: This is the thing I do not understand because that is what it sounded like. Surely—and this was my point at the beginning—it is obvious before you start that somewhere like Damascus is very high risk, just like Basra, just like Baghdad so why did you not get the guarding right to start with? I think this happened with the Americans. They built an embassy somewhere, it might have been one of the old embassies in Moscow, and only after it was three-quarters built discovered it was full of bugs. Is this not the sort of thing that you could risk manage? You have said you are in favour of risk management. It is blindingly obvious that that is a very high-risk location so why did you not build that risk in from the start?

Sir Peter Ricketts: You are right and we should have done, Mr Bacon. I have absolutely no excuse. I think it was a failure there.

Q19 Mr Bacon: How much is it going to cost us?

Sir Peter Ricketts: We do not know yet.

Q20 Mr Bacon: Will you tell us when you do?

Sir Peter Ricketts: Of course.¹

Q21 Mr Bacon: Can I move on to Madrid. What happened here? Did the Ambassador leave the bath on? It is a brand new building, high rise. “We are seeking to establish the facts and the size, if any, of any FCO liability.” Is there an FCO liability?

Sir Peter Ricketts: Potentially, yes. This is our new office building on the 40th floor of a brand new office tower in Madrid. We are almost at the top and there was some fault which led to the sprinkler system coming on, I think overnight, and therefore a lot of water.

Q22 Mr Bacon: So did somebody light up and have a cigar or something?

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Sir Peter Ricketts: I think it was probably a power cut or something that triggered the sprinklers that then put a lot of water down which then seeped down through other floors of the building and therefore there is a potential claim against us, I fear. Since HMG's policy is not to insure but to self-insure as it were, we are potentially facing a liability. We are looking at the moment into whether it is our liability or somebody else's.

Q23 Mr Bacon: Is the liability to the owner of the building or to the other tenants?

Mr Croney: The liability applies to the building and to other occupiers and a range of other people.

Sir Peter Ricketts: This is very unsatisfactory because it is a wonderful new embassy in a brand new building but there seems to have been this fault with the fire alarm sprinkler system.

Q24 Mr Bacon: Perhaps you can update us on that when you know the liability. It will be interesting to know who it was you soaked.

Sir Peter Ricketts: We will. A number of other embassies below us and then I think some private companies.

Q25 Mr Bacon: So long as you were at the top.

Sir Peter Ricketts: I think we are.

Q26 Mr Bacon: Sir Peter, you used to be ambassador to NATO. One of the other points in your letter is about co-locating the British embassy in Brussels and UKREP. In fact, we visited the offices there. Was any thought given to co-locating all three missions, the NATO mission, UKREP and the British embassy to Belgium in the same place?

Sir Peter Ricketts: Yes, thought was given to it. First of all, this is an example of where we have been able to reduce the size of our embassy. We had a bilateral embassy in downtown Brussels which was increasingly empty as we took diplomats away and moved them elsewhere. When we refurbished our EU mission we created a floor into which we put the embassy, which is much better for the embassy because it is then alongside a much bigger FCO operation, and we have significant economies of scale there, and we were able to get rid of that bilateral building. We did think about NATO. All NATO delegations are operating out of the NATO HQ building out by the airport and it did not seem sensible to move ours and be the only one which was not co-located with the rest. In fact, NATO is building a new building for the entire Alliance in which we have contracted for some space so we have left it with a separate mission.

Q27 Mr Bacon: Is the same true in Italy? The Committee visited Italy and I had not realised there were three missions to Italy: the Holy See, the Italian republic but also the United Nations organisations there. Is there a building in Rome to which all the United Nations organisations belong in the same way or is there scope for economies of scale there?

Sir Peter Ricketts: I think I had better check that, unless somebody else knows here.² On the Vatican, our small mission in the Vatican does operate out of the same areas and compound as the embassy.

Q28 Mr Bacon: The ambassador lives in a garret and having had personal experience of that I can say it is extremely good value for money.

Sir Peter Ricketts: Indeed it is and we had an exchange about this at my last appearance. I think I then wrote. The Vatican will not allow the ambassador to the Vatican to live on the same premises as the ambassador to Italy, so that is a mandatory thing. On the UN mission, I am not conscious we have anything other than maybe one or two people supporting the UN operation there. There have been examples in Vienna and in Geneva where we have multiple missions in the same city and we are looking at all of those to see whether we can get economies by putting them together.

Q29 Mr Bacon: Mr Croney, it says in the Report that you are professionally qualified and indeed Sir Peter described you as that at the beginning. I have searched in vain for the nature of your professional qualification. Are you a Chartered Surveyor?

Mr Croney: Yes, I am a Chartered Surveyor.

Q30 Mr Bacon: Marvellous and you are Head of FCO Estates. This is very encouraging and first class. I remember when we saw NHS Estates a while ago and the chap in charge was not a Chartered Surveyor and I remember thinking it was a bit odd. This is most encouraging. Sir Peter, part five, which deals with working with other government organisations, has a number of references to the lack of information. In 5.4: "The FCO was unable to provide information on how the amount other organisations are charged has changed over time or comprehensive figures on the number of staff from other organisations using the FCO estate", and then a bit later it says that the FCO is unable to assess whether co-location is successful and whether there is scope to extend the use of properties. It just sounds like there is an enormous information vacuum.

Sir Peter Ricketts: To be frank, Mr Bacon, I was as surprised as you that we were not able to supply this information. The fact is that we have not collected the information on that basis before and therefore it is not available. I do not have any difficulty in assessing whether co-location is successful. My view is that in almost all cases co-location is better than having a British embassy and British government offices strewn across cities. Like you I am frustrated that we do not have this data. I think part of the purpose of updating our management information is to make sure that the next time we come to the Committee we will have that data and we will be able to tell you more precisely the numbers of staff from other government departments. My sense from going around our embassies around the world is that there are increasing numbers of other government department staff working in our embassies, as

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globalisation means more and more departments have an interest—for example Beijing is now full of people from other departments—so I am frustrated that we cannot give you a better answer than that.

Q31 Mr Bacon: When it says in the Report in 5. 3 that there were 175 teams identified by the National Audit Office from other government organisations that were operating in the same location as them but not within FCO offices, you can always find—and indeed some of them are set out in the Report—reasons why other government organisations might be separate, like business and security and diplomatic and legal status and so on. Presumably, most of those could be got round if it were essential for financial reasons, including, I notice, the British Council's status as a charity or commercial body in some countries precludes it from operating from the FCO premises. Surely that can be changed to suit in each location if required, could it not?

Sir Peter Ricketts: Yes it could and indeed in some locations they are co-located with us. When you refer to the 175, I suspect quite a lot of those are British Council offices. Over the years the Council has chosen not to be part of the embassy, partly because what they want is maximum public access and minimum security so they can get as many people in for English language classes or using the library or the internet, and so what they are looking for is a slightly different thing from what embassies offer. In high security places they are with us. I suspect it is mainly that and probably some DFID offices which are still separate from us in parts of Africa for example.

Mr Bevan: The only other thing I would add is another reason why the British Council prefer, if they can, to be away from our embassies is because they do not want to appear to be an arm of the British Government.

Mr Morse: You can see the breakdown there if you turn over the page. We actually give the breakdown of the numbers over the page and you can see them in figure 13.

Sir Peter Ricketts: It is indeed largely the British Council I think that are operating by choice off our premises.

Q32 Mr Bacon: The point I was making was *force majeure* may cause various organisations within government, if financial constraints are what we expect them to be, to make changes. Would you expect to see the amount of co-location increasing in the next two or three years?

Sir Peter Ricketts: I think financial pressures will push in that direction, yes.

Q33 Mr Bacon: The FCO needs to consider reputational issues when assessing the suitability of potential tenants. I am not sure if this is really a question for the NAO but does that mean the reputation of potential UK government tenants or does it mean other private tenants in those countries?

Mr Banfield: Other private tenants.

Q34 Mr Bacon: You would be happy subject to their business requirements to have any UK government organisation co-located with you?

Sir Peter Ricketts: Yes, I think so.

Chairman: Thank you, Mr Bacon. David Curry?

Q35 Mr Curry: Sir Peter, if I try and deconstruct the management structure for running the estate, I am not quite sure whether the thrust is to make the Foreign Office more expert at running buildings or to look more and more externally to people to run it who have their own expertise such as Mr Croney. If I joined the Foreign Office as a bright graduate, hopefully from Oxford, in my early 20s, what chances would I have of receiving some training in issues rather than the romantic bit of the Foreign Office, which I probably joined to do, in the mucky business unromantic bit, like running the estate, and how important would that be to my promotion to do well in that if it existed?

Sir Peter Ricketts: You would probably have joined to be a diplomat and running the estate probably would not have been your top priority. I will come back to the specific point in just a second. My feeling is that we should turn to professionals for the delivery of specific functions like finance, like estates, like human resources, like IT. We should not pretend that diplomats can become amateur surveyors, so I think a cadre of professional staff to ensure that we are delivering to the highest standards is right. If you join the Foreign Office I think your responsibility is to develop yourself as a leader of the entire operation so that when you come to be an ambassador you are capable of implementing whatever the Estate Strategy is and to make sure that your team is producing the data, managing the projects well and ensuring that we do not overspend.

Q36 Mr Curry: This gets us back into the interface immediately, so we have Mr Croney and he has to design a strategy, and that strategy has to take into account some really quite difficult things, like the expectations of Britain's footprint in the world—

Sir Peter Ricketts: Absolutely.

Q37 Mr Curry:—for a generation, which is, after all, a question partly of political will, partly of political perception and partly accident, and I suppose a lot of it is to do with money, so he cannot run it like Land Securities. He is running a different sort of operation. He is then dependent upon Foreign Office people, is he, in the post to implement that? He does not have his own network of people capable of taking or instructed to take those decisions overseas?

Sir Peter Ricketts: That is right. We are thinking about setting up a regional network of estates professionals so that at least in Asia, in Africa and in the Americas there is a regional estates expert who can help ambassadors and there are technicians who can go around and survey posts and check that they are doing what they need to do. You are right, this is absolutely at the heart of our business really. We have 260 different places around the world and every one is different. They are operating in different legal and cultural environments, and so there is no one

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statement you can make about the FCO estate that will apply to all places around the world. Therefore the ambassador and his team have to be the people who are actually implementing it on the ground.

Q38 Mr Curry: Let's take Washington DC. All the embassies in Washington own slices of Bethesda, for example, because they house their people in it. To what extent is that estates operation able to work independently? Over the last two years I imagine large numbers of houses could have been bought up extremely cheaply in the United States given the subprime crisis. Does somebody have the autonomy to do that or when the market is good can they say it is a very good time to sell, there is real demand? To what extent are you running a business and to what extent is that business able to be run locally? If you do it well, do you keep any of the proceeds?

Sir Peter Ricketts: It is an excellent question and I shall nominate the answer to Mr Bevan.

Mr Bevan: Firstly, we do have an annual asset sales programme which we adjust according to a target in terms of millions of pounds' worth of capital that we want to bring in. We try through that programme to identify those properties that we can sell and we try to be intelligent salesmen and sell when we think we can get a reasonable return so we factor that in.

Q39 Mr Curry: So you are not trying to hit a target for sales which might lead you to selling in poor conditions in order to meet the target?

Mr Bevan: We are trying to hit a target each year which we need to sustain the business (because we reinvest the capital that we produce) but we try to make sure that the target we set and the specific properties that we sell take account of the market conditions so that we get good value for money.

Q40 Mr Curry: That was the first part; what was the answer to the second part of the question?

Mr Bevan: The other part is on investment, so if you take Washington, Washington will have, in terms of the ability for the ambassador and his staff to take local moderate decisions about what they do with their estate, which are a matter for them, but if we are talking about a big investment or big decisions to sell the residences, for example, or a big investment programme, those are things that need to be decided centrally by Alan and the team in London.

Q41 Mr Curry: To what extent are security issues a factor? I was quite struck that in Washington all the electricians and plumbers come out from the UK, they are not local people, and I assume that is for security reasons, and that is a huge added cost, presumably?

Sir Peter Ricketts: It is. Those who are working on our embassy buildings have to be UK staff for reasons the Committee will understand, which adds enormously to the cost. We need to keep a space at the very heart of our embassies completely UK only and that is an expensive proposition.

Q42 Mr Curry: To come back to Mr Bevan, you have an inventory of what you want to sell?

Mr Bevan: Yes.

Q43 Mr Curry: To what extent is that a public inventory? Presumably not too public because otherwise you then do not get very good prices?

Mr Bevan: That is exactly right. We have a target for the coming financial year.

Q44 Mr Curry: Who sets it?

Mr Bevan: It is set by the estate committee that I chair and it is set in part in light of a calculation about how much capital we want to bring in that financial year in order to reinvest elsewhere in the estate.

Q45 Mr Curry: It is determined by an internal capital need. The Treasury is not saying you have got to flog so much?

Mr Bevan: We also have targets that we agree with the Treasury in terms of annual asset recycling so there is a joint decision-making process that goes on there. Then we have a separate list of properties which we believe we can sell in the course of the coming year to realise that capital. We do not make that list public in advance for the very reason that you have identified, Mr Curry, that that could have an effect on the market value.

Q46 Mr Curry: Now we are going to get a European Union diplomatic service, presumably there will be real estate implications for that. Have you thought where the interface might be in terms of buildings in some of the overseas countries where perhaps they are not sufficiently prime targets, as it were, for everybody to have an embassy?

Sir Peter Ricketts: Yes. What is going to happen in the first place is that all the buildings that are currently for the Commission delegations around the world, we will put a new brass plaque on the door and they will become European Union missions, so there will not be much of a property implication. Over time I think there will be more EU delegations opening up around the world and if we have surplus property that we want to sell that could become interesting, yes, but what you identify is exactly the issue at the heart of the NAO Report: how much should we do this by central direction and laying down central guidelines and how much should we do it by giving initiative to our ambassadors to get on with it. Getting that balance right—and I accept that we have not necessarily had it right up to now—is at the heart of it.

Q47 Mr Curry: What process do you go through at least to determine the paradigm?

Sir Peter Ricketts: That is what we are really doing with this estates strategy that we are now putting together on the back of the NAO Report. It will provide the paradigm and provide the principles and then Mr Croney's Directorate will enable the ambassadors to get on with it. For the major projects we will have to have a proper project sponsor, a professional surveyor and architect, but for the smaller projects we would hope to be able to get the embassies on to them.

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Q48 Mr Curry: Do you really need support staff in central London in King Charles Street and Old Admiralty Building?

Sir Peter Ricketts: We have fewer and fewer of them. We are moving more and more of them out to our new hub around Milton Keynes where we have a site at Hanslope Park; it has been an old site, and now we have a good estate in Milton Keynes.

Q49 Mr Curry: I must not denigrate Milton Keynes so close to an election.

Sir Peter Ricketts: At Milton Keynes because Hanslope Park up the road has been the FCO's for 60 years now.

Q50 Mr Curry: When the Pope said there is no such thing as purgatory he clearly had never tried to drive through Milton Keynes!

Sir Peter Ricketts: Quite! I do not think I could comment on that, Mr Curry.

Q51 Mr Curry: Secondly, if there is anything that keeps you awake at night might it be the building in Shanghai? This is a fantastic building with all sorts of knobs and whistles and goodness knows what. It is a very, very pricey item. Mr Bevan, you had a sympathetic smile at that point as if you might have the odd twinge in the middle of the night on this. What could go wrong?

Mr Bevan: I think it would be fair to say that a year ago when we were thinking about the Shanghai Expo, there was concern that we might not have the right building at the right price to represent Britain in the right way. We have put a lot of effort over the last year into ensuring that we have the right people and the right money to deliver it. I do not lie awake and worry about the Shanghai Expo building. I think when it opens in two months it will be a very good advertisement for Britain.

Sir Peter Ricketts: It is going to be a great building actually, if I may say. It is about the most popular of the pavilions in China. It is on all their posters alongside the Chinese pavilion because it is the most creative.

Q52 Mr Curry: And the sprinkler system is under control?

Sir Peter Ricketts: I hope so.

Mr Curry: Well I am delighted to know that the spirit of the old Papal State still exists in Italy and so will the Chairman no doubt.

Q53 Chairman: On that point, have you seen figure 11 where it says on page 29 that the National Audit Office assessment of your response in China is "Poor". Sir Peter, what impact has that lack of investment had on our position in China?

Sir Peter Ricketts: The problem with China is that we cannot move out of our existing embassy offices, in effect, because it would be enormously expensive to try to re-create what we have there in the boom market that is China, and we have been desperately trying to get our hands on another building nearby where we can spread because our embassy in Beijing grows all the time. We have been in discussion for

some time with the Americans who have just vacated a property more or less across the road from us and we are trying to buy that off the Americans to give us more space. Our problem really is that we are straining at the seams of our existing property and in the circumstances of Beijing I do not think it is realistic to move to a completely new one, so that is more a question of supply of adequate buildings that we can use for an expanding embassy.

Q54 Chairman: This of course is an absolutely essential marketplace for us and we read here that, "We found current office spaces were of poor quality with few facilities." It is the question I have already asked of you, Sir Peter: has it had an impact on our representational ability with a hugely important and more and more important marketplace?

Sir Peter Ricketts: No, I do not think so, Chairman. I think we have been able to fund Shanghai and continue to do the programme of modernisation that we need. In Beijing we are waiting until we can get our hands on this new site across the road at which point we will move out half the staff and then properly refurbish the building we have.

Q55 Mr Mitchell: Why can you not bring in more government departments and perhaps trade associations and groups interested in exporting? Why can you not make the embassies British centres for all-purpose business and representation and education and all the other things that could be brought in? You seem to have a lot of surplus space; why not use it?

Sir Peter Ricketts: Indeed. The UKTI offices are in our embassies so the official British trade and investment effort is in our embassies. People who want space that they can bring members of the public into easily tend not to be very keen to come into embassies because embassies always have security and guards and you need passes and metal detectors and so on, and so they are not very convenient places for public access. Residences are better.

Q56 Mr Mitchell: Those can be made partial. You could subdivide parts of it which are less security conscious.

Sir Peter Ricketts: Some of them you can. Indeed there are places in the world that I have been to where the Visit Britain office, the British Council and the BBC are all in the same premises, but there are many where security does make that difficult. I would love to get more people into our unused space to use it, and every time we can, we do, but security is a constant obstacle.

Q57 Mr Mitchell: Would you bring businesses and trade associations in?

Sir Peter Ricketts: I do not think they want to be there. They want to be in modern downtown offices where it is easy to get your clients in and out. They tend not to want to be in embassies.

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Q58 Mr Mitchell: They also want to use the expertise of the embassies and the business representatives there.

Sir Peter Ricketts: They want it available. What they love to do, and we are doing it more and more is use the residences for business promotions. Our ambassadors now have business in their houses all the time.

Q59 Mr Mitchell: You do that?

Sir Peter Ricketts: Absolutely, and indeed we charge for it, which is a useful source of revenue sometimes for hard-up embassies.

Q60 Mr Mitchell: One of the problems I see from the Report is that other organisations, the British Council, BIS, other departments, think you are charging them too much. Why can the charges not be abated?

Sir Peter Ricketts: Perhaps I will ask Mr Bevan, who is the great expert on that, to respond.

Mr Bevan: We are bound by the principle agreed with the Treasury, which we do not contest, that we should be charging the full economic cost to other government departments when they want to base in our embassies. When you calculate that full economic cost it will always be much more expensive than a commercial rate because we are often in a premium location, we are providing a secure location which in some places is extremely expensive. We are not just charging them the marginal cost of providing accommodation, we are charging them the cost of the invisible support that we also provide to them, so making arrangements for their accommodation and managing their staff.

Q61 Mr Mitchell: Let me stop you there and ask the Treasury, why are you insisting on such high charges? Why not insist on marginal rent?

Mr Gallaher: We are insisting on the full economic cost to be charged.

Q62 Mr Mitchell: Why?

Mr Gallaher: They are not necessarily high charges; they are the costs of the service that the Department is providing.

Q63 Mr Mitchell: If it is a prestige premises with high security charges, which have got to be borne in mind, why insist on the full economic cost?

Mr Gallaher: Because we have always insisted that departments charge the full economic cost for their services to other government departments.

Q64 Mr Mitchell: In this case you are assisting organisations which are exporting for Britain, battling for Britain, in that endeavour.

Mr Gallaher: There is currently a Shared Services Group looking at these issues working with the FCO and other main players who operate overseas and we are looking at the issue, which I mentioned to the Chairman, that there is an obvious tension between the full economic cost and the cost to the taxpayer. We are looking at it. At the moment we do have this

rule which is if we start being lenient on one department in one area others will want the same treatment and it will be hard to police.

Sir Peter Ricketts: Could I add one point, Mr Mitchell? Subject to agreement with Treasury, in some ways it would be quite attractive to cut our costs and get more people in. The risk to me is that it leaves a hole in my budget because I have the fixed costs of the embassy that stay. If we go to reduced costs for other departments I am left with the rest, so that is not all that attractive from my point of view. I would much rather get the overall cost of our operations down overseas if I could and, therefore, the more of us in embassy premises the better actually.

Q65 Mr Mitchell: Let me approach it from the other angle now. We see that the EU is now building up its own framework of embassies and representation, its own effective foreign service. Why can they not either hire out space to them or muck in with them in common premises?

Sir Peter Ricketts: I think we may muck in with them in time to come. As I said, right now what is happening is offices that used to be Commission offices are becoming EU offices, so not much is changing in terms of the buildings, but over time, for example in somewhere like Africa, in small countries, if there was an EU operation there I would be very interested in putting one British diplomat or two British diplomats in to a wider operation. I think that would be very cost-effective. Maybe, as you say, we can make space for an EU representative. I think we have done that in places like Baghdad where they do not have many options and we have brought them in. They have paid the full economic cost and we have rented them some space in our embassy in Baghdad. I think over time probably we will move in that direction.

Q66 Mr Mitchell: Perhaps it is a bit churlish for MPs who tend to be lavishly entertained in embassies around the world, and certainly I have been, to start then coming home and attacking them for waste. When you see many of the embassies, it does seem that they are there for prestige reasons, we have got those buildings in areas for prestige reasons, and this is a kind of relic of the great power status which we once had but no longer have. Perhaps you could give us a note on how many of the premises that we are now in we were in in 1950 when we were a much bigger power.³

Sir Peter Ricketts: Yes, we could, Mr Mitchell. I am a bit in trouble because at your last session I promised Mr Bacon that we would not sell any of our prestige residences that do so much for Britain's reputation around the world.

Q67 Mr Mitchell: Does that apply everywhere?

Sir Peter Ricketts: No.

Q68 Mr Mitchell: Or just in places we want to be particular mates with, like the US?

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Sir Peter Ricketts: I think we look at every different capital on the merits. There are some times when we have got a building which is obviously too big for us any more, obviously no longer relevant to what we need to do, and then we can look at selling it. I did promise, and I am sure all foreign secretaries would agree, that we should retain the big prestige properties we have often owned for 150 years, let alone 50 years, which we can use every day to promote Britain. The number of commercial events that are held in the embassy in Paris or the embassy in Washington or the embassy in Tokyo are enormous and they are really good platforms, but that does not mean to say every building we have ever owned in the world we should always go on owning, I think that would not be a sensible estate strategy.

Q69 Mr Mitchell: Why do you not collect data on space and its use? I see in paragraph 3.2 there is a system called Pyramid which is a database to record and monitor overseas properties.

Sir Peter Ricketts: Yes.

Q70 Mr Mitchell: “Of the 188 posts who responded to our survey”, say the NAO, “almost a third did not use Pyramid and most posts we visited only updated Pyramid twice a year . . . A number of Pyramid records were inaccurate . . . Property suitability assessments have not been updated since 2006 . . . Details of office net internal areas were inaccurate and incomplete . . .”. Why do you not have accurate data for all your embassies?

Sir Peter Ricketts: We must have. This is not adequate, it is not acceptable. I think it has been useful actually, if I may say, for the NAO to do this Report because it has been a wake-up call for us. We are determined that we will get these returns on our database up to 100% and we have got an action plan to achieve that. To be fair, we do have a good sense of the properties that we own. I think that many of the weaknesses in the database are properties that we rent, and sometimes we only rent them for two years, three years, four years, and they do not get properly on to the database and properly counted. Even that is not good enough, I agree. I agree with you that we must get this database properly up-to-date and it must have all the facts on it about usage of space and so on.

Q71 Mr Mitchell: Why do your chaps need more space than is provided for public servants in the UK? The maximum office space there is 12 square metres per person. Your chaps, being public school chaps, might expect something better than that, but why are they entitled to bigger premises and more office space than their counterparts back home?

Sir Peter Ricketts: Fewer and fewer of them come from public school, Mr Mitchell, I promise you.

Q72 Mr Mitchell: We have not got Mr Davidson to ask you the proportion of public school chaps.

Sir Peter Ricketts: Indeed.

Q73 Mr Mitchell: It was my vision.

Sir Peter Ricketts: The highest morale embassies I have been to are the ones where they are working in open plan, in modern offices, as if you were in a high specification office in the UK. It costs an awful lot of money, for the reasons we have just been discussing, to convert embassies one-by-one to that standard because we have to bring in UK-cleared contractors to do all the refurbishment, to make sure that the building remains secure when they finish and we can only do it one-by-one.

Q74 Mr Mitchell: Are open plan offices universal on the estate?

Sir Peter Ricketts: No, far from it. When we have got it, it is really good. We are moving in that direction whenever we can. There are some of our grander buildings that are expensive to convert like that and there is only a limited pool of manpower to do it. We are only moving slowly. The aim is to be working in functional modern offices, even if it is inside an old historic building.

Q75 Chairman: As you know, Sir Peter, in response to Austin Mitchell, our Committee has a settled policy that we should not ask you to sell our historic residences for narrow cost grounds. I do want to return to the point Mr Mitchell was making to you, Treasury. This is about the full cost recovery that you require. I still do not think we are at the bottom of this. It does seem absurd to us that some of our Foreign Office buildings, prestigious buildings, are lying half empty because of a narrow full cost recovery mechanism, a bureaucratic mechanism that you are asking of the Foreign Office. Something is better than nothing, is it not? You should be doing some more joined-up thinking with the Foreign Office and other government departments to ensure better use of this office space so that you get more use of it and Sir Peter is not compromised by it in any way.

Mr Gallaher: We are certainly working with the Foreign Office and part of this Shared Services Group to try to bottom out this issue and this problem. We are certainly not sitting on our hands. We are actively engaged in this Group at the moment.

Chairman: Thank you very much.

Q76 Mr Carswell: One or two people have touched on this, Sir Peter. The Lisbon Treaty obviously allows the EU an overseas diplomatic presence and this means, as you say, there will be a physical EU global estate. You have said that you are willing to offer to share some of our estate. You might say that having pooled our sovereignty the FCO is happy to try and now pool our embassies. Could you tell me when and where you are looking to pool our embassies with the EU?

Sir Peter Ricketts: I think in response to Mr Mitchell I was speculating in the future. I have no plans at the moment at all to let out any of our space to the EU. My main point was that if there was an EU mission somewhere where we were not represented and there was an opportunity to put one British diplomat into

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an existing EU operation, that is something we might consider. The answer to your question is we have no current plans to do that.

Q77 Mr Carswell: I think you used the phrase that there may be instances where we would be happy to “muck in” with them and you talked about small African countries where there is a limited presence where we would be happy to have some pan-EU presence. Is that right? Which African countries did you have in mind?

Sir Peter Ricketts: I would not exclude it. For example, in Liberia I think our one British diplomat works out of the German embassy, if I am not wrong. It would not be unprecedented, but I have got no plan to do that with any EU delegation. I would rather see how this new EU External Action Service settles down before making any plans like that.

Q78 Mr Carswell: At the moment you do not plan to pool any of our embassies?

Sir Peter Ricketts: I have no plan to do that.

Q79 Mr Carswell: If you were to pool our embassies, what would be the advantages in doing so? You said you would be interested in looking at it. What would be the advantages? Cost obviously, but what else?

Sir Peter Ricketts: If I may say, “pooling our embassies” is your phrase, not mine, I do not think I have ever spoken about that. What I can see as a possible advantage is if there is an EU delegation office working in a country where we are not represented it could be cheaper to have one British diplomat working there sharing common support services with that delegation rather than establishing our own separate embassy.

Q80 Mr Carswell: So where we are represented you see no advantage in us pooling resources with the European Commission?

Sir Peter Ricketts: No. As of now I have got no plan to do that. I cannot immediately envisage why we would do that. I think it would only be to increase our coverage in countries where we are currently not represented. I do not know whether Mr Bevan has got anything to add.

Mr Bevan: The only thing I would add is that there is a slightly different scenario which is where we own a building, or we co-rent a building, where we are very keen to have the European Union or another national embassy in the building because it reduces the costs. In Dar es Salaam, for example, we share a nice tower block with the European Commission delegation, the Dutch and a few others. The same is true in a place like Astana in Kazakhstan. That is not “pooling”, that is us sharing an office block with a range of different actors.

Q81 Mr Carswell: If you do have to share costs, are you keener to have the EU as a partner or other Anglosphere partners? Is there a preference as to who to team up with in the FCO?

Sir Peter Ricketts: We are in hypothetical territory because I do not think we have seen opportunities like that. No, I think we would look case-by-case to see where it made sense. I would be delighted to collocate with Australians, New Zealanders or Canadians, or indeed French or Germans, if that made sense in the individual place concerned.

Chairman: Mr Curry has a supplementary.

Q82 Mr Curry: Just a couple of things. On asset sales, are they sold in the currency of the place where they exist?

Sir Peter Ricketts: Yes.

Q83 Mr Curry: Do you then try and use those to reinvest in that same currency area? What is the accounting principle? I assume you do not have to translate everything back into pounds for accounting purposes and then if you want to invest overseas you have to translate them back into dollars or renminbi or whatever it is.

Sir Peter Ricketts: We might have to come back to you with the detail of that. An example was our embassy in Madrid, which we have already discussed. We sold our old embassy in Madrid and used some of the money to put ourselves into the new tower block of famous memory. I would need to tell the Committee whether that involved us repatriating the money into pounds and then taking it out again in euros, I do not know.

Q84 Mr Curry: Then, first, you are exposing yourself to foreign exchange costs and, secondly, to charges.

Sir Peter Ricketts: Yes, indeed.

Q85 Mr Curry: If you do not have to repatriate the value of your sales and can reinvest in that same currency area you get more bang for your buck presumably.

Sir Peter Ricketts: Indeed.

Q86 Mr Curry: I would be interested to know what the accounting principle is there. Last time you were here we talked about the foreign exchange implications, did we not, and that is still a significant issue.

Sir Peter Ricketts: If we may we will write on that subject.⁴

Q87 Mr Curry: I am sorry to come back to full economic cost, but the water bill is the water bill is the water bill. You mentioned that you made a charge for the services you provide. Do you have the autonomy to determine how that cost is arrived at or does the Treasury have some form of parameter model by which you calculate the cost of the services that you provide? Is there some flexibility at that end of the market?

Mr Gallaher: There is a fees and charges guide which is issued by the Treasury which sets out all the factors that should be taken into account by any department

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in reaching a figure called the full economic cost. That can include pay costs, overheads, procurement costs, all sorts of costs.

Q88 Mr Curry: We were talking about what you might call invisibles, were we not? We were talking about advice, the presence of security.

Mr Bevan: There are three components of the costs that we charge other government departments. One is the water bill, so the direct costs. The second is the local management and support that we provide for them, so the time of the management officer who helps.

Q89 Mr Curry: Those are management charges.

Mr Bevan: Then there is a central overhead, which is the third component, which is an imputed cost of the amount of time that the Foreign Office in London spends administering the system.

Q90 Mr Curry: That imputed cost is formula-based, is it?

Mr Bevan: Yes. As our Treasury colleague has said, we have to calculate all of those within the principles.

Q91 Mr Curry: What would be interesting is to see whether we agree with those costs, would it not? I remember we had a public sector comparator when we did the London Underground, Chairman, and we never, ever managed to get to the bottom of how anybody had calculated the public sector comparator. Do you remember that? In a much smaller way this is something else it might be worth trying to deconstruct, I think.

Sir Peter Ricketts: We can certainly send you further information. May I show the Committee one exhibit, Chairman, if you will allow me just in terms of the repatriation of funds and so on. When I went to Harare just after the completion of our embassy build there I was given a note which was where the Zimbabwe currency got to right at the end of inflation, \$100 trillion, which is 14 noughts, and is worth almost nothing.

Q92 Chairman: You are not trying to bribe the Committee, are you!

Sir Peter Ricketts: I am not trying to bribe the Committee, Chairman, I am simply saying it is quite difficult sometimes to operate in some cases—

Chairman: A bit of light relief! There are a couple more supplementaries from Mr Mitchell and then Mr Bacon.

Q93 Mr Mitchell: Paragraph 3.7 indicates that of 42 capital projects completed since 2002, 29 were late and 14 exceeded their initial budget approval by 14%. Did you use British contractors on these or locals?

Sir Peter Ricketts: Do you want to answer that, Mr Croney?

Mr Croney: The situation as to what contractors we use will vary country-by-country dependent on the security situation. In many countries we will use UK-based contractors, but in some we will

subcontract non-sensitive areas to local contractors. That is judged on a case-by-case basis. Invariably we will be contracting in local currency, but the comparison and the feedback to the accounts goes back to the point that when it hits us in London it will always be in sterling. There is a whole situation around how one measures contract performance, around variables that occur in-country and ones that occur with foreign exchange. I hope that helps.

Q94 Mr Mitchell: Which is more likely to overrun and be more expensive, the locals or British contractors?

Mr Croney: It is difficult to judge. I think there is just as much overrun with local contractors as there is with British contractors.

Q95 Mr Mitchell: Exchange rate fluctuations could be part of this?

Mr Croney: Yes.

Sir Peter Ricketts: Also, I think it depends on the difficulty of where we are building. Of that £57 million overrun since 2002 in the Report, £40 million of it is accounted for by building in Baghdad, Basra and Harare, all of which are very difficult places to build in. It is not satisfactory but part of the reason we have had this overrun is because we are building in some of the world's most challenging places.

Mr Bevan: The Harare embassy was such a difficult project that the Chinese, who were building a similar embassy in Harare, gave up and did not complete their embassy. We decided that ours was worth doing and we went on and completed it.

Mr Mitchell: That is unusual.

Q96 Mr Bacon: Is there a cheap uncompleted building that you could buy there?

Mr Bevan: Half completed.

Q97 Mr Bacon: I would just like to ask about the rescue package that the Chancellor of the Exchequer offered the Foreign Office three weeks ago, which was reported as being £75 million made up of £35 million of cash from the Treasury Reserve and £25 million from the ability to keep capital receipts. I understood you to say earlier that you kept your capital receipts anyway to reinvest them. Is that not wholly true?

Sir Peter Ricketts: That is true, but there was a limit. The Treasury put a ceiling on annual capital receipts that we were allowed to realise and the Chancellor lifted that by another £25 million, so he offered us the chance, if we could sell another £25 million of assets, that we could then keep that for our capital needs.

Q98 Mr Bacon: What was the limit beforehand?

Sir Peter Ricketts: There was a three year limit applied in the Spending Round of, I think—I would have to confirm to you—something in the area of £50 million or £60 million.⁵

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Q99 Mr Bacon: Perhaps you could write to us. What is being said here is that if you can sell an extra £25 million worth of property you can keep that money, not to reinvest in better capital assets and modern offices but to pay for the foreign exchange costs you have encountered. That is right, is it not?

Sir Peter Ricketts: I think we are entitled to keep it for whatever we judge we need.

Q100 Mr Bacon: The point is, and it was reported as arising from the foreign exchange problems that you have had, essentially you are selling capital assets and using them to fund your current expenditure because your current expenditure went up because of a foreign exchange hit. That is right, is it not?

Sir Peter Ricketts: We are entitled to do that if that is what we choose to do. We could equally plough it back into the capital programme if we judged that was a higher priority. Yes, it is open to us to switch capital into administration to pay for the running costs.

Q101 Mr Bacon: One other point that was referred to at the time was the fact—the Foreign Secretary said this—the BBC World Service and the British Council had been making a contribution to help manage these pressures. What did that mean financially in each case?

Sir Peter Ricketts: It meant that we agreed with the BBC and the British Council, reflecting the fact that they are part of the overall FCO budget, that they would help us with the pressures we are facing for one year only next year.

Q102 Mr Bacon: Let me put it more bluntly: how much?

Sir Peter Ricketts: I think the total between the two of them was £9 million.

Q103 Mr Bacon: The BBC World Service comes under the Foreign Office and is audited by the National Audit Office. That is correct, is it not?

Sir Peter Ricketts: I believe so, yes. The grant-in-aid that we provide through our budget is, I am sure, audited by the NAO.⁶

Q104 Mr Bacon: In your experience, the fact that the BBC World Service is audited by the National Audit Office might by some be thought to represent a problem in terms of the editorial independence of the BBC World Service, have you ever found that to be the case in practice?

Sir Peter Ricketts: No, and I would say it is comparable to the fact that the money comes through our budget, so I am the accounting officer for the grant-in-aid and that has never, so far as I am aware, prejudiced their independence. I think both the auditors and the accounting officer can maintain a distinction between proper and appropriate spend of the money and the editorial line of the BBC.

Q105 Mr Bacon: It would be possible for the National Audit Office to be the auditor and at the same time to have the highest standards of editorial impartiality and independence?

Sir Peter Ricketts: I see no inconsistency between those two things.

Mr Bacon: You can stop there.

Q106 Chairman: You do not know, Sir Peter, how grateful we are for that answer. That is another campaign that we are waging. Why do we read in paragraph 3.9 that in 2008–09 you were £11 million over budget on your capital project programme?

Sir Peter Ricketts: Indeed, for the previous year we were almost exactly the same amount under budget, so I think over two years we were pretty well spot-on. I think it reflects the difficulty of trying to build in places like Baghdad, Basra, Harare, Sana'a, Algiers, and then having unexpected events like floods in Madrid or whatever it may be.

Q107 Mr Bacon: Can you send us a note about the floods and the total costs?

Sir Peter Ricketts: When we have them, yes.

Q108 Chairman: Despite this, Sir Peter, we read in paragraph 4.7 that 40% of the estate no longer complies with legal and FCO standards.

Sir Peter Ricketts: In terms of health and safety work, for example, which is unacceptable and a worry for me all the time because I am personally responsible in the end and partly reflects our budget pressures in recent years. All expenditure, including on health and safety work, has been trimmed back. We have put extra money into the budget specifically for health and safety work this year and next year and we must catch up with that, but it is difficult.

Q109 Chairman: If there was another government department in front of us where one in three of its projects go over their budget and two-thirds of them were late you would have had a roasting this afternoon, Sir Peter, but we recognise the difficulties you are under in terms of security, terrorism, difficult markets. We do want to see a better managed estate with lower costs, better outcomes, better use of space and so on. Before we part company, will you give a commitment to report back to us in 18 months on the progress that you have made. Is there anything further that you wish to add on any of the questions we have asked you to convince us that you are now fully committed to the full use of this estate?

Sir Peter Ricketts: I think there are no further comments, Chairman. First of all, may I say I think this NAO Report has been helpful to us in focusing us on areas of shortcomings and weakness. Secondly, I am very confident that with our new estates director, our new strategy and new governance arrangement with Mr Bevan chairing a dedicated estates committee, we will improve our performance. I absolutely accept that we need to improve our performance both in terms of overspending and in terms of project management

⁶ *Note by witness:* The Grant-in-Aid paid for by the Foreign and Commonwealth Office to the BBC World Service is subject to audit by the National Audit Office. The BBC World Service accounts, like the rest of the BBC, are audited by the audit firm KPMG.

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and the data and in due course driving down this unnecessary space that we have in our embassies around the world. I am confident that if we come back to you in 18 months we will show an improvement, as I believe we did in the financial

management area, that extra focus and extra attention will drive and improve performance. That is my commitment to the Committee.

Chairman: Thank you very much, Sir Peter. That concludes our hearing.

Memorandum from Permanent Under Secretary of State, Foreign and Commonwealth Office
THE FCO GLOBAL ESTATE

1. In preparation for appearing before the Committee on 1 March to discuss the recent NAO report on the FCO's global estate, I wanted to update the Committee on some issues which may be relevant to our discussion.

2. The first is the development of a new FCO Estates Strategy, which is designed in part to respond to the legitimate criticisms in the NAO report. The FCO Board will discuss the draft Strategy at our next meeting on 26 February. I would be willing to set out the main lines of the Strategy on 1 March, if the Committee wished.

3. Second, partly in response to the NAO report and partly based on lessons learned from previous estates projects, we have worked up a set of principles to govern major FCO estates projects in future to seek to ensure that we run them better, together with a statement of the roles and responsibilities of those running projects, based on OGC guidelines. I enclose a copy. We will be seeking to embed these in our practice in future.

4. Third, I wanted to update you and the Committee on recent developments in our estates programme.

5. In the last year we have:

- Expanded the UKBA offices in Pretoria (March 2009)—on time and under budget.
- Moved into our new Embassy building in Harare (March 2009), late and over budget. This was an exceptionally difficult project to manage, with a hostile Government and hyper-inflation.
- Purchased land for a new Embassy build in Jakarta (April 2009)—after four years of sustained negotiation.
- Built a new UKBA visa hub in Abu Dhabi very rapidly (April 2009)—on time and budget.
- In London, opened a new Media Suite in the FCO Main Building in King Charles Street (May 2009), on time but slightly over budget. This was due to the unexpected discovery of asbestos.
- Opened new Embassy offices in Algiers in (June 2009), late and over budget. This was due to exchange rate movements and a change in our liability to pay tax on the project.
- Reconfigured our offices in Georgetown (July 2009)—on time and budget.
- Opened a new Embassy building in Warsaw (July 2009)—on time but over budget. This was primarily due to the exchange rate, as well as changes in scope relating to planning permission.
- Upgraded the Baghdad compound security and Residence (August 2009)—on time and under budget.
- Upgraded our High Commission offices in Ottawa (November 2009)—on time and under budget.
- Finished a new office fit-out at our Consulate in Boston (November 2009)—on time and budget
- Relocated to a new site in Basra (November 2009)—on time and budget.
- Co-located the Embassy and the UK Representation to the EU in Brussels in a refurbished set of offices (November 2009)—on time and under budget.
- Reconfigured our consular and visa offices in Paris, and our OECD representation there (December 2009)—on time and budget.
- Completed work (February 2010) on the refurbished historic Moscow residence. The Ambassador expects to move in shortly in Mar 2010. This is late and over budget, partly due to local planning and conservation issues.

6. I should also report two pieces of recent bad news:

- There was a serious flood in our newly-opened Embassy Offices in Madrid on the upper floors of a new high-rise block. While the Embassy itself has managed to remain open, other parts of the block have experienced substantial damage. We are seeking to establish the facts and the size (if any) of any FCO liability.
- We have had to suspend work on our new Embassy Offices in Damascus after evidence came to light that aspects of the security of the site may have been compromised. Our investigations have

thrown up serious concerns about the way the project has been managed to date, and we have asked our Financial Compliance Unit to investigate and report. Meanwhile we are reviewing our options in Damascus: we are considering whether we will need to write off the current project and look for an alternative site.

7. I would be happy to talk further about any of these issues on 1 March. A copy of this letter goes to the Chairman of the Foreign Affairs Committee.

19 February 2010

FCO ESTATES PROJECTS: PRINCIPLES

The following principles will henceforth be applied to all FCO estates projects. It is the responsibility of the SRO for each project to ensure that they are.

1. Every project will follow the principles laid down in the *Estates Strategy* endorsed by the FCO Board in February 2010, in order to produce the modern, flexible and value for money buildings the FCO needs.

2. Every major project (over £2 million) will have a named *SRO, Project Sponsor and Project Manager, and a Project Board*. The roles and responsibilities of each are set out at annex. Their names will appear in all substantial documentation for each project.

3. There will be *full transparency* on each project: if there are problems, potential delays or potential overspends, the Project Sponsor will inform the SRO; and the SRO will inform the Project Board and Estates Committee in a timely fashion.

4. There will *proper paperwork* for each project. In addition to the standard gateway documents for the Estates Committee (initial proposal, full business case, final investment decision etc), and minutes of the Project Board, a proper record will be kept of all major decisions, with signed contracts for all major commitments.

5. There will be *accurate management information* for each project: including details of the original budget approval and planned completion date and any changes to these, when/whether milestones are met, names of SRO, Project Sponsor, Project Manager, etc. These will be collated in one central register of all major FCO estate projects.

6. Those running projects will seek to ensure the most *realistic estimates* possible of completion dates, overall costs and other potential risks to the project, bearing in mind the difficulty of operating in many overseas locations and the fact that estates projects have tended to be subject to disruption, delay and overspend.

7. Each project will seek to ensure the best possible *value for money* for the taxpayer, and to avoid any unnecessary waste or loss of public funds.

8. There will be *regular monitoring* during the lifetime of the project, with regular review by the Estates Committee of major projects' performance against budget, timetable and other relevant measures.

9. There will be a *full assessment* at the end of each major project of the extent to which it has delivered on budget, timeline and benefits. The *lessons learned* will be embedded in work on future projects.

MAJOR FCO ESTATES PROJECTS: ROLES AND RESPONSIBILITIES

SENIOR RESPONSIBLE OWNER

The SRO is the individual responsible for ensuring that a project meets its objectives and delivers the projected benefits. The SRO should be prepared to take decisions and should be proactive in providing leadership and direction throughout the life of the project. S/he should be the owner of the overall business change that is being supported by the project. They should ensure that the change maintains its business focus, has clear authority and that the context, including risks, is actively managed.

The individual must be senior and must take personal responsibility for successful delivery of the project. They should be recognised as the owner throughout the organisation. Their responsibilities as an SRO should be explicitly included in their personal objectives and the individual should preferably remain in place throughout the project.

For major FCO estates projects the SRO will normally be a senior figure in ESD, though others (eg the relevant FCO Regional Director) may be invited to take on the role in specific cases.

The SRO will report on a quarterly basis to the Estates Committee on the progress of the project, including against the agreed budget and planned completion date.

PROJECT SPONSOR

The Project Sponsor is responsible for:

- Preparing the business case; appraising options and submitting for approval.
- Securing resources and expertise as required.

- Ensuring an appropriate project management framework is in place, incorporating the Gateway review process if required.
- Determining the managing risks to the project.
- Managing the project budget, include risk allowance.
- Acting as the sole point of contact with the project manager.
- Managing the project manager's performance of delegated responsibility.
- Assisting the project manager in the resolution of problems.
- Receiving and reviewing detailed reports on the project from the project manager.
- Ensuring the project manager receives departmental decision on time.
- Establishing with the project manager a common approach to major issues.
- Establishing a mechanism to ensure regular dialogue with contractors to promote problem solving, teamworking and risk-sharing.

For FCO estates projects, the Project Sponsor will be provided by ESD.

PROJECT MANAGER

The Project Manager is the individual responsible for delivering the project. S/he leads and manages the project team, with the authority and responsibility to run the project on a day-to-day basis. The Project Manager is responsible for:

- Designing and applying an appropriate project management framework for the project.
- Planning and monitoring the project, and preparing and maintaining the Project Plan.
- Managing project risks, including the development of contingency plans.
- Overall progress and use of resources, initiating corrective action where necessary.
- Reporting through agreed reporting lines on project progress.
- Identifying and obtaining any support and advice required for the management, planning and control of the project.
- Conducting end project evaluation and preparing an end-project report, a Lessons Learned report and any follow-on action recommendations as required.

For FCO estates projects, the project Manager will normally be outsourced to a delivery partner (eg FCO Services or a private contractor like Mace).

THE PROJECT BOARD

The Project Board's remit is to assist the SRO in decision-making and ensuring the progress of the project. But ultimate authority and accountability resides with the SRO, who appoints Project Board members, will normally chair the Project Board, and takes executive responsibility for decisions relating to the project.

For FCO estates projects, the Project Board will consist of senior representatives from the post concerned, the regional directorate, the project sponsor and project manager, ESD Security, ITD, Corporate Procurement Group, other FCO stakeholders (eg Consular Directorate and UKTI if there is a large consular or business element, FCO Services if they are involved in the project), and other Whitehall Departments with a direct interest (eg if they will be suing the building in question).

The Project Board will meet at least quarterly and more frequently when necessary.

Supplementary memorandum from Permanent Under Secretary of State, Foreign and Commonwealth Office

THE FCO GLOBAL ESTATE

I am writing to follow up my appearance before the Public Accounts Committee on 1 March with points on which I undertook to send you further information.

Accounting treatment of asset sales (Questions 83–86)

Mr Curry asked about the accounting principle used for asset sales, and whether we convert foreign exchange receipts from sales into Sterling and repatriate proceeds, or whether they are re-invested and used locally. The answer depends on three factors: the size of the sales proceeds; which local currency is involved, and the local banking regulations in that country. Two examples demonstrate this:

- Madrid—the largest of the sales last year where most of the Euros realised were sent back to the UK. Some were retained locally, to offset the need to spot purchase further Euros to fund the post;

- Singapore—a proposed sale here will result in Singapore dollars being received but there are local restrictions on conversion of large sums to Sterling. So this might result in a “staggered” conversion into Sterling.

This treatment is separate from the way in which the accounting for sales proceeds works. That is all to do with the rate at which the initial receipt in local currency is converted to Sterling (which will be the prevailing corporate rate at the date of receipt). The later handling of the foreign currency, and its potential conversion into Sterling will result in currency fluctuations handled through the gain/loss on foreign exchange accounts (and not fixed assets).

CSR target for asset sales (Questions 97–98)

Mr Bacon asked about the three year CSR target for asset sales. The Treasury target for asset sales for the current CSR period is £54 million. Net receipts for years one and two were £15.5 million and £59.5 million respectively. Receipts this financial year, to the end of Q3, are £5.6 million. We are confident of reaching an internal target of £8 million for this financial year. We therefore expect to have generated £83 million in capital over the three years of the current CSR period.

Buildings in Italy (Questions 26–27)

Mr Bacon also asked about our representation to UN bodies in Italy, and whether the situation there was similar to Brussels, where the UK delegation shares space in the NATO building alongside other delegations. It is not quite the same. As I said on 1 March, we do not have a separate building in Italy for our mission to the UN bodies (FAO, WFP and IFAD) there. The UN operates out of its own building, with no delegation space in it. We have, however, made economies in that the DFID representation to the UN agencies based in Rome moved into the Embassy building on 1 March, having previously rented office space in the centre of Rome. As well as providing better value for money this makes better use of the Embassy as a platform for “one team” working.

Buildings occupied since 1950 (Question 66)

Mr Mitchell asked which properties we are in now which we also occupied in 1950. The table below shows those properties we have owned since 1950 and their acquisition date.

<i>Post</i>	<i>Type of property</i>	<i>Year of acquisition</i>
Addis Ababa	Compound (incl offices, residence and staff accommodation)	1904
Alexandria	Compound (incl office & residence)	1909
Ankara	Office, residence and compound	1926 & 1946 (compound)
Athens	Residence and office	1936 & 1950
Baghdad	Office and compound	1921 & 1931
Bahrain	Office, residence and compound	1900
Bangkok	Compound (incl office & residence)	1922
Belgrade	Office and staff flat	1925
Berne	Office and staff flats	1918
Bilbao	Church	1927
Brussels	Residence	1947
Bucharest	Compound, offices and church	1908-1912
Buenos Aires	Office, club, residence & staff flat	1938-1945
Cairo	Compound (incl office & staff flat)	1916
Canberra	Staff accommodation	1945
Cape Town	Residence	1937
Dakar	Compound (incl office & residence)	1904
Damascus	Undeveloped site	1947
Dubai	Compound (incl office, residence, staff accommodation and amenities)	1950
Helsinki	Residence, house & garage	1925
Ho Chi Minh City	Office	1928
Karachi	Compound (incl office, residence and staff accommodation)	1950
Kuwait	Compound (incl office & residence)	1931
La Paz	Residence	1950
Luanda	Compound (incl office, residence and staff accommodation)	1921
Mexico City	Office	1910
Montevideo	Residence and garden	1923 & 1946
Moscow	Residence and staff accommodation	1929 & 1942
New York	Residence	1945

<i>Post</i>	<i>Type of property</i>	<i>Year of acquisition</i>
Oslo	Compound (incl residence & staff accommodation)	1906
Ottawa	Residence and staff accommodation	1930
Panama City	Residence	1921
Paris	Residence	1815
Paris	Office	1947
Prague	Office and residence	1926
Pretoria	Compound (including office)	1938
Rangoon	Compound (incl office, residence and staff accommodation)	1948
Riga	Compound	1930
Shiraz	Compound	1928
Sofia	Residence & garage	1910 & 1913
Stockholm	Residence	1913
Tehran	Compound (incl offices, residence, garage, staff amenities and accommodation)	1932-1934
Tel Aviv	Office and residence	1949
Tokyo	Staff amenity	1934
Tunis	Residence	1914
Vienna	Office and residence	1938
Washington	Residence	1920s
Washington	Office	1946

Damascus (Questions 15–20)

Mr Bacon also asked about the cost overruns on our new Embassy project in Damascus. The FCO Estates Committee is considering the best way forward with the project and I will write to you again shortly once we have taken a decision and the additional costs involved are known more precisely.

Madrid (Questions 21–24)

Mr Bacon asked me to send you a note on the flood in our Embassy in Madrid and what the FCO's financial liability might be. We have not yet received any claims from the landlord or other tenants in the building (Torre Espacio). We have appointed a loss adjuster and procured independent professional engineering advice from the British property and construction consultants Ridge (who visited the Embassy in February). Ridge are about to let us have their findings. We will inform the committee of any liability once all claims have been assessed and settlement reached. We will be defending our position robustly to minimise the FCO's exposure through our local loss adjuster.

Estates Strategy

Finally, we are finalising our new estates strategy document, and I will send you a copy shortly.

I am sending a copy of this letter to the Chairman of the Foreign Affairs committee.

15 March 2010