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FCO Performance and Finances

Third Report of Session 2010–11

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The Foreign Affairs Committee

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

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Contents

Summary

The Foreign Affairs Committee has reaffirmed its long-standing practice of carrying out an annual inquiry into the FCO's most recent Departmental Annual Report. Our present inquiry has focussed on the FCO's financial situation and the implications of the Spending Review 2010 for its work and performance, and that of its associated body, the British Council. (We will report separately on the implications for the BBC World Service.)

The FCO is one of the major departmental 'losers' in the Spending Review, certainly compared to the MOD and DFID, although the 'core FCO' function has to some degree been shielded from the full ferocity of the cuts falling on the overall 'FCO family' budget, with a greater share of the pain being borne by the other 'family' members, the British Council and the BBC World Service.

Reductions in spending on the FCO, if they result in shortfalls in skilled personnel and technical support in key countries and regions, can have a serious effect in terms of the UK's relations with foreign countries, out of all proportion to the amounts of money involved, especially in relation to the UK's security and that of its Overseas Territories. It follows that cuts to the core FCO budget of even 10% may have a damaging effect on the Department's ability to promote UK interests overseas. We note that these will come on top of previous cuts to the FCO's budget in the very recent past, and a regrettable long-term trend for the FCO to lose out relative to other departments and agencies in the allocation of government spending.

The FCO will also face cuts of 55% to its capital budget. For the next four years capital spending is likely to be focussed on security-related spending, to the neglect of other improvements to the FCO estate. The target of raising £50 million per year through selling existing buildings may be difficult to achieve, and may not secure savings in the long-term. It may create a unwelcome incentive to sell historic or prestigious buildings which have a potential long-term value to the FCO greater than any immediate monetary benefit likely to accrue from their sale.

The FCO's 'localisation' policy has brought benefits, but we do not believe that it is capable of indefinite extension. A further reduction in the opportunities for more junior UK-based staff to serve in overseas posts, and a consequent diminishing of experience and morale among FCO employees, could over time have a damaging effect on the quality of British diplomacy and the effectiveness of the FCO.

We comment on the possible implications of the creation of the European External Action Service for the FCO's global network of posts, and call on the present Government to reconfirm its predecessors' undertaking that "the establishment of the EEAS will not lead to our Embassies being replaced with Union Delegations".

We welcome the introduction of the Foreign Currency Mechanism, which will protect the FCO against the effects of fluctuations in foreign exchange rates, but are concerned that it does not make allowance for differential inflation rates.

We welcome the Government's commitment to meet the international obligation to spend

0.7% of gross national income on Overseas Development Assistance. However, there is a danger that the drive to reclassify FCO spending as ODA spending provides a cover for meeting the 0.7% target without increasing the money actually spent on ODA. We note that the removal of funding of peacekeeping operations from the FCO's baseline will reduce the overall financial risks faced by the Department.

The 25% and 16% real-terms cuts to the budgets of the British Council and BBC World Service respectively will pose severe challenges to those two organisations.

The British Council faces great strain on its budget over the next four years. It will need to maximise its commercial income without compromising over its primary purpose as a promoter of cultural exchange. We recommend that the Council should give us detailed information on its strategy for implementing a 25% cut in spending, which may well trigger fundamental rethinking of the role and work of the Council.

Conclusions and recommendations

1. We conclude that the FCO is one of the major departmental losers in the Spending Review, certainly compared to the MOD and DFID, although we note that the 'core FCO' function has to some degree been shielded from the full ferocity of the cuts falling on the overall 'FCO family' budget, with a greater share of the pain being borne by the other 'family' members, the British Council and the BBC World Service. While it is not realistic to suppose that the FCO can be insulated from the need to scale back its spending and activities, in the context of the spending cuts being imposed across the entire public sector, we have particular concerns about its Spending Review settlement. (Paragraph 24)

2. We conclude that reductions in spending on the FCO, if they result in shortfalls in skilled personnel and technical support in key countries and regions, can have a serious effect in terms of the UK's relations with other countries, out of all proportion to the amounts of money involved, especially in relation to the UK's security and that of its Overseas Territories. It follows that cuts to the core FCO budget even of 10% may have a very damaging effect on the Department's ability to promote UK interests overseas, given that these will come on top of previous cuts to the FCO's budget in the very recent past, which our predecessor Committee described, as recently as March 2010, as "unacceptably disrupting and curtailing" the Department's work and representing a threat to its effectiveness. We further conclude that the Spending Review settlement will accentuate the regrettable long-term trend for the FCO to lose out relative to other departments and agencies in the allocation of government spending. (Paragraph 25)

3. We conclude that the 25% and 16% real-terms cuts to the budgets of the British Council and BBC World Service respectively will pose severe challenges to those two organisations. We note the FCO's arguments for redressing the balance of spending between the core FCO and the rest of the FCO family, in favour of the former, but we share the concerns that are likely to be felt in both the British Council and the World Service about the implications of the decision. (Paragraph 26)

4. We conclude that cuts of 50% in the FCO's capital spending will severely impact on the Department's estates management. As priority for the remaining money will quite rightly be given to much-needed improvements to overseas security, the likelihood is that 'routine' modernisation and upgrading to Embassy premises will largely be put on hold for the four years of the Spending Review period. (Paragraph 34)

5. We further conclude that the target of raising about £50 million per year for the capital budget through selling existing buildings may be difficult to achieve, and may not secure savings in the long-term. This target may create an unwelcome incentive to sell historic or prestigious buildings which have a potential long-term value to the FCO greater than any immediate monetary benefit likely to accrue from their sale. (Paragraph 35)

6. We recommend that the FCO, in its response to this Report, should supply us with a list of overseas properties which it proposes either to modernise or sell, updated to reflect the changed circumstances following the SR2010 settlement. (Paragraph 36)

7. We conclude that the FCO's 'localisation' policy has brought benefits, but we do not believe that it is capable of indefinite extension. A further reduction in the opportunities for more junior UK-based staff to serve in overseas posts, and a consequent diminishing of experience and morale among FCO employees, will over time have a damaging effect on the quality of British diplomacy and the effectiveness of the FCO. (Paragraph 46)

8. We recommend that in its response to this Report, the FCO should supply updated information on its localisation policy. This should include a list of all overseas Posts, giving in each case the ratio of UK-based staff to locally engaged staff as it (a) was five years ago, (b) is currently, and (c) is expected to be in any future years for which projections have been made. We further recommend that the FCO should explain how decisions to localise jobs are made in individual cases, and what steps are taken to ensure that these individual decisions reflect the FCO's overall strategic need to retain a suitably sized pool of staff with overseas experience. (Paragraph 47)

9. We recommend that, in its response to this Report, the Government should supply us with an assessment of how the future development of the European External Action Service is likely to impact on the work of the UK's global network of Posts. We further recommend that the Government should reconfirm the undertaking given by the previous Government to our predecessor Committee in April 2010 that "the establishment of the EEAS will not lead to our Embassies being replaced with Union Delegations". (Paragraph 55)

10. We conclude that the introduction of the Foreign Pricing Mechanism is a welcome step. However, we are concerned that the new mechanism does not make allowance for differential inflation rates and may leave the FCO's budgets prey to steep inflation in other countries. We recommend that the FCO keep the operation of the new system under close review, and that if differential exchange rates entail significant losses to its budget, it should seek to reopen negotiations with the Treasury over amending the FPM to include some degree of compensation for this. (Paragraph 60)

11. We conclude that, while the Government's commitment to meet the long-standing international obligation to spend 0.7% of gross national income on Overseas Development Assistance is welcome, there is a danger that 'reclassification' provides a cover for meeting the 0.7% of GNI target without increasing the money actually spent on ODA. (Paragraph 68)

12. We recommend that, in its response to this Report, the FCO should give us a detailed breakdown of items of Departmental expenditure which it is proposed to reclassify as ODA, indicating in each case why they were not previously so classified, and noting whether the OECD and DFID have approved the reclassification. (Paragraph 69)

13. We conclude that the removal of the funding of peacekeeping operations from the FCO's baseline is a welcome development, one which will reduce the overall financial

risks faced by the Department. We recommend that in its response to this Report, the FCO should supply a detailed breakdown of the FCO's latest allocation from the Conflict Pool and the uses to which it will be put; and that it should also supply us with its latest estimate of the extent to which the budget for peacekeeping operations will need to be 'topped up' from the Conflict Pool. (Paragraph 73)

14. We conclude that the British Council faces great strain on its budget over the next four years. A 25% reduction over this period may well trigger some fundamental rethinking of the role and work of the Council. We appreciate that the Council, like other public-sector bodies, has had very little time to prepare its response to proposed reductions in expenditure. Nonetheless, we note that there was a lack of clarity from our British Council witnesses on the important issue of whether cuts would necessarily entail service reductions. It is difficult to conceive that some service reductions will not be necessary. We further conclude that the extent to which the British Council can maintain anything like its current levels of service and geographic coverage will depend on its ability to increase its income from commercial activity and partnership. That in turn will entail a difficult balancing act in which the Council must seek to maximise its income from the sale of English language teaching and other services, whilst not compromising over the pursuit of its primary purpose, to "build engagement and trust for the UK through the exchange of knowledge and ideas between people worldwide". (Paragraph 85)

15. We recommend that in its response to this Report, the British Council should supply us with a report on the progress it has made towards developing a detailed strategy for implementing the overall 25% cut, including details of further staff reductions and of the measures it has taken to ensure that the British Council's unique 'brand' will not be damaged by this strategy. (Paragraph 86)

1 Introduction

1. As part of its remit to examine the "expenditure, policy and administration" of the Foreign and Commonwealth Office (FCO), the Foreign Affairs Committee has for many years carried out an annual inquiry into the FCO's Departmental Annual Report (DAR), scrutinising how the FCO is managing its resources and the Department's overall performance. Our predecessor Committee in the last Parliament published its last such Report, dealing with the 2008–09 DAR, in March 2010.[1]

2. In order to save money the FCO, like most other government departments, has not published a DAR for 2009–10 in its previous format of a full-colour hard-copy document containing extensive narrative. Instead, only key financial, administrative and policy performance data have been published, as a series of annexes to the FCO's resource accounts 2009–10, which were laid before Parliament on 30 June 2010.[2] The FCO has also followed Treasury guidance in not publishing an Autumn Performance Report, and in ending its public reporting on previous Public Service Agreements and Departmental Strategic Objectives.[3] The 2009–10 Annual Reports of the BBC World Service and British Council were laid before Parliament on 6 and 22 July 2010, respectively.

3. On 21 July 2010, shortly after the Committee's membership was elected in the new Parliament, we agreed to continue to conduct an annual inquiry into the FCO's DAR (in whatever form in future it may be published). We further agreed that this would include an annual evidence session with the Permanent Under-Secretary and with the British Council and BBC World Service.

4. On 13 October 2010, we decided that, given the anticipated scale of spending cuts to be announced in the Spending Review (SR2010), and the fact that the Spending Review would determine the FCO's budget for the expected duration of this Parliament, our inquiry this year would focus primarily on the Department's financial situation and the implications of SR2010 for the work and performance of the FCO and its associated bodies, particularly the British Council and the BBC World Service. (We are currently conducting a further inquiry into "The Role of the FCO in UK Government", which will take a longer-term view of the Department's position and purpose. We expect to report on this later in Spring 2011.)

5. During this inquiry we took oral evidence from Vernon Ellis and Martin Davidson, Chair and Chief Executive respectively of the British Council, Peter Horrocks and Richard Thomas, Director and Chief Operating Officer respectively of BBC Global News, and Simon Fraser CMG, Permanent Under-Secretary, James Bevan, Director General Change and Delivery, and Keith Luck, Director General Finance, of the FCO. In addition, we have received 21 items of written evidence, including helpful briefing material produced for us

1 Foreign Affairs Committee, Fifth Report of Session 2009–10, *Foreign and Commonwealth Office Annual Report 2008–09*, HC 145

2 Foreign and Commonwealth Office Resource Accounts 2009–10, HC 74

3 Ev 36 [Simon Fraser]

by the National Audit Office (NAO).[4] We thank everyone who has contributed to this inquiry, including the House of Commons Scrutiny Unit which supplied us with detailed financial analysis.

6. On 26 January 2011 the BBC World Service announced a series of service closures and other reductions in activity, aimed at meeting the Government's requirement for a 16% cut in spending on the World Service over the Spending Review period.[5] On the same day we decided to carry out a short inquiry into the implications of this announcement for the World Service. The present Report therefore deals only with the 'core FCO' and the British Council; we will take further written and oral evidence on the BBC World Service and report on this separately later in the year.

4 The NAO briefing has, with our permission, been published separately by the NAO. It can be accessed at their website: http://www.nao.org.uk/publications/1011/foreign_affairs_committee.aspx

5 HC Deb, 26 January 2011, col 13WS

2 The effect of the Spending Review on the performance of the FCO

The FCO's budget

7. Compared to those of other departments, the FCO's budget is distinctive in three respects. First, it is small. The FCO Departmental Expenditure Limit (DEL) resource budget of £2.35 billion represented 0.65% of all government departments' combined resource DEL spending in 2009–10. The Foreign Secretary, Rt Hon William Hague MP, told us in September 2010 that "the entire spending of the Foreign Office, including the World Service, the British Council, international subscriptions and everything else, is less than the spending of Kent County Council".[6] By comparison, the Department for International Development (DFID) took 1.65% of the total, and the Ministry of Defence (MOD) 8.62% in 2009–10. By 2014–15 it is expected that the FCO's share will fall to 0.36%, while DFID's share will increase to 2.86%. This is illustrated in the table below.[7]

Resource and Capital DEL budgets as a percentage of total Government DEL, 2009–10 and 2014–15

	Resource DEL (excl. Depreciation)		Capital DEL	
	2009–10	2014–15	2009–10	2014–15
FCO	0.65%	0.36%	0.35%	0.25%
MOD	8.62%	7.51%	16.25%	21.64%
DFID	1.65%	2.86%	2.30%	4.98%

8. Secondly, a large proportion of the FCO's spending is relatively inflexible, because it is committed to staff salaries and buildings, rather than programmes. The FCO is also primarily responsible for paying the UK's subscriptions and other dues to international organisations such as the United Nations, which are typically determined according to a set formula.[8] Before the General Election the then Foreign Secretary, Rt Hon David Miliband MP, estimated that in 2009–10, the total 'discretionary' spending, i.e. excluding international subscriptions, peacekeeping and conflict-related spending, and the ring-fenced funding for the British Council and BBC World Service, was around £830 million, which represented 39% of the FCO's total budget.[9]

9. Thirdly, over half the FCO's budget is spent in currencies other than Sterling.[10] This is the highest proportion in Whitehall. As a result, the FCO's budget has been particularly vulnerable to exchange-rate fluctuations.

6 Foreign Affairs Committee, Oral evidence transcript, *Developments in UK Foreign Policy*, 8 September 2010, H438-i, Q 15

7 Analysis provided by the House of Commons Scrutiny Unit.

8 According to the FCO's 2009–10 Resource Accounts, subscriptions to international organisations were £177,412,000 out of Net Operating Cost of £2,345,107,000 (7.6%).

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

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

Pressures on the budget

10. Even before the current round of spending cuts, the FCO's budget has come under considerable pressure in recent years. In 2009–10, the Department was obliged to take steps which the then Permanent Under-Secretary, Sir Peter Ricketts, described as "pretty drastic", in order to remain within budget for the year. The measures involved short-time working and unpaid leave for local staff, and cuts to programme spending (including on counter-terrorism), health and safety, training, travel and hospitality.[11] Sir Peter told our predecessor Committee that if they continued, such cuts would affect the FCO's effectiveness.[12] In February 2010, the Treasury agreed to make up to an extra £50 million in budget relief available to the FCO for 2009–10, and allowed the Department to keep extra funds from asset sales; funds were also transferred to the FCO from the British Council and BBC World Service budgets, which previously had been ring-fenced once set for any year.[13] The FCO ultimately brought its total 2009–10 spend in at £2.35 billion, £22 million below budget (in 2008–09, total FCO spend was £2.12 billion).[14]

11. The pressure on the FCO's budget has arisen from:

- Increased demands—primarily to increase the UK presence in locations which are dangerous and thus expensive in which to operate, such as Kabul; and to enhance the physical security of UK Posts overseas following the fatal attack on the British Consulate in Istanbul in 2003.

- Rising UK subscriptions and other obligatory dues to international organisations, which are paid almost entirely from the FCO budget (£136.2 million in 2007–08, £145.5 million in 2008–09 and £177.4 million in 2009–10).[15]

- The impact of the fall of Sterling, given the withdrawal of the Overseas Price Mechanism (OPM) as part of the last (2007) spending review. Under the OPM, the Treasury protected the FCO's local-currency purchasing power from the effects of exchange-rate fluctuations. The FCO spends over 50% of its budget in non-Sterling currencies. In its last Report on the FCO Departmental Annual Report, in March 2010, the previous FAC concluded that the FCO had lost around 13% of the purchasing power of its core 2009–10 budget as a result of the fall of Sterling;[16] the FCO puts its loss in 2009–10 as a result of Sterling weakness at £142 million.[17]

- Savings already implemented as part of the previous Government's efficiency programme: including the British Council and BBC World Service, the FCO was required to find a cumulative £164 million in savings over the 2007–08 - 2010–11

11 See also, Oral evidence transcript, *Developments in UK Foreign Policy*, 8 September 2010.

12 Foreign Affairs Committee, Fifth Report of Session 2009–10, *Foreign and Commonwealth Office Annual Report 2008–09*, HC 145, paras 51–57; FCO, FCO Resource Accounts 2009–10, HC 74, 30 June 2010, p 3

13 Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2008–09*, para 132

14 FCO, FCO Resource Accounts 2009–10, pp 4 and 28

15 Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2008–09*, para 40; FCO, FCO Resource Accounts 2009–10, p 41

16 Foreign Affairs Committee, Fifth Report of Session 2009–10,*Foreign and Commonwealth Office Annual Report 2008–09*, para 35

17 FCO, FCO Resource Accounts 2009–10, p 3

CSR07 period (an original target of £144 million, plus a further £20 million added in 2009–10). By the end of 2009–10, the FCO had delivered £148 million and was forecasting a total by the end of 2010–11 of £187 million.[18] The FCO exceeded its target for efficiency savings in 2009–10 by £12 million.[19]

12. The 2004 and 2007 spending rounds resulted in a “flat or less than flat” real terms budget for the FCO.[20] This contrasted with the increases enjoyed by some other departments and agencies. For example, the average real-term reduction in the FCO’s budget under the CSR07, of 0.2% a year, contrasted with an average real increase for other departments of 2.1%.[21]

13. Giving oral evidence to us on 8 September 2010, the present Foreign Secretary (Rt Hon William Hague MP) said that as a result of these increased pressures, the FCO’s discretionary spending had been cut by 17% in two years.[22]

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

> We have had staff redundancies in Argentina, Japan and across the United States. Counter-narcotics programmes in Afghanistan, capacity building to help conflict prevention in Africa, and counterterrorism and counter-radicalisation in Pakistan have all been cut; the list goes on.[23]

15. In its March 2010 Report on the FCO’s 2008–09 Annual Report, our predecessor Committee concluded that some of the cuts which the FCO was making were “unacceptably disrupting and curtailing” the Department’s work, and represented a threat to its effectiveness.[24] Our predecessors drew attention to the consistent trend over the previous two spending rounds for the FCO to lose out relative to other departments and agencies in the allocation of government spending. For instance, in real terms the FCO’s Total Departmental Spending excluding conflict prevention (in Sterling terms) was expected to be around 3% above the 2004–05 baseline in 2009–10 and 0% above the same baseline in 2010–11, whereas the figures for DFID, for example, were around 50% and 70% higher, respectively.[25]

18 FCO, Annexes to the FCO Resource Accounts 2009–10

19 FCO, FCO Resource Accounts 2009–10, p 3

20 Foreign Affairs Committee, Fifth Report of Session 2009–10, *Foreign and Commonwealth Office Annual Report 2008–09*, para 139

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

22 Oral evidence transcript, *Developments in UK Foreign Policy,* 8 September 2010, HC 438-i, Q 5

23 HL Deb, 20 January 2010, col 992

24 Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2008–09*, para 67

25 Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2008–09*, para 142

16. Following the General Election, the Coalition Government passed its Emergency Budget in June 2010. The FCO subsequently announced that it would make a further £55 million in-year savings in 2010–11. At the time this represented 2.5% of the FCO's budget. £18 million worth of these savings were announced by the Foreign Secretary at the end of June 2010. These included:

- Cutting spending on the FCO's "low-carbon growth" programme by around £3 million;
- Cutting programme spending on drugs and crime by £1 million;
- Cutting public diplomacy programmes by £1.6 million;
- Reducing funding for scholarships by £10 million;
- Reducing by 10% (£630,000) the Department's spending in support of the overseas territories;
- Reducing by 10% (£300,000) spending in support of counter-proliferation; and
- Reducing by 10% (£1.3 million) spending on the FCO's programmes on human rights and democracy (including the Westminster Foundation for Democracy).[26]

In its Main Estimate 2010–11 Memorandum, the Department stated that it still did not know precisely where the remaining £37 million of savings could be found, but suggested that it might involve the cancellation of spending on items such as advertising, consultancy, procurement and capital items, asset sales, and cuts to spending on the British Council and the BBC World Service.[27]

Key features of the Spending Review settlement

17. On 20 October 2010, the Chancellor of the Exchequer announced the outcome of the Spending Review (SR2010) which set departmental spending limits for the expected remainder of the Parliament. On the same day, the Foreign Secretary announced that the Foreign Office would see a 24% real terms reduction in the resource budget, and a 55% real terms reduction in capital spending over the four-year Spending Review period. The Department's administration budget would be reduced by 33%. However, he added that once the additional resources from the BBC were taken into account, the rest of the FCO budget would only fall by 10% over the Spending Review period.[28] The *Daily Telegraph* reported that the FCO had suffered some of the "biggest cuts" of any department in the Spending Review.[29] Meanwhile, the MOD faces a 7.5% cut while DFID's resource budget will increase by 37%.[30]

26 HC Deb, 29 June 2010, col 36WS

27 UKFP 01, Q6; HC Deb, 7 June 2010, col 23–4WS

28 "Foreign Office Spending Review settlement ensures UK maintains its global reach", 20 October 2010, available at www.fco.gov.uk

29 "Britain-based diplomats face the axe", *The Daily Telegraph*, 21 October 2010

30 Real-term change in Resource budgets by 2014–15, compared to 2010–11 baseline. Analysis provided by the House of Commons Scrutiny Unit.

18. The table below analyses the SR2010 settlement for core FCO funding, when funding for the BBC World Service and the British Council has been removed from the calculation.

Resource DEL budgets for FCO, 2010–11 to 2014–15

	Total FCO Budget £m	Combined British Council & BBC WS budgets £m	Net FCO Budget £m	Net FCO Budget in 2010–11 prices £m	Percentage change for FCO compared to 2010–11 baseline
2010–11	1391	410	981	981	
2011–12	1497	404	1093	1072	+9%
2012–13	1461	391	1070	1026	+5%
2013–14	1427	379	1048	979	0%
2014–15	1165	149	1016	925	-6%

19. Writing to us immediately following the Spending Review announcement on 21 October, the Foreign Secretary described the SR2010 settlement as a "good" settlement for the FCO "in the circumstances", but also described it as a "tough" settlement".[31] The Permanent Under Secretary of State at the FCO, Simon Fraser, later wrote to us, on 12 November, to highlight key elements of the settlement for the Department:

- For the core FCO it is a 10% real cut over the four-year SR period, with a 33% administration cut target;
- The creation of a new Foreign Currency Mechanism, which will restore some protection to FCO purchasing power overseas following the abolition of the Overseas Price Movements mechanism in 2007;
- The peacekeeping budget has moved off the FCO baseline;
- The contribution of the 'FCO family'[32] to UK Overseas Development Assistance (ODA) spending has increased to £273 million per year;
- The Capital budget for the FCO family will reduce by around half immediately, with provision for recycling some asset disposal receipts; and
- BBC World Service funding will be transferred from the FCO to the Licence Fee from financial year 2014–15.[33] Over the four-year Spending Review period, the World Service will suffer a real cut, allowing for inflation, of 16%, and the British Council of around 25%.

20. The Foreign Secretary welcomed the fact that the Spending Review settlement had resulted in greater "budget certainty" as a result of the introduction of a new Foreign Currency Mechanism (FCM), and stated that the settlement enabled the FCO to maintain the global reach of the UK's diplomatic network. However, at the same time, he cautioned

31 Ev 35 [William Hague]

32 The 'FCO family' is taken to include the British Council and BBC World Service as well as 'core FCO' diplomatic and administrative functions.

33 Ev 42 [Simon Fraser]

that while the FCO would not need to undertake "drastic urgent restructuring", it would need to make "real choices" about what it did, to reduce the overall size of the workforce, to streamline structures and working methods, and to pursue rigorous efficiencies and better value for money.[34]

21. Giving oral evidence on 24 November, Simon Fraser provided us with more information on the exact breakdown of the financial settlement. He repeated that "the settlement is flat cash over the four-year period. We will get the same in cash terms over the four year period as we have now [...] That flat cash translates to about a 10% real cut over the four-year period." When we asked Mr Fraser to explain the apparent discrepancy between the figure of a 6% cut to the net FCO budget over four years set out in our table above and the equivalent figure of 10% put forward by his Department, he responded that, "24% is the figure for the overall cut for the FCO family [...] The 24% figure was the figure the Chancellor himself used on the day", while "the figure of 10% is the real cut at the end of four years for the FCO family which will then be the FCO and the British Council".[35]

22. Mr Fraser subsequently supplied further comments on this issue in writing. In a letter dated 13 December 2010, he stated that the FCO would move from a core resources budget in the present financial year of £981 million to a core budget in 2014–15 of £1,016 million, and he accepted that this was "a mathematical real terms cut of around 6%".[36] However, he added that:

> these figures give only part of the picture [...] within them there is an amount of ring-fenced HMT money to fund the costs of the UK's International Organisations membership subscriptions and a cost sharing agreement for additional costs. When this formula, and the best forecast of costs in the final year, are taken into account the predicted core FCO cut is a shade under 10%.[37]

23. Mr Fraser elaborated on why there were differences between the scale of the cuts to the core FCO budget and to the budgets of the British Council and BBC World Service. He told us that this had been a decision by the Foreign Secretary "designed to ensure long-term proportionality and fairness across the whole FCO family". In particular, he wrote that Mr Hague had taken into account the following factors:

- The British Council, and to a lesser extent, the World Service can supplement the FCO's Grant-in-Aid with commercial activities, while the FCO cannot;
- The FCO is the 'lead department' on the UK's global presence—the British Council and World Service depend on it in the first instance;
- The FCO has borne the brunt of previous funding reductions, particularly with regards to reduced capital spending and consequences of the removal of the Overseas Pricing Mechanism; and

34 Ev 35 [William Hague]

35 Q 114, Q 118

36 Ev 47 [Simon Fraser]

37 Ev 47 [Simon Fraser]

- The FCO core budget in previous years has declined as a proportion of the overall FCO family budget as a result of ring-fencing of the World Service and British Council budgets.

24. **We conclude that the FCO is one of the major departmental losers in the Spending Review, certainly compared to the MOD and DFID, although we note that the 'core FCO' function has to some degree been shielded from the full ferocity of the cuts falling on the overall 'FCO family' budget, with a greater share of the pain being borne by the other 'family' members, the British Council and the BBC World Service. While it is not realistic to suppose that the FCO can be insulated from the need to scale back its spending and activities, in the context of the spending cuts being imposed across the entire public sector, we have particular concerns about its Spending Review settlement.**

25. **We conclude that reductions in spending on the FCO, if they result in shortfalls in skilled personnel and technical support in key countries and regions, can have a serious effect in terms of the UK's relations with other countries, out of all proportion to the amounts of money involved, especially in relation to the UK's security and that of its Overseas Territories. It follows that cuts to the core FCO budget even of 10% may have a very damaging effect on the Department's ability to promote UK interests overseas, given that these will come on top of previous cuts to the FCO's budget in the very recent past, which our predecessor Committee described, as recently as March 2010, as "unacceptably disrupting and curtailing" the Department's work and representing a threat to its effectiveness. We further conclude that the Spending Review settlement will accentuate the regrettable long-term trend for the FCO to lose out relative to other departments and agencies in the allocation of government spending.**

26. **We conclude that the 25% and 16% real-terms cuts to the budgets of the British Council and BBC World Service respectively will pose severe challenges to those two organisations. We note the FCO's arguments for redressing the balance of spending between the core FCO and the rest of the FCO family, in favour of the former, but we share the concerns that are likely to be felt in both the British Council and the World Service about the implications of the decision.** We will examine those implications in respect of the British Council in more detail later in this Report. As we mentioned in paragraph 6 above, we propose to conduct a further inquiry into the implications of the Spending Review for the World Service, in the light of the cuts to its operations announced on 26 January 2011, and will issue a separate Report on this matter in due course.

Managing the settlement

27. In a press notice published on 21 October, the FCO indicated that it would aim to manage the reductions in expenditure identified in the Spending Review by:

- Continuing to simplify, standardise and streamline support and corporate functions to reduce the burden on front line activities, through increased outsourcing, an increase in tasks carried out by local staff and a consolidation of financial, human resources, procurement and other activities regionally or within the UK;

- As part of its current Workforce Strategy, continuing to reduce the overall size of the workforce by a reduction of UK based headcount of 10% over five years;

- Reducing the cost of the Overseas Estate and looking for opportunities to reduce the estate in London, including looking to co-locate and rationalise the Government's different operations overseas;

- Looking for savings through improved procurement practice including, where appropriate, co-procuring with other departments and greater use of central framework contracts; and

- Reviewing the FCO's global and programme expenditure to ensure it is in line with the Foreign Secretary's three priorities of safeguarding Britain's national security, building Britain's prosperity and supporting British nationals around the world. We understand that this includes undertaking a zero-based review of the FCO's global network.[38]

28. In his memorandum to the Committee, Simon Fraser said that the FCO would take the opportunity to "reshape the organisation." He continued:

> we do not intend simply to replicate past spending patterns, but to make some clear choices: this will mean achieving further savings, continue to reduce its headcount and streamline its structures. The FCO Board intends to reach agreement on allocations for the FCO as a whole by December, so that we can allocate resources to our Directorates and Posts, including our programme allocations, early in 2011, and finalise business plans well before 1 April (the start of the SR10 period).[39]

Reductions in the capital budget

29. The table below shows that in real terms the FCO's Capital budget will halve in real terms over the Spending Review period.

Capital DEL budgets for FCO, 2010–11 to 2014–15

	Total FCO Budget £m	Combined British Council & BBC WS budgets £m	Net FCO Budget £m	Net FCO Budget in 2010–11 prices £m	Percentage change for FCO compared to 2010–11 baseline
2010–11	200	32	168	168	
2011–12	107	29	78	77	-54%
2012–13	102	22	80	77	-54%
2013–14	102	21	81	76	-55%
2014–15	98	5	93	85	-50%

30. We asked the FCO what impact reductions on this scale are likely to have, and what plans would be curtailed as a result. James Bevan, Director General Change and Delivery, told us that the settlement granted the FCO "an average of about £100 million capital every year." He said that this was "a significant drop [and] ... the bottom line is that it will be a tight four years in terms of capital allocation". Mr Bevan said that "I think there are going to be quite a lot of buildings that we would have wanted to build or acquire, but which we

38 FCO Press Notice on the Spending Review October 2010, Spending Review 2010 press notices

39 Ev 39 [Simon Fraser]

will not".[40] However, he was keen to highlight that capital gained through "recycled assets" (i.e. money raised from selling buildings) could be kept by the FCO under agreement with the Treasury. He suggested that this would also contribute around £50 million per year to the Department's capital budget, although he conceded that this would be an "ambitious" target.[41]

31. Despite the anticipated increased budget from recycled assets, the FCO's capital budget remains "tight". Much of the FCO's capital allocation is spent on overseas security: "constructing or protecting the buildings in which staff operate, the vehicles in which they travel, or other hardware to protect staff from the high terrorist threat that many face daily".[42] We queried whether the reduction in planned capital spending would lead to the security of buildings and staff being compromised. We were assured by Mr Bevan that this would not be the case and that the FCO's "top priority in allocating not only capital, but other resources, will always be the safety and security of our staff [...] If we were to conclude that we could not adequately protect the safety and security of staff [...] we would recommend that we withdrew those people." He stressed that priority would be given to capital investment in areas "where we need to protect our staff" and named Sana'a in Yemen and Jakarta in Indonesia as particular areas where security upgrades were needed. Overall, Mr Bevan characterised the settlement as meaning that the Department did not have "all the capital we want, [but] all the capital we need".[43]

32. Following the evidence session, Simon Fraser wrote to us with further information on the security upgrades planned in Indonesia and Yemen. The Treasury has given approval for new Embassy buildings in Jakarta and Tel Aviv, estimated to cost £29.5 million and £19 million respectively.[44] Mr Fraser's letter emphasised that this purchase was "security driven". In addition, in the light of the terrorist threat in Yemen, the Post in Sana'a will receive £2 million of security upgrades funded from a re-prioritisation of the capital budget. A "project to house staff securely in the longer term" will be looked at "urgently".[45]

33. Both our predecessor Committee and the NAO have criticised past examples of poor estates management by the FCO.[46] Simon Fraser acknowledged that "it is probably true that the estates management record of the Foreign Office over quite a long period of time may have left something to be desired", but he insisted that the Department "have introduced a number of measures to improve our performance". Mr Fraser also told us that while "I absolutely take the point about the desire not to sell off valuable properties [...] we need an ambition for efficiency [and] modernity [...] so we have to get the right balance in managing the estate".[47] James Bevan insisted that the FCO was not going to achieve its

40 Q 185

41 Q 183

42 HM Treasury, *Spending Review 2010* (Cm 7942), para 2.93

43 Qq 181–184

44 In addition, a new Embassy will be built in Tel Aviv, Israel, at an estimated cost of £19 million.

45 Ev 62 [Simon Fraser]

46 See: National Audit Office, *Adapting the Foreign and Commonwealth's global estate to the modern world*, HC 295, 11 February 2010, and Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2007–08*, HC 195, para 100.

47 Q 186

recycled assets target by "sell[ing] off the icons". He said that "the embassy in Paris is a classic example of a building that pays its way because it is so effective as a representational tool". However, he continued:

> there are [...] a bunch of other buildings across the world that are neither iconic, nor fit for purpose—in some cases they aren't even safe. Those are precisely the kind of buildings that we want to get out of and downsize into more modern, appropriate accommodation.[48]

34. **We conclude that cuts of 50% in the FCO's capital spending will severely impact on the Department's estates management. As priority for the remaining money will quite rightly be given to much-needed improvements to overseas security, the likelihood is that 'routine' modernisation and upgrading to Embassy premises will largely be put on hold for the four years of the Spending Review period.**

35. **We further conclude that the target of raising about £50 million per year for the capital budget through selling existing buildings may be difficult to achieve, and may not secure savings in the long-term. This target may create an unwelcome incentive to sell historic or prestigious buildings which have a potential long-term value to the FCO greater than any immediate monetary benefit likely to accrue from their sale.**

36. **We recommend that the FCO, in its response to this Report, should supply us with a list of overseas properties which it proposes either to modernise or sell, updated to reflect the changed circumstances following the SR2010 settlement.**

Staff reductions and the 'localisation' policy

37. Announcing the Spending Review to the House, the Chancellor of the Exchequer said:

> Savings of 24% in the Foreign and Commonwealth Office budget will be achieved over the review period by a sharp reduction in the number of Whitehall-based diplomats and back office functions.[49]

38. In 2009–10, the FCO employed over 13,500 permanent members of staff, of which 65% were located overseas.[50] These staff comprise:

- UK-based staff, who are recruited in the UK for potentially complete careers, during which they will typically serve in a variety of positions, both in the UK and overseas, and who are paid throughout in Sterling; and
- Locally engaged (LE) staff, who are recruited in-country for specific jobs in particular overseas missions, and employed by the mission concerned rather than the FCO 'proper'. LE staff are usually nationals of the country where they are employed, although not necessarily; increasing numbers of LE staff are British, especially in cities—such as in continental Europe—where there

48 Q 186

49 HC Deb, 20 October 2010, col 954

50 FCO, FCO Resource Accounts 2009–10, Note 5

may be a significant pool of resident British potential employees. As non-permanent staff who do not sign up to the global mobility obligation of UK-based staff, LE staff do not have the same terms and conditions as their UK-based counterparts. LE staff are paid in local currency. Around two-thirds of overseas positions are filled by LE staff.[51]

39. The Permanent Under-Secretary at the FCO, Simon Fraser, informed us that before the Spending Review announcement, the FCO "planned to reduce numbers of UK staff by 10% [...] a 2% year on year reduction," through its Strategic Workforce Plan. He explained that this plan will be revised to cover the Spending Review period. He stated that:

> The flat cash settlement equates to around a 2.5% per year real terms budget reduction and we expect the UK-based workforce to shrink at about this rate, making use of natural wastage, early retirement and voluntary redundancy as far as possible, including the recent autumn early retirement exercise, under which around one hundred staff left.[52]

40. On 21 October, *The Times* reported that the FCO will lose at least 430 of its 4,300 British employees, and that most of the economies will "take place at the expense of diplomats based in London and administrative staff, with cuts concentrated on the diplomatic and cultural aspects of the FCO's work".[53]

41. For some years the proportion of locally engaged staff employed by the FCO has been rising: from 59% of staff in 2003 to 66% in 2009.[54] As a consequence of the Spending Review the policy of 'localisation' of posts will continue; as Simon Fraser told us, "it is in most cases cheaper to do that".[55] He added, however, that saving money was not the only consideration: "sometimes you can attract highly qualified people with strong local contacts and experience who actually add to our ability to perform".[56]

42. The localisation policy entails certain risks, notably that of diminishing the opportunities for more junior UK-based staff to gain experience of overseas postings. Arguably, this leads in due course to reduced levels of diplomatic experience among senior staff (including language skills and experience of other countries' political culture), and a consequential impact on morale and effectiveness. In addition, the reduced number of UK-based staff within each post may have to devote a greater proportion of their time to managing the LE staff, and may therefore have less time available to devote to their core functions as diplomats.

43. Our predecessor Committee, in its Report into the FCO's 2008–09 annual report, commented:

51 Foreign Affairs Committee, Fifth Report of Session 2009–10, *Foreign and Commonwealth Office Annual Report 2008–09*, HC 145, para 194

52 Ev 39 [Simon Fraser]

53 "Bigger aid budget to stop war and terror", *The Times*, 21 October 2010

54 Foreign Affairs Committee, Fifth Report of Session 2009–10, *Foreign and Commonwealth Office Annual Report 2008–09*, HC 145, para 195

55 Q 199

56 *Ibid*.

> We conclude that locally engaged staff make an important contribution to the work of the FCO, and bring considerable value to the organisation. However, we also conclude that their use in a growing range of jobs, some at an increasingly senior level, carries risks for the Department. We would be concerned if the localisation of FCO jobs were being driven purely by cost considerations. [...] We further conclude that the localisation process requires careful management in terms of its impact on UK-based staff.[57]

44. The Public and Commercial Services Union (PCS) wrote to us, expressing concerns among its members:

> We also have a situation now where more junior posts overseas are fast disappearing. Traditionally this was a good method to allow younger recruits to get some experience of living and working overseas before going onto more senior postings. Increasingly the first posting for staff is now at a more senior level without having first gained the valuable experience of an overseas posting at a more junior level.[58]

The PCS notes that not only does this policy reduce the number of staff posted overseas, but those who remain take on a higher workload as certain tasks can only be performed by UK staff for security reasons. The PCS goes on to doubt the cost savings that such a policy can bring, telling us that:

> we are not even sure localisation saves as much money as the FCO claim. Two years ago they said it would save £14 million a year, last year that was down to £12.5 million a year and the figure now quoted is around £10 million.[59]

45. In our evidence session with departmental officials, we raised these concerns. Simon Fraser agreed that greater localisation would have structural implications for the Department and that at junior levels it led to fewer opportunities for UK-based staff to go overseas.[60] James Bevan, FCO Director General Change and Delivery, spelled out the consequences: "even five years ago, if you were a junior UK Foreign Office employee, you could expect to spend two successive postings abroad and one posting back in London. The ratio is now one abroad to one in London."[61] In supplementary written evidence to us, Simon Fraser stated that the "localisation initiative is forecast to save approximately £12 million annually from 2012–13 [while] also delivering other benefits through recruitment of talented local staff".[62]

46. We note that two-thirds of staff in the FCO's network of overseas posts are locally engaged, and that it is likely that the proportion will increase further as a consequence of the FCO's intention, following the Spending Review, to reduce its UK-based workforce by about 2.5% per year. **We conclude that the FCO's 'localisation' policy has brought**

57 Foreign Affairs Committee, Fifth Report of Session 2009–10, *Foreign and Commonwealth Office Annual Report 2008–09*, HC 145, para 203

58 Ev 83 [PCS]

59 *Ibid.*

60 Qq 199–202

61 Q 202

62 Ev 47 [Simon Fraser]

benefits, but we do not believe that it is capable of indefinite extension. A further reduction in the opportunities for more junior UK-based staff to serve in overseas posts, and a consequent diminishing of experience and morale among FCO employees, will over time have a damaging effect on the quality of British diplomacy and the effectiveness of the FCO.

47. **We recommend that in its response to this Report, the FCO should supply updated information on its localisation policy. This should include a list of all overseas Posts, giving in each case the ratio of UK-based staff to locally engaged staff as it (a) was five years ago, (b) is currently, and (c) is expected to be in any future years for which projections have been made. We further recommend that the FCO should explain how decisions to localise jobs are made in individual cases, and what steps are taken to ensure that these individual decisions reflect the FCO's overall strategic need to retain a suitably sized pool of staff with overseas experience.**

Overseas Posts

48. The FCO operates a network of over 250 Posts in over 170 countries. These Posts comprise sovereign Embassies, High Commissions (to Commonwealth countries) and Missions, Delegations and Permanent Representations to international organisations; and subordinate ones, comprising consulates and trade and other representative offices. There is also a network of Posts in 12 of the 14 Overseas Territories (OTs).[63]

49. Both before and after the 2010 General Election, there had been speculation that the FCO would be obliged to close Embassies or other overseas Posts in order to make savings. FCO officials and documents had previously indicated that Post closures would be unavoidable without some relief for the Department's budget.[64] In July 2010, *The Times* reported that plans had been drawn up to close several Consulates, and Embassies in South America, West Africa and Europe.[65]

50. Since taking office, the present Foreign Secretary has consistently said that he will give a high priority to avoiding Post closures. Mr Hague told the *Financial Times* in July 2010 that "you have to have a presence in most countries in order to be able to assist British business".[66] In September, he told us that "the FCO network is an essential part of the infrastructure of this country for economic recovery".[67] However, he added that the network was not "ring-fenced" and that there was "scope for adjustment here and there".[68]

51. Mr Hague commented that the FCO's network represents good value for money. For example, he compared the cost of the network with that of the French diplomatic service: "France, with a budget of nearly £4 billion, has 279 missions overseas. We have 261 [...] We have a little over half of France's budget with which to maintain almost the same number

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

64 Foreign Affairs Committee, *Foreign and Commonwealth Office Annual Report 2008–09*, para 74

65 "Spending axe falls on British embassies", *The Times*, 15 July 2010

66 "Hague defends embassies amid drive for cuts", *Financial Times*, 14 July 2010; see also UKFP 01, Q 6.

67 Foreign Affairs Committee, Oral evidence transcript, *Developments in UK Foreign Policy*, 8 September 2010, HC 438, Q 6

68 *Ibid*.

of missions."[69] Anticipating the scale of cuts likely to be required by the Spending Review, Mr Hague expressed doubt as to whether significant savings could be made from the closure of Posts. He said:

> if you closed the 40 cheapest posts—we have 261 posts—you would save only £2.5 million. That is why, whatever we have to do with our budget, it is quite unlikely that one would choose the option of closing dozens of posts. We are not engaged in some large reduction of our international network.
>
> I hope that that trade-off between those large and small posts will not have to be made; it is certainly not one I am intending to make. Closing the small missions around the world is a false economy on the whole. That is not to say that they cannot sometimes be rationalised or that two countries cannot be well served together from one central point. I think in general, however, that the reduction and withdrawal of this country's diplomatic presence—something that we know has taken place in large parts of Africa—is a mistake. With all these budgetary restrictions, I cannot reverse what has happened in the past, but I am not looking at making serious further reductions in the size of that network, and I think that it would be a major national error to do so.[70]

In written evidence dated 12 November 2010, Simon Fraser stated that the Spending Review settlement would impact on the overseas network and that "savings" would come from spending less on upgrading embassies and from selling off some property abroad. He also stated that the FCO would have to make "strategic decisions" on "what we do, and how we do it" and "whether our existing network of Posts adequately meets the new realities". He commented that:

> The Foreign Secretary is clear that Britain will continue to need a global diplomatic network, not least to promote our commercial interests to help bring the UK economy back to long-term health. We have no plans—and in the light of SR10 no need—for widespread post closures. We will report any major decisions to Parliament.[71]

52. In oral evidence, Mr Fraser told us that maintaining a "global network of diplomatic posts" is a "top priority", but he added that "the Foreign Secretary's view does not mean that we have to stick with the network we have [...] For example, we may want to open some new posts and we may want to close some other posts to fund that".[72] Mr Fraser told us that some posts will close to fund new sites in "emerging markets—those areas where economic growth and greater political weight are shifting in the world".[73]

53. A further development which may have an impact on the FCO's staffing policies in its overseas posts is the creation of the European External Action Service (EEAS), which was instituted on 1 January 2011. Under the provisions of the Lisbon Treaty, the EEAS is being

69 Foreign Affairs Committee, *Developments in UK Foreign Policy,* Oral evidence transcript, 8 September 2010, Q 15

70 *Ibid*.

71 Ev 39 [Simon Fraser]

72 Q 207–08

73 Q 207

set up as a new, single service bringing together departments and officials currently in the European Commission, departments and officials currently in the Council Secretariat, and seconded national diplomats, under the authority of the new EU Representative for Foreign Affairs and Security Policy (Baroness Ashton). Over 130 EU Delegations have been established in third countries, by converting the previous European Commission Delegations. The new Delegations will be given upgraded powers: for instance, Heads of Delegation will be authorised to speak publicly in the name of the EU (on the basis of statements pre-approved by all 27 Member States). It is likely that further EU Delegations will be established in new locations, and some existing Delegations, such as that to the United Nations in New York, may be significantly expanded.[74]

54. In March 2010 the then Permanent Under-Secretary at the FCO, Sir Peter Ricketts, told the Public Accounts Committee that the opening of EU Delegations around the world could see the FCO sharing space in Posts with EU representatives or even "putting one British diplomat or two British diplomats in to a wider [EU] operation [...] I think over time we will move in that direction".[75] However, in its response to our predecessor Committee's Report, the previous Government gave an assurance that "the establishment of the EEAS will not lead to our Embassies being replaced with Union Delegations [...] They will complement, not replace national diplomatic networks".[76]

55. **We recommend that, in its response to this Report, the Government should supply us with an assessment of how the future development of the European External Action Service is likely to impact on the work of the UK's global network of Posts. We further recommend that the Government should reconfirm the undertaking given by the previous Government to our predecessor Committee in April 2010 that "the establishment of the EEAS will not lead to our Embassies being replaced with Union Delegations".**

Foreign Currency Mechanism

56. One of the key areas of the FCO's financial settlement is the "creation of a new Foreign Currency Mechanism [which] will restore some protection for FCO purchasing power overseas".[77] A previous scheme, the Overseas Price Mechanism (OPM), was withdrawn in 2007. The OPM gave the Department's spending in foreign currency some protection against exchange-rate fluctuations and thereby maintained the purchasing power of its budget in local currencies. Under the OPM, every six months the Department calculated the net effect of exchange-rate fluctuations and differential inflation rates on its overall purchasing power overseas. When Sterling had strengthened, increasing the FCO's purchasing power, it returned money to the Treasury. When the FCO lost out because Sterling had weakened, the Treasury made up the shortfall.

74 Foreign Affairs Committee, Fifth Report of Session 2009–10, *Foreign and Commonwealth Office Annual Report 2008–09*, HC 145, paras 92–97 and 231–41

75 Committee of Public Accounts, Twenty-fifth Report of Session 2009–10, *Adapting the Foreign and Commonwealth Office's global estate to the modern world,* HC 417, Q 65

76 Foreign Affairs Committee, Fourth Special Report of Session 2009–10, *Foreign and Commonwealth Office Annual Report 2008–09: Government Response to the Committee's Fifth Report of Session 2009–10*, HC 538, page 8

77 Ev 39 [Simon Fraser]

57. In order to offset some of the effects of fluctuations in foreign exchange rates and to aid budget stability, the FCO reacted to the removal of the OPM by beginning a programme of forward purchasing of foreign currency. During 2009–10 the Department bought £610 million of US Dollars, £103 million of Euros and £1,115 million of Yen under long-term contracts. This spending covered around 90% of its spending in foreign currencies. These contracts gave a degree of budget certainty but did not protect the Department against gains and losses. In 2009–10, the FCO estimated that in the absence of the OPM it had lost around £142 million to exchange-rate fluctuations caused by the weakening of Sterling.[78] Our predecessor Committee criticised the removal of the OPM and the process by which it was withdrawn.[79]

58. The Spending Review announced the creation of a Foreign Currency Mechanism (FCM) which would cover exchange-rate fluctuations but not differential inflation rates—the impact on purchasing power of different overseas inflation rates. In a note to us, the NAO explained that under the new system the FCO would be compensated for any falls in the value of Sterling below the baseline rate (as set in October 2010). Any strengthening of Sterling above this rate will see funding returned to the Treasury. The Foreign Secretary has praised this system as being "less bureaucratic" and "more transparent" than the previous OPM.[80] The Permanent Under-Secretary, Simon Fraser, elaborated on the remit of the new FCM, confirming to us that it will extend not only to Post budgets, but also to foreign currency movements in estates, security, capital and programme expenditure.[81]

59. James Bevan told us that the new scheme would protect a greater part of the FCO's budget against foreign exchange fluctuations than the OPM and was therefore a "significant improvement". However, he conceded that the absence of protection against differential inflation rates would leave the Department prey to higher inflation rates, particularly in fast-growing, increasingly important, countries such as Turkey, Brazil or India, and that this would make "dealing with the [overall] budget more challenging than it might appear."[82] He also noted that the new arrangements in place would not cover the spending in foreign currencies under the peacekeeping budget which would remain the responsibility of the MOD.[83]

60. **We conclude that the introduction of the Foreign Pricing Mechanism is a welcome step. However, we are concerned that the new mechanism does not make allowance for differential inflation rates and may leave the FCO's budgets prey to steep inflation in other countries. We recommend that the FCO keep the operation of the new system under close review, and that if differential exchange rates entail significant losses to its budget, it should seek to reopen negotiations with the Treasury over amending the FPM to include some degree of compensation for this.**

78 National Audit Office, *Memorandum to the Foreign Affairs Select Committee,* November 2010; http://www.nao.org.uk/publications/1011/foreign_affairs_committee.aspx

79 Foreign Affairs Committee, Fifth Report of Session 2009–10, *Foreign and Commonwealth Office Annual Report 2008–09,* HC 145, para 29

80 Ev 35 [William Hague]

81 Ev 40 [Simon Fraser]

82 Qq 120–121

83 Q 126

Overseas Development Assistance

61. The Coalition Government has re-affirmed the UK's long-standing commitment to the United Nations target of spending 0.7% of its gross national income (GNI) on Overseas Development Assistance (ODA). DFID estimate that this target will be met in 2013 when the total spend on ODA is expected to have risen to around £12 billion. The FCO currently contributes around 2% of the total UK spend on ODA. This is projected to increase to around 2.4% in 2011–12.[84]

62. ODA is classed by the OECD as a "financial transfer from an official agency to a developing country or multilateral institution which has the economic development and welfare of developing countries as its main objective". Under this definition, the FCO defines three aspects of its spending as ODA:

- Some Strategic Programme Funds, including those supporting action on climate change, governance and human rights capacity building;
- A proportion of the UK's contributions to the UN regular budget, and to the Commonwealth Fund and Commonwealth Small States Fund; and
- A proportion of the FCO's Grant-in-Aid to the British Council.

63. In his memorandum of 12 November, Simon Fraser was keen to highlight that "the FCO family's contribution to UK Overseas Development Assistance (ODA) spending has increased to £273 million per year". He did not yet know precisely how this increased funding would be spent, but suggested that it would be through a continuation of current work and the introduction of new ODA-eligible activities. He also noted that the FCO would look closely at "reclassification" as:

> in the past we did not score some FCO activities which could count as ODA. In a tight public expenditure environment, it's only fair to taxpayers that all eligible expenditure is counted. So we will ensure, working with the OECD and DFID, that all FCO work which should legitimately be scored as ODA in areas such as stopping conflict, promoting good governance, capacity building and supporting economic development.[85]

64. In our oral evidence session with Mr Fraser, he again stressed the increased FCO spend on ODA. James Bevan provided us with more details:

> The Foreign Office core, outwith the British Council and the World Service, has to go from our current ODA spend of about £90 million this year, to about £150 million ODA spend, starting next financial year, and maintain that for the four years of the Spending Review [...] the way we are going to do that is partly by maintaining existing Foreign Office activities that already count as ODA, of which the main one is our programme activity [...] We will maintain those programmes, with some adjustments, and we will do some additional ODA activity that we have not done

84 "Foreign Office Spending Review settlement ensures UK maintains its global reach", 20 October 2010, http://www.fco.gov.uk/en/news/latest-news/?view=News&id=23068038

85 Ev 40 [Simon Fraser]

> previously, which will probably include some more programme activity. There will be a proportion, which we have not yet finalised, where we will reclassify as ODA activity that we have not previously scored as ODA.[86]

65. This process of reclassification is under way in the British Council. On 27 October 2010, the Foreign Secretary wrote to us:

> I am asking the [British] Council to devote a proportion of new surpluses to activities in support of their charitable objects and the FCO's international priorities in order to maintain their reach and impact. I am also asking the Council to meet an ambitious ODA target, and I expect to start a strategic dialogue with the Council quickly to agree how best to maintain the Council's significant global impact, and target it to greatest effect in these new circumstances.[87]

66. Giving evidence to us on 3 November, Vernon Ellis, Chair of the British Council, said that, at present, £40 million of British Council grant was classified as ODA, but that this could be increased "still further". Martin Davidson, Chief Executive, identified "English for development, the development of higher education and education [...] and the work of arts within development" as areas of the Council's work that fell within the OECD definition of ODA.[88] He explained that British Council activity totalling £40 million had "traditionally always fallen within the ODA definition, because that part of the grant was given to us from DFID about 10 years ago". However, he estimated that "double that figure could possibly be submitted".[89]

67. We pursued the question of reclassification with the Department. We were curious as to why reclassification was needed and why it would therefore appear that ODA had not been categorised accurately in the past. We were given two main reasons for this. James Bevan told us that the FCO did not contribute much to the UK's overall ODA-spend, suggesting that, until the recent Spending Review, the Department had not looked closely at its ODA-spending. Mr Bevan also argued that compared to some other countries, the UK had "always had a pretty restrictive definition" of what could be classed as ODA.[90]

68. **We conclude that, while the Government's commitment to meet the long-standing international obligation to spend 0.7% of gross national income on Overseas Development Assistance is welcome, there is a danger that 'reclassification' provides a cover for meeting the 0.7% of GNI target without increasing the money actually spent on ODA.**

69. **We recommend that, in its response to this Report, the FCO should give us a detailed breakdown of items of Departmental expenditure which it is proposed to reclassify as ODA, indicating in each case why they were not previously so classified, and noting whether the OECD and DFID have approved the reclassification.**

86 Q 139

87 Ev 36 [William Hague]

88 Q 10

89 Q 12

90 Qq 141–47

The Conflict Prevention Pool

70. The Spending Review settlement covers both Assessed (or obligatory) Peacekeeping costs and the Conflict Pool which funds discretionary activity aimed at preventing and resolving conflict. The Treasury will continue to provide £374 million annually from its Reserve, as in the previous spending round, for the Assessed Costs of peacekeeping. The Government states that "we expect the actual costs of our international peacekeeping obligations to be more than £374 million in each year of the Review period", and therefore "money from the Conflict Pool will need to be used, as at present, as the first port of call to top up the peacekeeping budget".[91]

71. The Conflict Pool is co-managed between the FCO, DFID and the MOD to support conflict prevention in many countries. Funding is channelled to the other two Departments through DFID. The Pool funds five programmes dealing with: Wider Europe, Africa, Middle East, South Asia and Strategic Support to International Organisations. The tri-departmental Stabilisation Unit is also funded from the Pool. Conflict Pool allocations for 2011–12 to the individual Departments are expected to be announced to Parliament shortly.[92] The budget for the Conflict Pool in 2010–11 is £229 million, which will increase to around £309 million in 2014–15.[93]

72. The Spending Review settlement separates funding for the Government's international peacekeeping responsibilities and the financial risks that accompany them from the FCO's baseline. However, the FCO will continue to report this expenditure to Parliament.[94] Keith Luck, FCO Director General Finance, told us that this "significant change [...] will reduce the exposure and the risk that the Foreign Office is open to in terms of managing its budget".[95]

73. **We conclude that the removal of the funding of peacekeeping operations from the FCO's baseline is a welcome development, one which will reduce the overall financial risks faced by the Department. We recommend that in its response to this Report, the FCO should supply a detailed breakdown of the FCO's latest allocation from the Conflict Pool and the uses to which it will be put; and that it should also supply us with its latest estimate of the extent to which the budget for peacekeeping operations will need to be 'topped up' from the Conflict Pool.**

91 Ev 47 [Simon Fraser]

92 Ev 47 [Simon Fraser]

93 HM Treasury, Spending Review 2010 (Cm 7942), para 2.94

94 Ev 35 [William Hague]

95 Q 150

3 The British Council

74. The British Council and the BBC World Service are the two major non-departmental public bodies associated with the FCO. The official purpose of the British Council is to "build engagement and trust for the UK through the exchange of knowledge and ideas between people worldwide".[96] It is funded by a mixture of direct grants from the FCO and revenues gained from the British Council's commercial activities, chiefly teaching and examinations operations. In 2009–10, the British Council received just over £200 million from the FCO for its public diplomacy activity, which equates to around 30% of its turnover (£705 million in 2009–10). The majority of its income comes from sources other than direct FCO grants: for every £1 of Government grant the British Council receives, £2.50 is earned from other sources.[97] The British Council also receives grants from other government departments. For example, it received £10.5 million in 2009–10 from the Department of Children, Schools and Families to fund education projects.[98]

75. Our predecessor Committee looked at the British Council in a Report published in January 2010. It concluded that financial year 2009–10 would be a difficult period for the Council which had undergone a "fundamental change to [its] business model". The Council's planned restructuring included a voluntary redundancy programme during 2009–10 which will "see a reduction in UK posts by 500, equivalent to one-third of the UK workforce." This was part of a package that was estimated to save the Council £85 million by 2013–14.[99]

76. The Spending Review confirmed that there would be cuts to the direct grant received by the British Council from the FCO. Between 2010–11 and 2014–15, the value of the FCO's grant would fall from £180.9 million to £149 million. Allowing for inflation, this represents a real cut in the region of 25%. Martin Davidson, Chief Executive of the British Council, told us that this was a settlement that "will secure the British Council's global network" and which "confirmed the value of the British Council's cultural relations work as a major contributor to the UK's international relations".[100]

77. The table below was prepared for us by the House of Commons Scrutiny Unit. It details the grant funding that the British Council will receive from the FCO over the length of the Spending Review period.

96 British Council, *Annual Report 2009–10*, page 43

97 British Council, *Annual Report 2009–10*

98 National Audit Office, *Memorandum to the Foreign Affairs Select Committee*, November 2010; http://www.nao.org.uk/publications/1011/foreign_affairs_committee.aspx

99 Ev 82 [British Council]

100 Ev 80 [Martin Davidson]

	Resource budget			Capital budget		
	Grant funding £m	Grant restated in 2010–11 prices £m	Real-term change in grant since 2010–11 baseline	Grant funding £m	Grant restated in 2010–11 prices £m	Real-term change in grant since 2010–11 baseline
2010–11 (baseline)	181	181	-	5.4	5.4	-
2011–12	173	170	-6%	7.0	6.9	27%
2012–13	165	158	-13%	6.0	5.8	7%
2013–14	157	147	-19%	5.0	4.7	-13%
2014–15	149	136	-25%	5.0	4.6	-16%

78. Vernon Ellis. Chair of the British Council, told us that the Spending Review settlement meant that the Council would have to act in three areas:

- Further efficiency savings including the further rationalisation of functions away from the London headquarters to India;
- The cutting of some programmes, and
- Reducing geographic coverage, especially the closure of sites in smaller countries.[101]

Martin Davidson said to us that greater commercialisation and partnerships with commercial organisations would be a key part of the Council's future.[102]

British Council efficiency savings

79. The 2007 Comprehensive Spending Review committed the British Council to generate £20.8 million of savings on its grant by March 2011. Savings announced to the British Council's budget in the Spending Review will be in addition to this programme. In January 2010 the British Council told our predecessor Committee that it was on target to meet the £20.8 million target by 2011. To meet this target the Council had reduced its physical overseas network,[103] introduced certain services for paying customers only and cut its UK staffing by one third (around 500 posts). The Council's Annual Report also stated that the number of overseas staff would be reduced by "several hundred". Martin Davidson told us that the savings programme initiated as a result of the 2007 savings programme and scheduled to finish in 2011 had caused "real pain within the organisation" and led to a radical change in how the Council operated. This change had included the outsourcing of finance, IT and human resources work away from the UK to Delhi. In addition, and as a result of this change, staffing in the UK, which is split between the London head office and regional offices providing Council services, was planned to be reduced from 1,250 to 800.[104]

101 Q 5

102 Q 8

103 Information centres in Berlin, Thessaloniki, Vienna and Brussels were closed. Outreach centres in Romania and Bulgaria were closed and walk-in public access had been reduced in Israel, Estonia, Lithuania, Hungary, Russia and Slovenia.

104 Qq 20–21

Currently there are 825 full-time staff employed in the UK. Mr Davidson was confident that the “balance [of staff reductions] will be gone by the end of the financial year”.[105]

80. At the time of our evidence session, the Council was unable to inform us exactly what effect the 2010 Spending Review would have on staffing levels; however, it is clear that there will be some further reduction. Martin Davidson called it “inevitable” that there will be staff reductions in the UK, but “given that the reduction in income for the organisation is a fairly straight line in terms of trajectory, I wouldn’t expect a huge change in a very short period of time. I would expect the change to take place over the next two years”.[106]

81. There appeared to be some disagreement amongst our witnesses from the British Council as to whether the renewed programme of staff reductions would impact on service delivery. Martin Davidson told us that “there is a lot of bureaucracy and administrative overhead in the organisation which we will need to strip out, but also there will be a reduction in services, absolutely”.[107] He added that “part of that we will look to replace through our income-generating activity, but it certainly won’t be possible to replace all of it”.[108] Vernon Ellis, however, told us that “at the moment we have an organisation designed to support [a] rather complicated way of doing things. It [the Spending Review] isn’t going to be all our savings [...] and I don’t think that that will reduce service at all.” Instead he restated his commitment to preserving the UK service element of the programme—an “important part of our service” which is provided via the regional offices—but reducing unnecessary overheads in the form of UK head office functions.

Reducing costs and increasing turnover

82. In addition to further reductions to staffing in the UK and continued efforts on outsourcing back office functions, Martin Davidson told us that 35% of the new cuts announced in the 2010 Spending Review would be from reducing the Council’s overheads and changing how the Council operated overseas. Both Mr Davidson and Mr Ellis told us that the Council would have to look further at its geographic coverage and examine ways to cut costs by reducing the Council’s presence. Mr Ellis spoke of rationalising operations in smaller countries by introducing a ‘hub and spoke’ model.[109] Mr Davidson suggested that “there will probably be a number of places where we will have a virtual rather than a physical presence in the future”.[110]

83. According to the NAO, the British Council intends to:

> make savings by finding greater efficiencies and enhancing the commercialisation of their operations. The grant given to the British Council will reduce by 25% in real

105 Q 27

106 Q 31, 33

107 Q 28

108 Q 28

109 Q 5

110 Q 21

> terms over the next four years, which reflects the Council's projected doubling of income by 2014–15.[111]

Around 70% of the British Council's revenue is currently earned through commercial activities, mostly through the provision of English language courses and exams. Income from commercial activities increased by 9% in the last year.

84. The Permanent Under-Secretary at the FCO, Simon Fraser, stated that one reason the British Council had faced deeper cuts than the 'core FCO' was precisely because the Council had the capacity, which the core FCO lacked, to supplement its Grant-in-Aid through commercial activities.[112] We queried with our British Council witnesses whether this increased emphasis on commercialisation would adversely affect the reputation and role of the Council around the world. Vernon Ellis accepted there was a potential danger that the Council might focus on, "for example, places in Europe, where it is nice and easy and profitable", at the expense of diminishing its wider global capability.[113] Martin Davidson spoke of a "double bottom-line"—financial and reputational—with regard to undertaking commercial work.[114] He also drew our attention to the Council's increasing capacity to work in partnership with commercial organisations: about £50 million had been raised through such partnership in financial year 2009–10. He cited the example of co-operation between the Council and the Microsoft learning network over school-linking in sub-Saharan Africa. Both he and Vernon Ellis argued that maintaining the 'brand' and cultural reputation of the British Council was desirable for commercial as well as other reasons, as its existence was one of the principal reasons why commercial partners wanted to work with the Council.[115]

85. **We conclude that the British Council faces great strain on its budget over the next four years. A 25% reduction over this period may well trigger some fundamental rethinking of the role and work of the Council. We appreciate that the Council, like other public-sector bodies, has had very little time to prepare its response to proposed reductions in expenditure. Nonetheless, we note that there was a lack of clarity from our British Council witnesses on the important issue of whether cuts would necessarily entail service reductions. It is difficult to conceive that some service reductions will not be necessary. We further conclude that the extent to which the British Council can maintain anything like its current levels of service and geographic coverage will depend on its ability to increase its income from commercial activity and partnership. That in turn will entail a difficult balancing act in which the Council must seek to maximise its income from the sale of English language teaching and other services, whilst not compromising over the pursuit of its primary purpose, to "build engagement and trust for the UK through the exchange of knowledge and ideas between people worldwide".**

111 National Audit Office, *Memorandum to the Foreign Affairs Select Committee*, November 2010; http://www.nao.org.uk/publications/1011/foreign_affairs_committee.aspx

112 Ev 48 [Simon Fraser]

113 Q 8

114 Q 9

115 Qq 8–9

86. **We recommend that in its response to this Report, the British Council should supply us with a report on the progress it has made towards developing a detailed strategy for implementing the overall 25% cut, including details of further staff reductions and of the measures it has taken to ensure that the British Council's unique 'brand' will not be damaged by this strategy.**

Formal Minutes

Wednesday 2 February 2011

Members present:

Richard Ottaway, in the Chair

Mr Bob Ainsworth
Mr John Baron
Sir Menzies Campbell
Ann Clwyd
Mike Gapes
Andrew Rosindell
Mr Frank Roy
Rory Stewart
Mr Dave Watts

Draft Report (*FCO Performance and Finances*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 86 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Third Report of the Committee to the House.

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

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

Written evidence was ordered to be reported to the House for printing with the Report, together with written evidence reported and ordered to be published on 8 September, 3 and 24 November, and 18 December 2010 and 12 January 2011.

[Adjourned till Monday 7 February at 1.45 pm.

Witnesses

List of printed written evidence

List of additional written evidence

(published in Volume II on the Committee’s website www.parliament.uk/facom)

Oral evidence

Taken before the Foreign Affairs Committee

on Wednesday 3 November 2010

Members present:

Richard Ottaway (Chair)

Mr Bob Ainsworth	Mr Frank Roy
Mr John Baron	Sir John Stanley
Sir Menzies Campbell	Rory Stewart
Ann Clwyd	Mr Dave Watts
Mike Gapes	

Examination of Witnesses

Witnesses: **Vernon Ellis**, Chair, British Council and **Martin Davidson CMG,** Chief Executive, British Council, gave evidence.

Q1 Chair: I welcome Mr Vernon Ellis, the Chairman of the British Council, and Martin Davidson, the Chief Executive—a very warm welcome to you both. Mr Ellis, I think you would like to make a short opening statement before we get into questions.

Vernon Ellis: I will keep it very brief if I may, Chairman. I thought it might be worth setting in context, first of all, who I am. I have been Chair since 25 March this year. My background was 41 years at Accenture, where I led its operations in Europe, the Middle East, Africa and India, and then I became international chairman. Over the past decade, I have also had an increasing involvement in the arts. Since the end of 2005, I have been chair of English National Opera.

When I was approached in January to see if I was interested in being appointed, there was, of course, a competitive process and I dug around to find out a bit about the British Council. I had three impressions. One was that I was very impressed by the wide range of activities, the impact they seem to have and their importance to the UK. Secondly, perhaps because of that wide range and because it had developed into quite a complicated organisation, it was hard to get to the essence of what the British Council was about. Thirdly, I thought that my experience was relevant to the skills listed as requirements in the brief, and that I would bring something to it.

Since joining, I have spent a lot of time on it—the six days a month was an expected underestimate—and I have travelled a great deal. I was with the Prime Minister's trip to India and I am going to China and other countries. The impressions I have got over those six months have confirmed all those three impressions; but, even more so, have confirmed that it is an important organisation, which can and does make a big impact. But it is also a little fuzzy and a little complex. I recognised from my experience at Accenture that it was on a journey of getting its arms around a very disparate set of countries around the world. Two things seemed to be important. One was to clarify the purpose; the other was to simplify the organisation.

Its purpose is not very different from what we have said. It is about creating international opportunities for and trust between the people of the UK and other countries. We do it by using our great assets: the English language, higher education and the arts. In terms of organisation, perhaps that is the key, because if we focused very precisely on geography and three sectors—English and exams, education and society, and the arts and culture—it would perhaps be a simpler organisation than the one we have at the moment.

I will close by saying that I have been absolutely delighted by the rapport I have had with the executive. At the end of the day, they have to manage—not me—the degree to which they experience things that have been useful. Lastly, on the rapport and engagement of the trustees, it is really important that we have trustees who are involved and committed. We have made a lot of progress, but I am hugely optimistic about the future.

Q2 Chair: Thank you very much. Some of us were in Afghanistan last week, we visited the British Council there and we were quite impressed by what they were doing—it was a good visit.

Vernon Ellis: Good.

Q3 Chair: Can I take you back to the events of the last couple of months and the fairly significant spending review that was announced a couple of weeks ago? How did the dialogue go with the Foreign Office and the Treasury and was there any point when your future as an NGO was threatened?

Vernon Ellis: Not explicitly, at all. There was no dialogue with the Foreign Office about an agenda to cut us. Right from the beginning the Foreign Secretary has indicated—publicly in speeches—that he regards the British Council as an important arm. It is a subtle thing, because the benefits are oblique, rather than direct, but it brings benefit and it is an important part of our integrated approach overseas. Of course, one only has to read to know that there must have been questions from some quarters, but it has never been part of the agenda with us. Martin, you have been more deeply involved in the actual dialogue than I have, although I have interacted with the Foreign

Secretary on one or two occasions and it did not come up then.

Martin Davidson: Obviously the question was asked, along with other NDPBs, but I do not think that we felt at any particular time that there was an agenda for the British Council to be abolished.

Q4 Chair: How did the conversations with the Treasury go? Did you have the conversations with the Treasury, or was it directly with the Foreign Office?

Martin Davidson: Obviously, as an NDPB under the Foreign Office, we have to direct much of the conversation through the Foreign Office, but we also have a separate conversation with the Treasury. The conversation was very much as one would expect. What is the value to the UK of the work of the British Council? How do you demonstrate value for money for the expenditure that the British Council undertakes? Are there ways in which the British Council can do the work that we do at the moment in a cheaper and more efficient way? That was the nature of the conversation that we were having.

Q5 Ann Clwyd: Can you tell me what activities the British Council will need to stop or curtail to meet the 25% cut in spending? Can you give us an overview?

Vernon Ellis: There are perhaps three areas that I would pick on. First, as I have said, the journey we have been on is to try to get more integration and more synergy. That has meant building some programmes and functions at the centre in order to do that. I think that we have reached a point where a lot of that could be done more naturally with a simpler organisation. There is a cost to be saved at the UK end in the headquarters. Quite a lot has been done already, by the way. A lot of the cost was taken out last year by moving some functions to India, offshoring them, and by rationalising some other functions, but I think that we all agree that more can be done in London.

Secondly, in terms of activities, the area that is perhaps hardest to get your arms around is what we call "society". We are seeing education as a society. There is a seamless run from education, higher education, schools, schools linkage, inter-cultural dialogues and so on. At one end of that you might say, "Are we really making a sustainable impact, or is it just making a nice dialogue and making an individual impact on individuals?" I think that there are some programmes that we can cut out.

Thirdly, we will have to look at our geographic coverage. We very much do not want to pull back. We see our local coverage as being essential to our role, but maybe there are some cleverer things that we can do on cutting costs, on doing things in new ways, on perhaps having hub and spoke, but in some way rationalising some of the operations, particularly in smaller countries.

Q6 Ann Clwyd: In addition to the Grant in Aid from the FCO, you receive over £10.5 million in education grants from other Departments—from the Department for Education, from the Department for Business, Innovation and Skills and from the three devolved Governments. Following the spending review, will you continue to receive that funding and will you continue the activities that funding supported?

Vernon Ellis: I will turn to the chief executive for a more detailed answer, but the general answer on that and other things that are funded under grants—usually for full cost recovery work or other grant work—is that it would depend on their detailed review following the spending round. We won't yet know the answer to all that. Martin, you might want to expand on that.

Martin Davidson: For example, the grant from the Department for Education, about £7 million last year, was very much about links between schools in England and other countries, and support to teachers to gain international experience. From the Department for Business, Innovation and Skills, it was to support the promotion of higher education and the recruitment of students into the UK through the Prime Minister's initiative and specific work on developing a stronger education link with India. We are having discussions with those Departments at the moment on what they feel they will be able to continue, but on our side we believe that the opportunities to build stronger links between schools and to give young people who are here in this country an opportunity to gain international experience—albeit largely through internet or IT-based exchanges—are all very important initiatives. The money from the three devolved Administrations was very much in support of those same programmes. In addition to that, Scotland, for example, supported staging the Black Watch play by the National Theatre of Scotland in Washington and New York, where it had the most extraordinary reaction from the audience. The play is about the reaction of ordinary British troops to serving in Iraq.

Sir Menzies Campbell: I saw it in Brooklyn.

Martin Davidson: The reaction from the audience was truly extraordinary. Those grants from the other Administrations and the other Departments are important for us, but we have to recognise that in the present circumstances it is likely that they will be reduced.

Q7 Ann Clwyd: You also raised, I understand, about 70% of your money through commercial activities. Can you explain what those are?

Vernon Ellis: The bulk of those are English and exams. As I have been around, I have seen the value of that, not just in the commercial raising of income, but the linkage to our other activities. There is a huge demand for English around the world and it is growing hugely in countries like China, but there is still very strong demand in places like Spain and Italy where we have very active teaching centres. I was in Rome last week for the opening of a new Rome office, which is very profitable. English also extends into other parts of our work. What we are doing in India is funded partly by state Governments there. That is not through language teaching centres; it is training master trainers, who train teachers who then reach out to 14 million children. So we see English as being very synergistic with our overall mission.

Similarly, exams are quite profitable. A lot of them relate to English—they are English exams, IELTS with the Cambridge exam. What we are selling is decent premises and decent supervision, but above all trust. That is why I think it has something to do with our mission. Our brand is associated with trust because they know they are not going to have a corrupt overseer. They know that they will be decently housed, that they will be able to take their exam in private and that their results won't be tampered with.

Q8 Mr Baron: May I press you on that just a little? There seems to be an assumption about the ongoing negotiations, as regards the settlement as I understand it, that you will have to become more entrepreneurial. Now, you did well last year. There was a 9% increase in your income. Can you tell us a little more about how you are going to become more entrepreneurial, if that is the case? Perhaps that is one reason why you were approached, Mr Ellis. Can you also enlighten us or assure us that, if you are going to become more entrepreneurial, it will not affect or diminish the brand of the British Council?

Vernon Ellis: If I may say so, that is a very good question. I had the same sorts of questions when I first started talking to the Council, because it seemed to me that you had to be aware that there could be a dichotomy or a strain—that the more you become commercial, the more you put in the type of commercialism that would maximise that, the more you concentrate on, for example, places in Europe, where it is nice and easy and profitable, the more you might diminish your capability overall. I think that I have reconciled my mind in the following way. I am not saying it is easy, because you do touch on a thing, but I think we can manage the growing commercial aspects while, at the same time, having an English language programme that embraces not only those commercial activities, but the wider aspects of the use of the English language. There is no doubt that our brand, and the reason we are a premium supplier in most countries, derives from the fact that it is the British Council. They actually like the cultural associations. They like the high-quality teaching that they get. But I firmly believe that, if you were, for example, to say, "Well, why don't you just sell them off to somewhere else?" it wouldn't be worth as much as it is now, because it would lose something of that distinct brand. If that is so, we have to be very careful to maintain that. You're absolutely right. I think it is something that we have discussed a lot. It is of such importance that I don't know whether you want to add to that, Martin.

Martin Davidson: The area that I would also like to add is that an important aspect of our income is support from commercial organisations through their CSR works. In the report period, something like £50 million was raised through partnership with commercial organisations. I think that part of the future for us will be to develop stronger links with other organisations that are prepared to support and work with us.

One example is that I will be talking later this afternoon to the head of the Microsoft learning network, which is particularly interested in working with us on school-linking in sub-Saharan Africa and will, we hope, be wanting to partner with us, including financially, to develop those school links. If we aren't able to maintain the level of school links that we have at the moment, we are looking for other partners that are able to work with us to do that, and they want to work with us, because of the brand and the sense of an organisation that is, yes, delivering something of value to the UK, but also delivering something of value to the places where we are working.

Q9 Mr Baron: That is very good to hear, but do we have your assurance, or a certain assertion, that the brand will be protected? One can think of other examples where commercialism has represented a sacrifice and is not to the long-term well-being of the organisation in question.

Vernon Ellis: I have thought about this a lot, and I think it is really important. We can be more entrepreneurial without destroying it. If I thought that it was an impossible dichotomy, and you really can't do it, there would be a case for selling-off, but I think there is weak case for selling-off as it stands now.

Martin Davidson: The one thing we do say to all our staff when we start thinking about this is that we have a double-bottom line. We need both the commercial gain, but we also need the impact, the sense of a partnership and the building of trust through the commercial activities. Both of those things have got to be part of the agenda for the future.

Q10 Mike Gapes: May I switch the focus a bit? Last week, the Foreign Secretary wrote to our Chairman, and included with his letter was an interesting paragraph about what he expects the British Council to do to help reduce the deficit. The phrase that I would like to quote to you is to do with overseas development assistance, because I am not clear what it means and perhaps you will be able to explain it to me: "I am also asking the Council to meet an ambitious ODA target, and I expect to start a strategic dialogue with the Council quickly to agree how best to maintain the Council's significant global impact, and target it to greatest effect in these new circumstances." Can I take it from that, that somehow or other, you are going to be used to pay towards some of our overseas development spend, rather than it coming out of either the FCO's budget or the DFID budget?

Vernon Ellis: Already, I think £40 million of our grant is classified as ODA. There is a very precise definition of ODA, which is laid down by the OECD.

Mike Gapes: Yes, I am aware of that.

Vernon Ellis: A lot of what we do naturally falls into that. Indeed, when you look hard at it, you can increase that still further. If you increased it more and more every year, it would inevitably mean that you would, indeed, take away some of our work. There would also be some interesting discussions, which will no doubt follow, about what ODA is and what work we do and how that aligns with Britain's objectives in that area. For example, I believe that there is a very valid argument for arts for development. Establishing artistic institutions that give freedom of expression, that enable difficult topics to be discussed and provide outlets for local art on an international scale, is part of development. They can link on to cultural activities.

Certainly, as DFID was—I am not saying as it is now—that probably wouldn't have been high on its agenda, because it had a higher priority of immediate poverty relief. With the way it is looking now—much broader—and the way that the Foreign Secretary, I think, sees development as a broader institution, I can see that falling more naturally. It is those kinds of discussions in detail that will come in due course, no doubt, but I don't see a big threat to us, implicitly, in what the Foreign Secretary has written there. In fact, I think we'd welcome it.
Martin Davidson: Yes, we would see our work in English—English for development, the development of higher education and education more generally, and the work of arts within development—as falling within the OECD definition of ODA. That is where we see ourselves focusing.

Q11 Mike Gapes: Can I be clear? Are you saying that, at present, the British Council is spending in particular in areas related to art and culture, which could be included within the ODA definition, but are not? The implicit consequence of that, therefore, is that by counting what you are spending as part of the ODA, the Government could reduce their spend on poverty reduction in the DFID budget but still stay within the 0.7% target, because they don't count what you do as being part of that 0.7%.
Vernon Ellis: I do not think that we can speculate on what the Government might do.

Q12 Mike Gapes: No, but am I correct in saying that you do things at present that are not counted within the ODA definition of the UK Government, but are counted within the ODA definition of the OECD?
Martin Davidson: At the moment, we calculate that something like £40 million of our grant has traditionally always fallen within the ODA definition, because that part of the grant was given to us from DFID about 10 years ago. Looking at the work that we do at the moment, we estimate that double that figure could possibly be submitted.
Mike Gapes: So if I am right, the definition could be changed to the OECD definition, and, by implication, a reduction could take place elsewhere and we would still meet the 0.7%.

Q13 Mr Ainsworth: We are not distorting the work that you do. We are effectively re-badging it so that it is ODA accountable.
Martin Davidson: That is probably correct, yes.

Q14 Mike Gapes: You referred to art and culture, and when we were in Pakistan last week we had a very interesting discussion with some British young people, who were taking part in an exchange programme, which I think you had something to do with. That was very interesting and very good.
We also had discussions in Afghanistan about the Chevening scholarships. If I have remembered correctly, and I may be wrong, I was told that there were some 800 applicants, but only eight people from Afghanistan go through the Chevening programme, which is obviously a very small number of people. Do you have any say in the prioritisation of countries? I know that you administer the Chevening programme for the FCO, but do you actually have any say in which countries and how many people there will be from each country?
Martin Davidson: On the whole, no we don't. We act very much as an agent for the Foreign Office in administering the scholarships, but the decisions on the prioritisation of countries is made by the Foreign Office.

Q15 Mike Gapes: So they give you a number?
Martin Davidson: They essentially give us a number for individual countries, and we administer that within the countries.

Q16 Mike Gapes: Then you have to be sure that the people who make the application and qualify for the scholarships are those who are really able to come through the system, and have not been put in by some corrupt Minister somewhere because they are his nephew.
Martin Davidson: That is absolutely correct. It varies from country to country, but in essence our job is to ensure that the right people are selected, that they have the qualifications and that they will benefit.
Vernon Ellis: You probably know, but the number has been reduced. The grant has been halved.

Q17 Mike Gapes: Because of the CSR?
Vernon Ellis: The decision to halve the grant for that area was actually made in May this year.

Q18 Mike Gapes: What does that mean for you in the long term? Does that mean that there will be half the number of places available, or, given the admin costs, is the impact bigger than that?
Vernon Ellis: The precise number according to our estimates is that we were administering 1,000 awards and we are now at 580.

Q19 Mike Gapes: Do you have any view on what the CSR will mean in the long term?
Martin Davidson: I do not think that we are aware yet of what the outcome will be. The one thing that I would say is that, from our perspective, the Chevening scholarships are an extremely valuable contribution. Some outstanding people from across the world have taken them and are now in positions of real importance. We would very much want to see the scholarships remain as an element of the UK's wider projection.

Q20 Mr Watts: On the subject of value for money and efficiency, you have been very successful in reaching the targets set by the previous spending review. What are the implications for the organisation in doing the same through this spending review? Are there any risks or problems associated with your decision to locate the financial processing centre in Delhi? Could you just outline how you view that decision?
Martin Davidson: We have been effective in meeting the efficiency savings, and it has been with real pain within the organisation. With the fall in the value of the pound two years ago and the loss of the overseas

price mechanism, which compensated for that, we made a decision that we had to radically change the way in which we worked if we were not going to become an organisation that spent purely on being there and not doing anything. We made a decision to establish two principal changes. First, we decided to establish a support services hub in Delhi to bring together all our global finance, IT and increasingly HR work into that one location. Secondly, we radically changed the way in which we do our support for the operations here in the UK.

The Delhi hub opened in May. It has gone relatively smoothly; there have been some problems along the way, but they have not been significant. We have been very conscious of the potential dangers of having all our eggs in one basket, and as part of the development of the hub we also have a secondary facility based in India where we could transfer activity if that hub became unusable for technical reasons. We are also maintaining a skeleton staff in Warsaw and here in London. If India as a whole became unusable, we would be able to pick up and manage our activity from those two locations. So we have multiple layers of contingency planning to ensure resilience of the system.

Q21 Mr Watts: The general thing about this spending review is that you have already made substantial savings in efficiency. You would think either it was a very inefficient organisation to start off with, or you were now getting to a stage where they are not really efficiency savings but cuts.

Martin Davidson: Indeed. It is an area of real concern to us. We reduced our staffing over the past three years from something like 1,250 in the UK down to 800. I anticipate that we will want to reduce our headquarters yet further. The truth of the matter is, like many other organisations, we have been largely bureaucratic. We are wanting to move ourselves to being much less bureaucratic. That will probably mean reducing our headquarters staff quite significantly over the coming period. That does not necessarily mean having a lot fewer people in the UK, because we also have the UK operation as well as the headquarters, but I would see us becoming a much smaller headquartered organisation in the UK.

In order to manage a 25 or 26% reduction, we will have to do business in a different way. In particular, as the Chairman said a little earlier, that means stopping doing some of the work that we do at the moment and thinking about our physical presence overseas in very different ways. A physical presence is extremely expensive—the buildings and the necessary wraparound for that—and I think there will be a number of places where we will probably have a virtual wraparound for that. I think there will probably be a number of places where we will have a virtual rather than a physical presence in the future.

Q22 Mr Watts: Do you have any feel for how that 25% cut will be split between what you stop doing, and greater efficiency through less bureaucracy?

Martin Davidson: The model that we are looking at, at the moment—obviously we are still working a lot of this through—would be for something like 35% of the total cut to be met through reducing our overhead. The balance will have to be found by changing the way we do our work overseas.

Q23 Mr Frank Roy: On this point in relation to a business transformation programme, I am interested to hear you speak about a 25 or 26% reduction when the numbers are telling us that you are going to cut the number of staff by a third. Isn't that a top heavy slicing of your staff?

Martin Davidson: The reduction of a third is what we have already done through managing the reduction in value of the pound. We haven't yet worked out what a further reduction in staff might be, but there will be some reduction; I think it's inevitable.

Q24 Mr Roy: The ballpark figure that you are talking about, that you have already identified, is 500 jobs?

Martin Davidson: That is correct.

Q25 Mr Roy: Your report last year highlighted that you have got to 300?

Martin Davidson: That is correct.

Q26 Mr Roy: So I presume that you therefore still have the balance of nearly 200?

Martin Davidson: In the UK, yes.

Q27 Mr Roy: And that you are going to have more on top of that?

Martin Davidson: The balance of that 500 are already largely gone, but the balance will be gone by the end of the financial year. We would still expect to see a further reduction in headquarter staff and headquarter functions here in the UK.

Q28 Mr Roy: Presumably all those staff were doing really important jobs before you made them redundant. That suggests to me that if you are making such enormous cuts to your staff there will be massive cuts to the services that they provide. Surely you will not be able to deliver the same level of service as you did previously with 500 more people?

Martin Davidson: We will have to change the way we do our work. There is a lot of bureaucracy and administrative overhead in the organisation which we will need to strip out. But also there will be a reduction in services, absolutely. Part of that we will look to replace through our income-generating activity, but it certainly won't be possible to replace all of it.

Vernon Ellis: May I just add a word about the bureaucracy? I do not want to label this organisation, or for you to label the organisation, as being inherently bureaucratic, but in any complex people-organisations there are things that could be called bureaucratic.

I mentioned this journey. The journey was 110 countries around the world, five or six years ago, each to an extent doing their own thing, often very good things, but there was a lot of reinventing the wheel, not much commonality and not much synergy in terms of bringing people across. What Martin and his team did, as I understand it, was to put in on top of our normal sectors of English some vigorous centrally led programmes that devised things of global impact in certain areas, such as inter-cultural understanding, the use of the creative industries and so on. They were driven out of London, and that did change the nature of the organisation. But it had a cost, because you then had some sectoral people, you had some programme people and you had some geographic people. And then you have a lot of other people trying to tie things together and monitor how this interfaced with that, and how we could plan for it and then monitor it more aggressively.

I think it has reached the stage of maturity when we can pull some of that back. We can be simpler. We can focus on where it matters on the ground in these three areas, these three sectors.

Q29 Mr Roy: How can you pull that back if you are now proposing even more job cuts?

Vernon Ellis: We haven't done that yet. At the moment we have an organisation designed to support that rather complicated way of doing things. It isn't going to be all our savings, but it will certainly be some of it. And I don't think that that will reduce service at all, I really don't.

Q30 Mr Roy: But you actually think that you can lose many of these jobs? Surely you cannot lose all those jobs and not reduce the service?

Vernon Ellis: We are talking about the UK?

Mr Roy: Yes.

Vernon Ellis: What I would be worried about in the UK—and this we will have to look at from a service point of view—is that part of the UK which is the UK end of bilateral and multilateral partnerships with universities, schools, whatever. I think we have to be careful of that.

Part of it also, as we journey, is that we've perhaps merged together two different things in the UK. There is a head office function, a headquarters, which supervises and does innovation and programmes; and then there is a UK service element. One of the things that we want to do is to make a more distinct difference between the two, and I would want to preserve the UK because it is a very important part of our service, but reduce some of the overhead.

Q31 Mr Roy: May I ask a further question? How many staff do you have now, and how many staff do you expect to have in two years' time?

Martin Davidson: Here in the UK we have 825 full-time equivalent staff on the books. I don't know at the moment exactly how many we will have in two or three years' time, but it will be a smaller number than that; it is almost inevitable.

Q32 Mr Roy: What is a smaller number? Surely you have a projection of where you want your funding to be in two years' time, and therefore your staffing costs and keeping people in a job, which is obviously very important for your employees.

Martin Davidson: Of course. This is exactly the conversation we are having with our staff at the moment. The spending review was only a couple of weeks ago. We will be working with staff, the trade union side and indeed with our managers, to see how we can actually—

Q33 Mr Roy: When do you estimate that you will know when you come to that?

Martin Davidson: I would expect us to come to a view by the end of this financial year. Given that the reduction in income for the organisation is a fairly straight line in terms of trajectory, I wouldn't expect a huge change in a very short period of time. I would expect the change to take place over the next two years, but we will have the plans in place by the end of the financial year.

Q34 Mr Roy: Still on those 825 employees, do you have a reasonable breakdown, in relation to the United Kingdom, of where they all come from?

Martin Davidson: I do not have it off the top of my head. I can write and let you have it. We expect to maintain our offices in Belfast, Edinburgh and Cardiff, as well as Manchester and London. We think it is very important for our organisation to have a genuine distributed headquarters across the UK.

Q35 Mr Roy: On that point, in relation to London and Manchester, the lease of the Manchester premises is up pretty soon as I understand it—2012. For Spring Gardens that is 2020.

Martin Davidson: That is correct.

Mr Roy: What are the Council's plans for renewing those leases?

Martin Davidson: At the moment, we need to work out the exact numbers that we will have in place. I would expect, if there is a reduction in numbers in the UK, that that will largely come from London, and perhaps secondly from Manchester, rather than from the other centres. We have a very good lease, particularly for our Spring Gardens premises here. It is about two thirds of market value, or market price, through to 2020. It will be too large for us within the next year or so, but we will look to sub-let part of the premises to keep the lease. We haven't yet made up our minds exactly what our premises requirements will be from 2020 onwards.

Q36 Mr Roy: What about 2012 for Manchester?

Martin Davidson: The premises are significantly too large for us now in Manchester. We are negotiating with our existing landlords, but also looking elsewhere in Manchester to see whether we should move.

Q37 Chair: May I turn to the scale and scope of what you are doing? I gather that you measure the scale of your work in terms of engagement, the people you see face to face, and in reach—the people with whom you interact online. I understand that you will be doing some tracking of how many people you are getting through to. What is your thinking behind that?

Martin Davidson: As you say, we measure through those two lenses. We believe that the engagement figure, which is those individuals who come into a positive transaction with the organisation, is the most important measure. It is also important to ask the question, "What is the impact that that engagement has on them?".

Q38 Chair: And does it justify the resources?
Martin Davidson: And does it justify the resources? We have a certain amount of measure at the moment through our evaluation of long-term outcomes survey. We have also undertaken some work over the past year in five particular countries, including Saudi Arabia, China, Poland and India, to ask the question, "Does this engagement actually change the level of trust that individuals have in the UK and in the British Government?". Like all these things, it is always difficult to be able to draw a direct link between the work that we have done and the particular outcomes. But we believe that it is important constantly to ask the question, "Has this work actually resulted in a change in people's attitude?". That particular piece of work, done for us by YouGov, indicated a very significant shift in people's attitudes, particularly in those countries where the trust was perhaps least well developed. For example, the greatest shift has been in Saudi Arabia and China. People coming into contact either with the English language or with British education has changed radically their people's trust in the UK.

Q39 Sir John Stanley: The British Council has had a pretty rough time in Russia in recent years. As you know from our reports in the previous Parliament, there is a lot of concern about that in this Committee. Where do you regard the British Council as standing vis-à-vis the Russian authorities? Are we still in, basically, a stalemate or do you see any chink of light that will enable you to do what you want to do in Russia?
Martin Davidson: As the Committee knows, we took court action against the Russian tax authorities and their demands for tax from the British Council. Those cases have been concluded in our favour, fortunately, and we believe, rightly. The tax bill was reduced for St Petersburg by 99% and for Moscow by 95%. That has been very important. The indication from the Russian authorities is that they desire a stronger cultural relationship between Russia and the UK. The Turner exhibition, which took place in the Moscow Academy a couple of years ago, was extremely successful. It was awarded "exhibition of the year" by Russian critics. We expect a very major exhibition to take place in Moscow in 2012 and are in discussion with the Russian authorities to recognise the 50th anniversary of the first manned space flight next year, with an exhibition of Russian space exploration and, we hope, a statue of Yuri Gagarin, which the Russians wish to bring to London.
The mood music is very different. It hasn't yet translated into the opportunity for us to sign our Cultural Centres Agreement, on which we are still very keen, or to return to St Petersburg, which we believe to be critical. We don't believe that we, as a cultural relations organisation, can be effectively present in Russia unless we're present in both Moscow and St Petersburg. Work remains to be done, but there is no question but that the Russians continue to link the position of the British Council and a warming of our work with the broader political relationship between Russia and the UK.
Vernon Ellis: I was at a meeting the other day with the Britten-Pears Foundation, and there is a lot of talk about having a considerable presence on the 100th anniversary of Benjamin Britten's birth in 2013. They have an intense interest in him and I think that a lot of activity will happen, of which we will be part.

Q40 Sir John Stanley: Do you feel that FCO Ministers can give you any additional support and help with the Russian authorities?
Martin Davidson: Certainly the position of the British Council remains an item on the agenda with the Russian authorities. We had the conversation several years ago in this Committee in the previous Parliament about that linkage between the political relationship and the cultural relationship, which we deeply regretted. One of the aspects of the problem with Russia was that the Russians, pretty uniquely, had linked the education and cultural relationship with the wider political relationship. Most other countries seek to keep that separate. We believe that the role of the British Council in building that wider trust relationship using culture and education is best done at one remove from the direct political relationship.

Q41 Sir John Stanley: Equally difficult, if not more difficult is Iran, where the British Council has been given a wonderful opportunity to let people know something of the world that is, to some extent, removed from them. Do you see any way of breaking out of the stalemate that you have with the Iranian Government?
Martin Davidson: In the immediate term, I don't see any likelihood of the British Council returning with a physical presence in Iran, but we are looking to see how we can develop work with other organisations to support a wider involvement with Iran. For example, we now have a programme with the BBC World Persian Service on English teaching. That will be broadcast in the new year. Given the nature of the language, we will also, with the service, transmit that into Afghanistan and Tajikistan. We are working with a number of British universities to support university-to-university links and we are also supporting British arts organisations to try to become involved in Iran. But at the moment, given the Iranian attitudes towards us as an organisation, I don't see a short-term likelihood of our being able to return to Tehran.

Q42 Sir John Stanley: Is the British Council in Iran being treated in the same way as the French and German equivalents, or have they somehow found a way of maintaining a presence that we haven't been able to do?
Martin Davidson: I am not absolutely clear at the moment on exactly what the position is. Certainly I have had conversations with my French and German counterparts, who have had significant difficulties in that place. It is, however, true, I think, that the Iranian authorities treat British institutions like the BBC and ourselves with considerably more suspicion than perhaps they do those from other countries.

Chair: Time is up. This has been a really valuable contribution and it will be very helpful to us in preparing our report on the finances and performance of the Foreign Office, of which you are a component part indirectly. Thank you both very much indeed.

Examination of Witnesses

Witnesses: **Peter Horrocks**, Director, BBC Global News and **Richard Thomas**, Chief Operating Officer, BBC Global News, gave evidence.

Q43 Chair: I warmly welcome Peter Horrocks, the Director of BBC Global News, who is no stranger to the Committee, and Richard Thomas, the Chief Operating Officer for BBC Global News. You have been very much at the top of the agenda in recent weeks and very topical, so it's very timely that you should be here today to tell us what is going on. I'm going to kick off the batting. The Foreign Secretary said to us the other day that he hoped to find a settlement that would allow the World Service "to become more efficient without actually reducing those essential services that you and I care about so much". Do you think that has been achieved, or are services going to have to be cut? If so, how, when and where?
Peter Horrocks: Clearly, we share the same objective as the Foreign Secretary. In terms of essential services—which I would take to mean the most important services, the ones where our priority audiences are, where we can have the greatest impact—it is absolutely part of our strategy to make sure that we are focusing in that way. Clearly, there is a significant alteration in our resource, so we can't carry on exactly as we are. Our intention is to focus our effort in the most effective way, to take efficiencies wherever we can and to make sure that we are modernising our services to regenerate the BBC's operations, which is what has been happening successfully over the past few years, and to continue that process. It is challenging, given the resource that is available.

Q44 Chair: But do you envisage any services being cut at all?
Peter Horrocks: I think that we will want to propose both to the BBC Trust and to the Foreign Secretary that some services should close, not simply because of the spending settlement, but because it is something that we need to assess because of competitors and impact on our audiences. There are parts of the world where listening and consumption patterns change, and we need to review the pattern of our services anyway, as well as consider it in relation to the level of resource. I believe that we will be suggesting that some services need to close.
However, that is only a small part of the way in which we intend to meet the financial challenge. There are other things, such as support areas and marketing—that kind of activity—that we need to look at closely. We need to look at our distribution costs. In many parts of the world, short-wave listening is in steep decline, and there are ways in which we can reduce our costs of distribution by reducing short-wave transmissions.
We can also organise our editorial operations in a different way. The Committee may be aware that all the BBC's journalism activity is coming together in a single headquarters in a revamped Broadcasting House in central London. The domestic news services and the international news services are coming together. The efficiencies that can be created through that, and the different kind of content that we can produce of a much more global nature, allow us to make changes to our editorial provision, but at lower cost. But undoubtedly there will be real changes that audiences will notice.

Q45 Chair: So, to summarise that bit, things will look a bit different but "essential services" will remain untouched.
Peter Horrocks: That is a fair summary, yes.

Q46 Chair: In your last annual review, you referred to several items of capital expenditure as crucial in helping to "maintain a strong presence in core markets". Are you going to be able to go on maintaining that presence, given that your capital budget will be halved by 2014–15?
Peter Horrocks: I think the capital reduction is one of the most severe aspects of the settlement. That is clearly something that applies across the whole of the public sector, where capital is being squeezed in a number of areas. We use our capital to invest in new, more modern, more cost-effective facilities. We are using it as well to pay for the new journalism headquarters that I referred to. It is also something that we need to use in order to make savings—to move from short-wave radio distribution to FM transmission, for instance, or to create new online or mobile services. We use capital to make those changes. It will be harder to make the modernisation shifts that we want to. We are going through a re-prioritisation exercise to make sure that we are spending our capital as effectively as possible. It will be harder to do that modernisation and regeneration, which we have put forward as part of our strategy, without the same level of capital as we have had up to now.
Chair: Thank you.

Q47 Sir Menzies Campbell: On a point arising out of an answer that you gave a moment or two ago, if all the BBC is going to be put on one site, I understand there is to be one news-gathering organisation and, following from that, one news-dissemination organisation. Is that correct?
Peter Horrocks: It will certainly be a single organisation. One of the key aspects of the settlement that was announced was, of course, the transfer of the World Service to licence fee funding in three years' time.

Q48 Sir Menzies Campbell: We will come to that.
Peter Horrocks: That will enable us to be streamlined. It will be part of a single news organisation, which will allow us to be more effective and share our content as widely as possible. But, of course, in the same way that domestic services need to differentiate between, for instance, the "Today" programme and 5 Live audiences, we will still need to distinguish. There will be editorial differences between different services, such as radio and television and, self-evidently, between English and other languages. We need to try to achieve the effectiveness of an integrated operation while still delivering differences to audiences and, of course, accounting for the money in an appropriate way so that the spend on international services is clear.

Q49 Sir Menzies Campbell: But it is clear to those who understand the World Service that it has a particular culture and a particular style. How is that culture and style to be preserved if the provision of news, to take one example, takes place in the way you have just described?
Peter Horrocks: I hope that the culture, style and distinctive character of the World Service will be more present and available to audiences, including those in the UK. For instance, our teams in our language operations are being increasingly encouraged to use their expertise to produce their content in English as well as in their native language. That character will infuse the whole of the BBC's news operation, so there is both creative benefit and efficiency from that. The BBC Trust will put in place mechanisms to assess the effectiveness of the international services and how much money goes into them, so in the same way that the Radio 4 budget or the BBC 1 budget is accounted for within a single organisation, that will need to happen with the World Service as well. Clearly, the BBC Trust will work on how it wants to do that.

Q50 Sir Menzies Campbell: To achieve what you describe, and what I would think is highly desirable, will require firm editorial policy and firm supervision by the BBC Trust.
Peter Horrocks: Yes, and we have some years before the transfer to the licence fee happens. I am sure that the BBC Trust will consult and ask for input, and I am sure that the comments of parliamentarians and Committees such as this one will be taken into account when thinking about how that is to be organised and how those measures will be put in place.

Q51 Sir Menzies Campbell: Do you expect to be before this Committee in the future, or before the Culture, Media and Sport Committee?
Peter Horrocks: If this Committee were still interested in the World Service, we would be very happy to come along and continue to have the fruitful dialogue that we have had for many years. Although the overall governmental and departmental responsibility will lie with the DCMS, our intention is to continue to provide the benefits to the UK's national interest that the World Service has provided for many years. If this Committee has a continued interest in that, we would welcome it.

Q52 Sir Menzies Campbell: I think that the Committee would welcome that opportunity. The licence fee is to be frozen for six years. By 2014–15, you will have passed from the tender mercies—if that is the right way to describe it—of the Foreign Office to those of the BBC Trust. At that stage, how will resources be allocated to the World Service and who will be responsible for doing so? What influence will the Foreign Office have, for example, on what resources are allocated?
Peter Horrocks: Obviously, this has happened relatively recently, so there are still things that we are thinking about and, as I have indicated, there is some time to think about that. As I understand from the initial consideration that the BBC Trust has given it—this is primarily its responsibility rather than a management one—a framework will be put in place to look at the total funding. The BBC, in its agreement with the Government about the funding transfer, has indicated that it will continue to meet the current plans for the World Service after extracting any efficiencies of the kind that I have already spoken about. That is in the letter that Jeremy Hunt, the Culture, Media and Sport Secretary, sent to the BBC Trust. As well as that, there is a commitment to make sure that the right mechanisms and the governance around that are in place. Finally, the BBC and the Foreign Secretary have agreed that the provisions of the current World Service agreement in relation to language service closures—the determination will ultimately be made by the Foreign Secretary—will continue as a shared responsibility between the BBC and the Foreign Secretary.

Q53 Sir Menzies Campbell: But the financing of the BBC World Service will become the responsibility of the BBC Trust, as you understand it?
Peter Horrocks: It will do. The funding will be raised through the licence fee, and the BBC Trust will allocate that total licence fee funding.

Q54 Sir Menzies Campbell: Of course, you are not the only institution, if I may put it that way, that has been dealt with rather differently, because BBC Monitoring, which is based at Caversham, is also going to become a responsibility of the trustees. Is that right?
Peter Horrocks: That's correct.

Q55 Sir Menzies Campbell: I used to know, and I have admiration for, Mr Bruce Forsyth, but I am concerned that there might be competition for resources between the World Service and light entertainment. How is that to be resolved?
Peter Horrocks: As I indicated, the letter that sets out the agreement between the BBC and the Government on this refers to the BBC's committing to provide sufficient investment in the World Service to support its current plans for the period. I take that as meaning that, by entering such an arrangement, the Government and the BBC both intend that the broad provision of international news services should be

sustained. Clearly, in the long term that depends on the overall funding of the BBC through the licence fee, but I take that as being a broad statement about continuing the range of services as they are at the moment, or as they will be once the impact of the spending review has fed through.

Q56 Sir Menzies Campbell: But that will depend on the undertakings given on it.
Peter Horrocks: Yes, of course.

Q57 Sir Menzies Campbell: And in a set of circumstances in which the World Service becomes part of the overall BBC, but does not have the semi-independence that it has enjoyed from its direct relationship with the Foreign Office.
Peter Horrocks: It is a different set of arrangements, clearly, but we can be confident about how the World Service will deliver value to international audiences and, as I have explained, increasingly to audiences in the UK as well. Less than £10 of the £145.50 licence fee will go into the World Service, and we know from audience research that the British public, at all of the different levels, regard the World Service, in terms of bringing credit to Britain, as one of the most significant institutions in the UK.
I believe that we can make a strong argument, both through the value that we create for Britain and through the indirect benefits that come to licence fee payers. We get interviews—President Obama was interviewed by the BBC Persian television service only a few weeks ago—because of the BBC World Service, and viewers and listeners in the UK benefit from that. I remember David Attenborough talking to a group of us from the World Service, and he said that one of the reasons he is able to make his documentaries around the world so effectively, with co-operation from people, is because of the World Service's reputation. There are many similar examples.
Personally, I am confident about the value that the World Service creates for Britain and for licence fee payers. If the BBC Trust puts the right measures and protections in place, the operational and creative benefits of the synergies that could be brought about will be a positive, rather than a negative, although I do appreciate the concerns that some people have.
Sir Menzies Campbell: I salute your optimism, Mr Horrocks, and I hope you won't take it amiss if I say that you've simply persuaded me that the more this Committee continues to take an interest in the outcome of the proposals, and indeed the ultimate fate of the World Service, the better it will be.
Peter Horrocks: Thank you.

Q58 Mike Gapes: I was on this Committee in the 1990s, and I can remember a big campaign to defend the World Service from John Birt, who was trying to centralise the news services at that time. Malcolm Rifkind, who was then Foreign Secretary, was under great pressure, particularly from our Committee—Sir John Stanley will recall this—and we managed to get the Government to back off, and John Birt was put back in his box. Do you agree with me that there is a distinctive BBC World Service ethos?
Peter Horrocks: I do.

Q59 Mike Gapes: Are you confident that the ethos of the World Service will be maintained in these new arrangements?
Peter Horrocks: I am, because I think that what the people who provide the World Service, and have provided the World Service over many years, believe in is something that can exist within these new structures and is able to be spread and disseminated more widely, including to UK audiences. There is a belief in understanding the world and bringing the diversity of experience of all the World Service journalists together to make sure that that voice is heard more loudly and more clearly. We'll be in a single building with single funding, but we can be more effective in doing that. I believe that we can be confident about this new arrangement. It is something that I, personally, always thought would, potentially, be a good thing. It's not something that has occurred only as a result of the recent discussions.

Q60 Mike Gapes: The comprehensive spending review is calling on the British Council and the World Service to find savings via greater commercialisation of operations. Given that you are now within the BBC, as opposed to the FCO ambit, there have been some worrying reports; according to *The Guardian*, your foreign language service websites are going to start taking commercial advertising. Is that true?
Peter Horrocks: It certainly isn't true that that's about to happen. We are still within the Foreign Office ambit for the next three financial years, so this is a change to the BBC licence fee that won't happen until the financial year 2014–15. Within the recently announced CSR, we are being asked to increase our commercial activity. I should say that, in comparison with the British Council, the ability of the World Service to commercialise is much smaller. We have a small amount of commercial operations at the moment—they bring in small numbers of millions—and we may well be able to extend that further. Exactly how far we go and what will be appropriate is something that the BBC Trust is yet to consider, so there are no plans for advertising on foreign language websites as things stand.

Q61 Mike Gapes: "No plans," as you know, is a term that has been highlighted in "Yes Minister" and elsewhere. Getting back to the point about ethos, it would clearly be inconsistent with the ethos of the World Service if we start moving down the route of commercialisation in order to finance your activities, because of the BBC. Would you agree with that?
Peter Horrocks: There is a debate about that. We, of course, have commercial activity on television—BBC World News—and the BBC News website has adverts on it internationally. If you were an Arabic speaker who is using the BBC News website in Dubai, you would look at that website in English and it would have adverts on it, and you would look at the BBC Arabic website and it wouldn't have adverts on it. There could be an argument for making some commercial return from that and maximising the effectiveness of public investment into the BBC's

international news activities. That is what the BBC Trust will look at. Commercial activity with proper protection can make the public investment go further.

Q62 Mike Gapes: Okay. Final question: when all these changes were brought about, how early did you know that, from 2014, the BBC was going to take over, and that you were no longer going to be under the FCO?
Peter Horrocks: Informal discussion about the idea of licence fee funding of the World Service had taken place over a number of months, and it is something that had been discussed internally. Indeed, members of this Committee have informally asked me questions about it in the past. However, the actual decision to do it, or the likelihood of it, only happened about 10 days or two weeks prior to the announcement.

Q63 Mike Gapes: So it was very much something that you weren't planning for and that you didn't initiate. This came out of some other part of the system.
Peter Horrocks: At that stage, the licence fee was not part of the spending review. We had been thinking about the possibility of this being considered when the licence fee was thought about, according to the timetable that we were expecting. Of course, that suddenly accelerated because there were proposals from the Government to which we needed to respond. It was something that we had put thought into in advance, but, of course, it happened more quickly than any of us had expected.

Q64 Mike Gapes: So, in a sense—Sir Ming has touched on this already—there are lots of unanswered questions now because of the speed with which this was pushed through and the uncertainties that it has created, aren't there? We don't yet know what the implications are going to be for the World Service.
Peter Horrocks: I think there are questions of detail along the lines of those that you have been asking. However, I think the commitments, in principle, are clear in the agreement that the BBC and the Government have entered into.
Mike Gapes: I am sure we'll be probing you again in the future.

Q65 Sir John Stanley: I would be grateful for your frank, personal answer to this question, regardless of whether it will please Foreign Office Ministers or the BBC board. Do you think that the decision by the Foreign Secretary to transfer funding from the Foreign Office to the BBC for the World Service is, or is not, in the best interests of the World Service?
Peter Horrocks: I personally think that it's in the best interests of the World Service. In formal discussions, to which I have just referred, it was something that I had personally suggested would be a good thing to do. I believe that one of the BBC's greatest strengths is its journalism, and its ability to bring all of its journalism together, to organise it effectively and to make sure that the benefits of the World Service's ethos, which we have been discussing, can be spread and brought to bear as widely as possible for all of the BBC's audiences—the largest news audiences in the world. To be able to bring that together and strengthen its ethos is something that I personally believe in. So yes, I was and am in favour of the shift.

Q66 Sir John Stanley: There's one specific point of detail on which I would be grateful for your clarification. It seems to me, if this is the case, that it was a very questionable decision to make you liable for a share of the pension fund deficit of the BBC. When you wrote to me—and I assume every other MP on 25 October—you referred to the reduction of your budget in real terms of 16%. You went on to say that, "the World Service faces other financial pressures such as the extra costs of the BBC's pension deficit, so the impact will be greater"—in other words, greater than the 16%. Two days later, our Chair received a letter from the Foreign Secretary which said, "If the BBC provide funding to the World Service at the anticipated level in 2014/15, the overall reduction in World Service funding will be 16% real over four years. This includes additional funding for the World Service's element of the BBC pensions deficit." So, there appears to be a direct contradiction. Can you explain to us whether you have had additional funding or not to keep the amount by which your funding is falling at 16%, or is it more than 16%?
Peter Horrocks: The funding reduction is a real-terms reduction of 16%. The letter from the permanent under-secretary at the FCO indicates that the pensions element has been taken into account within that, but it is a 16% reduction. We have got to find the money for that pension contribution. I suppose another way of putting it is that, if the FCO hadn't allowed for that, the cut would have been deeper.

Q67 Ann Clwyd: Can I ask about the relationship between yourselves and your journalists? You have talked about the importance of your journalists and your pride in them, but we know that the NUJ has some issues with you. Can you talk about the meetings you have had with the NUJ in relation to your staff?
Peter Horrocks: Do you mean in relation to the current pension dispute, or more broadly relating to the settlement?

Q68 Ann Clwyd: Both.
Peter Horrocks: The pension dispute is one that is BBC-wide rather than specific to the World Service. The World Service needs to make its contribution to the extra costs of the BBC pension deficit. Clearly, the journalists are concerned about the deterioration in benefits in the future. However, what the BBC more widely and the World Service specifically, have been explaining is that the deficit is real, that there is a legal requirement that the BBC needs to pay back that deficit to ensure that the pension fund is strong for the future, and that the only way that that can be funded is through reductions in services and jobs. So, it is a difficult judgment that the BBC has had to make.
The National Union of Journalists has voted—we are not sure what the turnout was in that vote—to have industrial action, which will happen on Friday and Saturday this week. We regret that, and we are doing everything to ensure the continuation of our services.

The BBC has been very clear that it cannot make further concessions, because it would mean a greater deterioration in the quality of our service if we were to put more money into the pension.

In terms of the impact of the settlement, we are yet to announce the detail of that. We clearly have concerns about its potential impact. We haven't yet made the announcements, so we're not yet into the detailed discussions that we'll have once we've finalised all our plans.

Q69 Ann Clwyd: What sort of redundancies do you expect in the light of the cutbacks?

Peter Horrocks: You mean the number of redundancies? Well, we're a very staff-heavy organisation. Most of our costs are in people, and so the reduction in staff numbers will be broadly in line with the level of savings that we need to make—i.e. more than 16%.

Q70 Ann Clwyd: What sort of numbers?

Peter Horrocks: Well, our staffing is 2,000, so you can work it out relatively straightforwardly, but it will be hundreds of jobs that will need to go.

Q71 Mr Baron: One senses from public utterances that the dust hasn't quite settled on the new governance arrangements yet. We've had Lord Howell talking about the BBC World Service being under the strong governance of the FCO. The Foreign Secretary has talked about his written permission being required for the opening and closing of new language services. Yet Sir Michael Lyons can talk about complete editorial freedom. Can you enlighten us a bit? When the dust has settled, how are the new arrangements going to work?

Peter Horrocks: I think it will be not dissimilar to how it's been up to now. The funding, however, will be coming from the licence fee, and so we will be funded by the British public rather than the British Government. In some parts of the world that will be a very useful thing to say. I saw a translation by BBC Monitoring of an editorial in an Iranian newspaper today, which was referring to the BBC World Service as funded and directed by the British Foreign Office. That is something that will change; but the mechanics and the relationship, I think, will still be very strong.

We rely on the Foreign Office's expertise and understanding. We get support from ambassadors and missions around the world, dealing with practical issues that we face in carrying out our journalism. That's a mutually beneficial relationship. Often, the only times when there are significant discussions are every few years when funding is decided or services may be being opened or closed. At other times it's a very well functioning partnership, where we share information: the BBC has the expertise in broadcasting—that's clearly not a speciality of the Foreign Office—and we put forward our plans; the Foreign Office considers them and we invariably reach rapid agreement about what our priorities should be. The main instruments or the main determinants of it are in the existing agreement, and we've said that that will continue. There will probably be some fine tuning around that, but I don't suspect that there will be a significant shift.

Q72 Mr Baron: The BBC World Service has huge credibility and tremendous scope around the world, partly because of its independence. Do you envisage any risks whatsoever, in the changing of the funding arrangements, to that reputation and that scope and reach?

Peter Horrocks: Clearly, if some of the anxieties that were expressed by your fellow Committee members came true—if, as it were, the "Strictly Come Dancing" budget were in trouble, and therefore the Somali budget needed to be raided—I would be anxious about that; but I think the right measures will be put in place. Apart from that I don't have significant anxieties, and I'm sure we'll be able to reassure the Committee in relation to those mechanisms once they're agreed in the next period. As I say, they don't need to be in place for more than three years.

Q73 Mr Baron: Putting anxieties perhaps to one side, then, do you think there are any other longer-term consequences of changing the funding arrangement?

Peter Horrocks: I think that the question that Mr Gapes asked about commercial funding, and whether that might be seen in a slightly different light, is a legitimate one. Also, what's the balance between the journalism that's created of benefit to specific countries, and the benefit that's created for a global audience and for audiences in the UK? You might see that in a slightly different light, potentially. However, I think that fits with the overall likely necessary direction of travel. Local competition is increasing in many of the countries that we operate in, and the thing that we most bring to our audiences around the world is that global perspective. There are not many news organisations in the world that are as well set up as the BBC is to give people a rounded, tolerant view of a world that needs greater understanding. That does not tend to be provided by sensationalist media, whether it is commercial or state-funded, which is much more partisan than ours is. With the ability to do global journalism that reflects all those different points of view and with the expertise that we have—I think we are in a good position to do that. I think that is probably an editorial direction of travel, which is implied by this, but that is probably the right thing for our audiences and the distinctive role that the BBC can play.

Q74 Mr Watts: You seem to be fairly confident that the general public will continue to want to support the World Service to the level that you have proposed. You seem to get some comfort from the fact that you have done some survey work that has shown that the British public are generally in support of and value the service. Do you think that value goes as far as wanting to pay for it? We know from all the research that we have seen before that the BBC's licence fee is not that popular out there with lots of people. Isn't that likely in future years to lead to some pressure, if there is a reduction of funding for general programming? Aren't you likely to be squeezed because you aren't accessed to the same degree by the general public? You are seen as a secondary service to the main service that the BBC provides.

Peter Horrocks: I agree that that is a potential issue. Of course, the public pay for the World Service at the moment as part of general taxation. It is a different mechanism and it exposes it in a different way. As I have indicated, I think that with less than £10 of the licence fee going into paying for the World Service, our demonstrating through the contribution that World Service journalists make—particularly language service journalists, who are generally seen and heard less in the UK than they can now be elsewhere—will help to emphasise to audiences in the UK the value that is created.

Of course, it is part of the question, "What's the right level of funding for the BBC in future?" That is as much a determinant of the ability to sustain the range of the BBC's services, so I truly hope that it won't be a question of the World Service getting the blame for any tightening of BBC funding. It is an agreement that has been entered into between the BBC and the Government, and I am sure that we can demonstrate the value to the audience.

Q75 Mr Watts: Isn't the position going to be even worse than the one I proposed on the basis of the freeze of the licence fee, where there will be less money for normal programming than there would have been if you take into account inflation? It is not just the fact that the World Service is competing with general programming; it will be faced with reduced resources overall for the BBC. I don't need to tell anyone in this room that you will hear criticism about repeat programmes and about the poor quality of some of the material that the BBC uses. Aren't all those factors likely to make the situation even worse for the BBC World Service?

Peter Horrocks: I don't think it will make it worse for the World Service if the measures that we have been discussing are in place. Of course I understand that some people may ask the question that you are asking. I suppose what you are referring to is a judgment that was made as a wider judgment, rather than the one that is specific to the World Service, by the BBC Director General and by the Chairman of the BBC Trust. They clearly took the view—especially in relation to the alternative suggestion, the possible funding by the licence fee of the free licence fees for over-75s, which would have represented a much more significant reduction in the domestic services of the BBC—that this was the right thing to do for the BBC given the financial constraints that the country as a whole finds itself in. That was a broader judgment that I was part of, but I wasn't making that call.

Q76 Chair: Forgive me if you have dealt with this point, but it is still not clear in my mind. Who has the last word in editorial direction? If there are two countries, one of which you are broadcasting to and one of which you are not, and you want to switch it, who makes that decision? Will you discuss priorities with the Foreign Office, or is the Foreign Office out of this equation now and it lies with you and the BBC Trust?

Peter Horrocks: It won't change; the funding mechanism doesn't change until April 2014.

Q77 Chair: But after then?

Peter Horrocks: The mechanism is going to stay the same. In practice, the BBC would often be aware of a market need, and it would be aware that there was something that we wanted to respond to in the audience. But the Foreign Secretary has the authority to ultimately open or close any language service. That current arrangement is going to continue in the new funding.

Q78 Chair: So he'll continue to have the last word?

Peter Horrocks: Yes, he would. I think it is expressed as a joint decision, but ultimately it would be the Foreign Secretary who still has that authority.

Q79 Sir Menzies Campbell: But doesn't the Foreign Secretary have that authority because he is the person who is providing the funds? If he is no longer providing the funds, he no longer has that authority. He can make approaches to the trust, for example, but he will not be in a position to compel, as he is at the moment.

Peter Horrocks: The BBC has agreed that the existing arrangements will continue. That was the agreement that was entered into. In practice, as far as I can tell when looking back on the history, there has not been a significant disagreement between the BBC's view about the broadcasting need and the Foreign Office's view of, as it were, the long-term national need to be broadcasting in particular languages. As I say, the agreement says that that arrangement will continue.

Chair: The problem is how without financial responsibility.

Q80 Mr Ainsworth: In your written evidence you provide us with extensive detail on how audiences are changing the way in which they access world news. You say that this demonstrates the need for the World Service to be able to accelerate its response to global changes. In earlier exchanges with the Chairman, you talked about the very challenging capital programme that you have, and potentially your inability to do that. That surely is going to have a detrimental effect on impact.

Peter Horrocks: I wouldn't say it's an inability. It will slow down our ability to be able to do that. But one of the things in the funding settlement is an intention to reinvest in either new services or new offers within services. So one of the things we'll be doing is to put together editorial teams from different languages, working in new ways to produce content for websites, for instance, or low-cost television programming. Our Turkish team, for instance, provides a foreign affairs programme to a Turkish television channel, which provides quality "Newsnight" type foreign affairs coverage in Turkey. We will be able to afford that type of programming within the settlement.

Q81 Mr Ainsworth: So you don't envisage a deterioration in impact?

Peter Horrocks: Clearly if we do close some services, that would be a reduction.

Q82 Mr Ainsworth: How far away from taking decisions are you?
Peter Horrocks: Within weeks.

Q83 Mr Ainsworth: You will be taking decisions within weeks?
Peter Horrocks: There are decisions that are taken by the World Service board that need to be ratified or agreed by the BBC Trust, and then ultimately they rest with the Foreign Secretary.

Q84 Mr Ainsworth: So you are wrestling with this now?
Peter Horrocks: Absolutely. We were having a board meeting this morning in which we talked about exactly these issues.

Q85 Mr Ainsworth: You say that you are not sure whether other than those closures there will be a diminution in impact, but you are not really meeting your performance targets now, are you?
Peter Horrocks: No, we are short on our reach target. That is largely because of the changes in listening habits that I have mentioned already.

Q86 Mr Ainsworth: And your inability to respond.
Peter Horrocks: It's not so much that. Our largest audience falls, for instance, are in rural parts of India and Bangladesh, where people have only been able to listen to shortwave radio until recently. Local FM music stations start up and people listen, as they did in the UK, to commercial radio stations once that becomes available. So I don't regard that as being a vote of no confidence in the BBC's content. What we want to do in India is focus our activity on audiences who are particularly interested in international news and deliver that via television and online to reach opinion formers and people with educational aspirations who want to understand about the world. There is a significant shift in the type of audience, and it may be a slightly smaller audience. That is the kind of thing we need to invest in to modernise and change our profile.

Q87 Mr Ainsworth: Are you going to change the performance targets?
Peter Horrocks: The performance targets are set jointly with the Foreign Office. Having an unrealistic reach target would probably be the wrong thing in the context that we're in and with resources being stretched. So, I think that it will be as important to put as much emphasis on looking at how we are doing in targeting specific audiences and the measures in terms of quality and reputation that we already have as on the overall head count.

Q88 Mr Ainsworth: But on reach, we will have to lower our ambitions?
Peter Horrocks: I think that's right, yes.

Q89 Mr Ainsworth: By what kind of percentage, do you think?
Peter Horrocks: That will depend on exactly where we get to in terms of the number of services and the reinvestment plans. Once we have established that, we will calibrate what we think is a realistic target and suggest to the Foreign Office that we have a realistic approach to it. Given that we have a reduction in resource, I think that being realistic about that is the right thing to do.

Q90 Mr Ainsworth: Are there particular areas where you think you might abandon that reach and other areas where you might try to maintain that reach?
Peter Horrocks: I think our largest reach is in big markets—India and Africa would be good examples of those—where I think it is more about re-orientating our reach rather than withdrawing it. If they happen, the service closures will tend to be in smaller, individual parts of the world, rather than in our large markets.

Q91 Rory Stewart: Could you tell us a little about BBC Arabic, how it is doing, how you are managing to compete with other Arabic language stations, where you hope to take it and how the funding cuts will affect it?
Peter Horrocks: The overall reach for BBC Arabic across radio, television and online is just short of the target of 25 million; it is 22 million, which we are pleased with. BBC Arabic has established itself as an effective 24-hour news service. However, our audience research indicates that it is not sufficiently distinctive compared to the existing, well established news channels, such as al-Jazeera and al-Arabiya. It is well respected and it provides an alternative and impartial news source, but we think that we can do more in terms of discussion, investigation, documentary and analysis. So our intention is to move more towards that type of programming and to provide something that is distinctive for the Arabic market, discussing topics and looking into things that the Arabic media tend not to look into.

Q92 Rory Stewart: Can you give us a sense of the contrast in resources between you and the main Arabic challengers?
Peter Horrocks: Al-Jazeera would have four or five times the resource that BBC Arabic has got.

Q93 Rory Stewart: And how will you respond to that? Given that they have four or five times the resource and the people that you do, how do you position yourselves?
Peter Horrocks: By competing in those areas that I mentioned. For instance, we produced a series of investigative documentaries about people who convert from the Muslim faith to Christianity, examining what happens to them in terms of how society treats them. That is not something that would tend to be covered by the mainstream Arabic channels. By making distinctive programmes like that, which gets talked about and gets noticed, we create a reputation for touching on subjects that other channels tend not to go into. That attracts people to us, because they want to have discussions on our programmes and they want to interact with us. And we use the radio, TV and

online that is on offer around that distinctive journalism, rather than just competing head to head on mainstream news.

Q94 Rory Stewart: On the Persian language, particularly Persian language TV, can you give us a sense of how you will position yourself and defend yourself against competitors? That seems to be the main problem in all these markets. There is more and more money pumping in, great new satellite and domestic channels. How will you work with Persian TV?

Peter Horrocks: With BBC Persian TV, I think that we already have a distinctive proposition and I think that the response from audiences already shows that. We have not faced quite the same issues of competition that we have faced in the Arabic market. In many ways, we were providing something to Iran that others were not providing. So I think it is about sustaining that work and ensuring that the cultural quality that it has continues. For instance, the channel does quite a lot around technology, music and interpreting the world through Iranian eyes, which is very popular. As with the Arabic proposition, we make sure that the channel is discussing things and talking about subjects that are not talked about either in the Iranian domestic media or in the increasing commercial operations that are targeting Iran.

Q95 Rory Stewart: And Urdu, finally? Where are we with Urdu?

Peter Horrocks: We don't think that we have the resource at the moment to launch a complete Urdu TV channel in the way that we did for Arabic and Persian. However, as part of the plan we hope to create some bespoke TV programming for the Urdu market and we also intend to build on the success of the Urdu website, which is already the most popular news website in Pakistan.

Q96 Rory Stewart: The instrumental argument is the war on terror and connections with these types of issues. Can you make an argument to the Foreign Office about the importance of these issues?

Peter Horrocks: We don't position any of our services in relation to any particular political goal or to a label such as the "war on terror". We say the provision of independent, impartial news, which helps people to understand their own world and to be tolerant of each other, can contribute to broader political goals, but I would not put such a badge on any of our services.

Q97 Sir John Stanley: As you know, Mr Horrocks, the previous Committee gave very strong, consistent support to the Persian TV service. You kindly invited us to its launch, which we were glad to do. How near are you to getting it out on a 24-hour basis?

Peter Horrocks: I am afraid that with the resource settlement that we have received recently, that is an aspiration that is beyond us. We will not be able to move towards 24-hour television for Persian with the funding that we have.

Q98 Sir John Stanley: Where are you as of now in the number of hours per day?

Peter Horrocks: We are about five or six hours, but there is some repetition as well, so there's five or six hours of origination per day.

Q99 Sir John Stanley: I don't know whether you were in the room during the evidence that we have just taken from the British Council, but its witnesses just confirmed to us that the Iranian authorities are on a complete shut-out of the British Council, which, indeed, highlights the significance and importance of the contribution that you are making through the BBC World Service. Can you just tell us what steps, if any, the Iranian authorities are taking to try and reduce the number of people in Iran who are able to pick up your World Service TV in Persian?

Peter Horrocks: This time last year we were being jammed all the time. That has now stopped, helpfully, so there has been a small improvement. It is still illegal to have satellite dishes trained on outside, international broadcasts and, occasionally, there are efforts by the police to confiscate those satellites.

The main restriction that we have is on our ability to be able to do any journalism on the ground in Iran. The BBC Persian service has not been able to operate there for many years. BBC News was there but, in the immediate aftermath of the post-election violence, the BBC News correspondent, Jon Leyne, was thrown out. So far, BBC News has not been allowed back in, and that makes doing the journalism from Iran very difficult indeed. We rely hugely on our viewers and listeners providing us with material, via mobile phones and so on, in order to be able to cover the country. That is the main way in which we are prevented from doing as effective a service for Iran as we would like to.

Q100 Sir John Stanley: Are there any ways in which the FCO could be giving you greater help to overcome these sort of obstructions being put in your way by the Iranian authorities?

Peter Horrocks: We value the support that we get, in helping to counter the jamming for instance. There are various broadcast regulatory bodies with which we are working closely, with the Foreign Office, to try and ensure that the jamming that happened doesn't happen again. However, I think that the leverage that can be obtained on the Iranian authorities—across a very wide range of issues, many more serious than broadcasting ones—is relatively small. So, we value the support but, at the moment, it doesn't seem likely that the Iranian authorities will decide to shift as a result of pressure. It is really something for the Iranian Government to decide—and it was interesting that they decided to stop the jamming. There were commentaries in the Iranian press pointing to the success of the BBC Persian service and saying that people were still watching it—they were managing to get around the jamming—and that it was important that we open up and that our broadcasting competes. That was an example in which the effectiveness of the BBC was helping to shift debate within a country.

Q101 Sir John Stanley: The people in Iran, who I am very glad to know are in touch with you—they are giving you mobile phone communications possibly, or

other forms of communication, the internet, etc.—are they making any particular recommendations or suggestions to you as to how you might be able to increase your coverage and accessibility in Iran?
Peter Horrocks: Yes, we use their suggestions and we use their contributions to our programmes—we use that to guide the programming. They tell us which programmes they like and the music they like, and we respond to that. We are also working to help people who want to evade blocking of the internet—that is relevant in China as well. The BBC World Service's technological team is working with technology organisations, such as Google, and also with other international broadcasters, such as the Voice of America, to support people who are creating software that allows jamming to be circumvented. That is important and helps us to get our content through, and helps to stop the regimes that wish to block the free internet.

Q102 Mr Roy: Many World Service journalists come to this country on work visas, and they often come from very dangerous countries with very dangerous regimes, and they broadcast impartially to those countries. What happens to those journalists if they lose their jobs at the BBC?
Peter Horrocks: You are touching on something that is one of my strongest personal anxieties, and it is relevant to the Persian television team. A number of those people came to London a couple of years ago when relations were relatively open, and now they can't go back. The Persian service is not under any potential threat of closure, but it shows the personal difficulty and the commitment that individual journalists make. The things that they are doing for the BBC and, in effect, for this country put them in a difficult position. We will work very closely with individuals when we need to make changes to our services. If services are closing or if we are reducing numbers within services, we will try, where possible, to redeploy people within the BBC. We closed our eastern European services a few years ago, but many of those journalists still work within the BBC. So, as far as possible, we will try to retain people and help them with out-placement and training to help them get jobs where possible. Clearly, if anyone is in any personal danger, as a result of having lost their employment with the BBC and are not in a position to be able to return to their country of origin, that is something that we would wish to take up with the authorities and to ensure that due consideration was given to that. It would be very unfortunate if anyone was in the position of being exposed to danger because of the work that they had been doing for the World Service.

Q103 Mike Gapes: You gave us a helpful memorandum in which you highlight a number of other countries where there are what you call challenges. May I ask you specifically about what is happening in China? It has been jamming the BBC World Service, and it also has, as far as I understand it, a policy of allowing language services but not English services, and that relates to websites as well. Is that situation any better than it was? I know that it was relaxed for the Olympics and then re-imposed later on. How is it in China now?
Peter Horrocks: It's not good. There was the recent award of the Nobel Peace Prize. The moment the words "Nobel Peace Prize" were uttered on BBC World News, the switch was switched, and the broadcast was stopped. It is not quite correct to say that our language services are freely available. We have two different versions of our BBC Chinese website. We have an English language teaching website that is available in China, but the news site in Chinese is blocked and isn't available and neither is BBC news online in English. BBC World News is only available in a small number of hotels that tend to cater for outside visitors.

Q104 Mike Gapes: In the context of Iran, you referred to an ability to circumvent jamming and blocking. Presumably, there are a number of countries in which the authorities would be working very hard to stop you doing that. What is the position in China?
Peter Horrocks: The Chinese Government put significant resource into this, and built the so-called great firewall of China. However, there is a lot of technological ingenuity in China and people are finding ways round it. As I say, we are trying to help them. I don't particularly want to go into the ways in which we are doing that. I don't want to block off any of those avenues, but we are certainly focusing on that.

Q105 Mike Gapes: But it's not just China. Don't you have the same problems in other countries as well?
Peter Horrocks: Yes, although you do have to have quite significant resource as a Government to do it. China is by far the most focused and concentrated on doing this.

Q106 Mike Gapes: Overall, would you say that in terms of countries blocking or obstructing the BBC World Service, the situation is better or worse?
Peter Horrocks: The stopping of the jamming in Iran was a real plus, but in terms of the numbers of countries that have introduced new measures—for instance, the Pakistani regulatory authority has taken some of our broadcasts off air this year—

Q107 Mike Gapes: Why?
Peter Horrocks: Not clear. Both India and Nigeria do not allow BBC news services on FM, so we're not able to do that in those two key countries. It's a particularly difficult situation in Somalia, where the al-Shabaab militants seized all of our transmitters, and we've also had difficulties in northern Sudan as well. So I would say, on balance, it's been a bad year.

Q108 Mike Gapes: I'm on the awarding body for the Speaker Abbot Award. We gave an award to a BBC journalist from Somalia who wasn't able to come to receive the award. You've clearly got very brave people there.
Can I conclude by questioning what's going to happen in future, given this shift of resource constraint and movement to competition with other parts of the BBC system? Are you confident you will get the resources

you need to overcome these difficulties, or will it be more a question that it might be deemed to be not worth the trouble, and therefore you'll end up reducing your global footprint, so that perhaps you will have even fewer listeners than the Voice of America?

Peter Horrocks: I really hope we won't lose that global leadership. I think that's an important thing for Britain. It's one of the most distinctive things that Britain has: the BBC and its ability to project British values around the world. I don't see it as being about a competition within the BBC; I think that the right measures need to be put in place, as we discussed in the earlier part of this session.

The case for what we do gets stronger and stronger. Commercial news media are withdrawing from coverage in the world, and the only people who are investing in it are Iran, Russia and China, whose view of international broadcasting is very different from the ethos that the BBC stands for. The BBC's strategy for both domestic and international audiences, which it set out this year, is called "Putting quality first", and the very top priority for the BBC is its journalism, both in the UK and around the world. It would be completely negligent of the BBC to ignore that need in the world. It has said that it thinks journalism needs to be put first, and it said in the agreement that was recently reached between the Government and the BBC that it wants to sustain the World Service. I am sure that those who have the good sense that you have, Mr Gapes, will hold the BBC to that. I am sure that we'll want to be held to that.

Chair: We've got three minutes left, and two colleagues have caught my eye. We can have a few questions and quick answers.

Q109 Mr Baron: I asked this question of the British Council. Do you think there is any risk whatsoever that because of financial pressures and the need, perhaps, to commercialise activities a little bit, the superb brand that the World Service has will be tarnished? Is there any risk at all?

Peter Horrocks: There is a risk, and it's one that we have to be alert to. I run BBC World News, the commercial news channel, as well. I have responsibility for that along with the World Service. It operates to the same editorial values. The BBC news website around the world, which is in many ways the most clear-cut and modern expression of what the BBC is about—they're both commercially run. I think that if we are creating commercial revenues but then sustaining our journalism from and to parts of the world where a commercial model is not possible, we can use public funding and commercial funding in a smart way to sustain that World Service ethos.

We should be vigilant about it all the time, but as long as we are clear about what our values are and smart about how we execute a sensible financial model that uses the benefits of the public investment, which is now going to come from the licence fee, and an appropriate level of commercialism that doesn't undermine the organisation and how it's seen, I think that's a sensible modern way of working. We get more value for the licence payer and for the UK public by working in that way.

Q110 Mr Ainsworth: On your answer to Mike Gapes about what happens in Pakistan, some of your programmes are jammed, and you don't know why?

Peter Horrocks: They're not jammed. What happens is that the regulator—

Q111 Mr Ainsworth: There's no explanation for it whatsoever?

Peter Horrocks: Bureaucratic reasons, usually, are advanced. So—

Q112 Mr Ainsworth: Can you provide us with a note of what those programmes are?

Peter Horrocks: I can certainly do that. If we can clarify that with the Pakistani authorities, we'll feed that back to you.

Chair: Thank you both very much indeed. It's been a very helpful session. It's much appreciated that you've taken the time to come along and speak to us. Many thanks.

Wednesday 24 November 2010

Members present:

Richard Ottaway (Chair)

Mr Bob Ainsworth
Mr John Baron
Sir Menzies Campbell
Ann Clwyd
Mike Gapes
Andrew Rosindell
Mr Frank Roy
Rory Stewart
Mr Dave Watts

Examination of Witnesses

Witnesses: **Simon Fraser CMG,** Permanent Under-Secretary of State, **James Bevan**, Director General Change and Delivery, and **Keith Luck**, Director General Finance, Foreign and Commonwealth Office, gave evidence.

Q113 Chair: I welcome members of the public to this session of the Foreign Affairs Committee. It is the second and last evidence session of the Committee's inquiry into the Foreign and Commonwealth Office's performance and finances.
Our witnesses today from the Foreign Office are the Permanent Under-Secretary of state, Mr Simon Fraser; the Director General of Finance, Mr Keith Luck, and the Director General of Change and Delivery, Mr James Bevan. I give a warm welcome to you all and thank you very much for coming along. Apologies for the delay, but there was a Division in the House at 2 o'clock, which set us back by 15 minutes.
Can I open the batting? Mr Fraser, is there anything that you want to say by way of an opening statement?
Simon Fraser: No, Chair, unless you would like me to. I think that it would be easier to move on to questions.

Q114 Chair: So you're quite happy to go straight into questions. Thank you.
What is described as the FCO family will face an overall cut of 24%. However, if the BBC World Service is excluded, that falls to 10%, and if the cuts to the British Council are excluded, that falls to 6%. So why has the focus been more around 24% and 10%, rather than the actual 6% cut that it will really be?
Simon Fraser: I think that the situation is, in fact, that 24% is the figure for the overall cut for the FCO family, which are the FCO, the British Council and the World Service. However, in the fourth year of this spending round the World Service will be taken out of the FCO family, and therefore an amount that would have been spent on the World Service in that year will no longer be relevant. So that is 14%, hence the difference between 24% and 10%. That figure of 10% is the real cut at the end of four years for the FCO family, which will then be the FCO and the British Council. The British Council figure is part of the overall figure.

Q115 Chair: But you do agree that if you take away the British Council, which is a bit of a compartment on its own, the Foreign Office and the diplomatic effort will only be cut by 6%?
Simon Fraser: No, Chair. It is cut by 10%. In effect, the settlement is flat cash over the four-year period. We will get the same in cash terms over the four-year period as we have now, if you exclude the World Service in year 4. That flat cash translates—on the expectation of UK inflation—to about a 10% real cut over the four-year period. The British Council element is part of that overall figure.

Q116 Chair: I haven't got a calculator with me, but the net FCO budget for 2010–11 is £981 million and, in 2011 prices, for 2014–15 it is £925 million, which I am advised is a 6% reduction.
Simon Fraser: Shall I ask Mr Bevan to respond to that, as he was involved directly in the negotiations and may be able to give a clearer explanation that I have given?
James Bevan: I think the first thing to say is that the thrust of your question, Chair, is absolutely right. There are different settlements for the three members of the FCO family, so the overall effect, taking into account inflation, is a real cut of 25% in the Foreign Office's allocation to the British Council by year 4. The effect on what we would grant the World Service in year 4, although it is being taken over by the BBC, will be a 16% real cut. The underlying point of your question, which is that the core Foreign Office is being cut in real terms by less than that, is absolutely right. There are good reasons for that, which the Foreign Secretary took into account when he made his decisions.

Q117 Chair: Are the two figures I gave you—£981 million and £925 million—correct?
James Bevan: I'm afraid I don't recognise those figures. The figures I have, which come from the settlement—
Chair: The figures come from the resource DEL budgets for the Foreign Office, but let's not dwell on this now. Will you confirm to us in writing whether I have got that right or wrong?
James Bevan: Of course.

Q118 Mike Gapes: Following the Chair's original question, the presentation of this, certainly in the *Daily Mail* and a number of other newspapers, was that the FCO cut would be 24%. Was that a deliberate exercise that you employed to try to take the heat off when other Departments were being cut by big amounts? Did you give the impression that the FCO

would be cut by 24%, even though in reality it will be cut by either 6% or 10%?
Simon Fraser: The 24% figure was the figure the Chancellor himself used on the day.
Mike Gapes: I am aware of that, but presumably he did so in consultation with the FCO and the Foreign Secretary.
Simon Fraser: The 24% was the figure that the Chancellor himself used on the day, Mr Gapes, and there were discussions and negotiations over a period of weeks leading to that day. Of course, the discussion on the handling of the BBC World Service came relatively late in that negotiation. The 24% figure was the figure that the Chancellor himself identified at the end of that negotiation.

Q119 Mike Gapes: Okay, but clearly some parts of the family have been more badly treated than other parts of the family, to use that phrase.
Simon Fraser: As Mr Bevan has said, decisions were made by the Foreign Secretary on how to apportion the cuts in the overall budgets between the different elements. It is true to say that the Foreign Office budgets themselves, in the period before the spending round, came under very severe pressure as a result of, for example, the loss of exchange rate protection. It is also true that over recent years, because of ring-fencing, the proportion of the overall FCO family budget that went to the World Service and the British Council grew as a proportion of the whole. In fact, what we have done through that arrangement is bring it back into line with what it was before. So, there are a number of reasons why the decisions were taken.

Q120 Mike Gapes: You have mentioned the Overseas Price Mechanism. You'll be aware that in the last Parliament the Committee was very critical of the previous Government's abolition of the Overseas Price Mechanism and actually recommended in a report produced just before the election that it should be re-established or that an alternative mechanism should be put in place to protect the FCO from suffering severe financial consequences as a result of exchange rate fluctuations. Personally, I am pleased that something has been done on that, but I am unclear about whether it is equivalent to what was there before. Will you give us some more detail about this new foreign currency mechanism and how it will work?
Simon Fraser: I'll ask Mr Bevan to give you the details on that.
James Bevan: What's happened is that we have secured the restoration of the most important part of the old Overseas Price Mechanism. It is a new mechanism that will protect the purchasing power of our budget against foreign exchange fluctuations. It protects a greater part of the Foreign Office's budget against foreign exchange fluctuations than the previous Overseas Price Mechanism. In that sense, it is a significant improvement on what we had before. What this mechanism does not do, which the old Overseas Price Mechanism did, is protect us against differential inflation overseas—inflation over and above UK inflation happening abroad that eats into the value of our budget. The old overseas price mechanism protected us against some, but not all, of that. Again, that was part of the negotiation and we settled on what we thought was overall a very good outcome for the organisation.

Q121 Mike Gapes: So therefore if inflation in some other countries—perhaps in some important partners of ours that have growing economies, such as India, Turkey or Brazil—goes up faster than UK inflation, you are still going to have a problem, because that won't be compensated for.
James Bevan: Yes. That's one reason why dealing with this budget will be more challenging than it might appear from the 10% overall figure in year 4.

Q122 Mike Gapes: Is it particularly difficult because sterling is at a very low value at the moment internationally, or does that make no difference?
James Bevan: The most important thing for us is to have a degree of planning stability in terms of the overall value of our budget overseas. One of the things that hurt us most when we lost the overseas price mechanism was not the loss in actual value of the Foreign Office budget that resulted from sterling declining; it was the inability to predict what the value of our budget would be on any given day, because the exchange rate moved.

Q123 Mike Gapes: Are you still purchasing foreign currencies in advance?
James Bevan: Perhaps Mr Luck can say a word about that.
Keith Luck: The answer to that is no. In October, the Treasury did advise that we should cease purchasing any more forward currency or entering into any more arrangements. Indeed, that was with the knowledge that the foreign currency mechanism was coming into place.

Q124 Mike Gapes: Do you still have some past contracts that you've got to get rid of?
Keith Luck: We do, indeed. From October—a couple of months ago—the contracts extend out to what would have been a full year's worth of forward purchase. If you recall, we did a 12th every month—ramping down for almost two years' time. Those contracts will now be allocated to the peacekeeping budget. The foreign currency mechanism doesn't cover the peacekeeping budget. That's been moved off our baseline, but those contracts, in so far as they support dollar or currencies that the peacekeeping budget will find useful, will novate across to that particular budget.

Q125 Mike Gapes: You'll still be purchasing foreign currency for the peacekeeping budget for the foreseeable future?
Keith Luck: We won't. In terms of managing it, the arrangement is that it has moved off our baseline, so it's nothing to do with the Foreign Office.

Q126 Mike Gapes: So who will?
Keith Luck: The MOD has the capability and the capacity. It will carry on doing that and managing the

foreign currency implications for the peacekeeping budget.

Q127 Mike Gapes: Presumably you are now able to set budgets in local currencies without as much worry. Does that give you any benefits?
Simon Fraser: That is exactly the benefit that we have now achieved. Our posts can budget in local currency, and we know that we can cover that budget, because if sterling depreciates against their currency, we would get compensation. The other side of the coin is that if sterling appreciates, we would repay money to the Treasury. Therefore, coming back to your earlier point about whether it matters at what level sterling is when the scheme is introduced, it does not matter because it works symmetrically both ways.

Q128 Mike Gapes: When we went to Washington, for example—about 18 months or a year ago—we were very shocked, because locally engaged staff were being told to go on to a four-day week. Will that be less likely now because of this change?
Simon Fraser: I think that the particular circumstance then was that the Foreign Office was seeking to make some very dramatic short-term savings for two reasons. First, we didn't have the overseas exchange mechanism in place when sterling devalued—depreciated—and secondly, we were asked to make additional savings in-year in this financial year. So there were some fairly acute circumstances. One of the consequences was, indeed, that local staff were asked, I think, not to work a four-day week but to take some unpaid leave—a furlough arrangement. That is a reasonably normal arrangement—it is not unusual in the United States, although it is not desirable. Yes, it is indeed our hope that, now we have the new settlement, we will have more stability in our planning around the network. That will enable us to avoid having to take short-term and unforeseen measures of that sort.

Q129 Mr Watts: When you were asked about the 24%—I think it was on three occasions—you quoted the Chancellor. What figure would you put as a departmental reduction in the budget?
Simon Fraser: I think that the Chancellor's figure was the correct figure. If you look at the budget, at the end of four years there is a 24% cut. It is important to note that part of that relates to the removal from the Foreign Office's budget of the World Service in the fourth year. Therefore, it is fair to say that the effective real cut in the Foreign Office budget overall, which includes the British Council, is a 10% real-terms cut. That is a rather indicative figure because, as we have already said, there will be additional costs that we will have to meet. We are not covered for differential inflation. There are additional costs, including, for example, the cost that we would incur to help fund the Olympics, which we will have to meet from within that budget. We will, in fact, have to do more. Therefore, we will have to find a significant level of savings.

Q130 Mr Watts: But you do accept that, if you take out the BBC figure and the British Council figure, your figure drops to 6%?
Simon Fraser: I'd like to work through the figures exactly. It is true that the British Council figure is a 25% cut in its budget but, of course, that is a relatively small part of our overall budget. So I am not sure that it leads to a 6% conclusion for the FCO. We would need to give you a precise version of that figure, which I do not have in front of me.

Q131 Mr Watts: So it would have been better and clearer had those figures been broken down in the way that I have suggested rather than give the impression that your Department's reduction was 24%.
Simon Fraser: On the day that the announcement was made, the figure of 24% was used. If you take out the BBC World Service, the figure that we are working with is an effective 10% cut. Within that, there is a 25% cut for the British Council, but that is a relatively small part of the whole so I do not think that the consequence of that is to bring us down to 6%. I do not have the precise figure of what the FCO core minus the British Council is.

Q132 Mr Watts: Can you let us know?
Simon Fraser: Yes. I am happy to.

Q133 Chair: We'll supply you with the little graph of figures that we have in front us. It will explain how we arrive at 6%.

Q134 Mr Roy: In relation to the transaction costs that have been incurred in various countries, how would the Committee know how much the costs were in various countries? I ask that because today I have received a written reply to a written answer that said that I could not be told because the costs were prohibitive. How therefore would the Committee as a whole be able to judge and see what those costs were?
Simon Fraser: The costs of?

Q135 Mr Roy: The actual transaction costs. Obviously there are various costs in various countries. When I asked what those costs were, the written answer said that it was cost prohibitive to tell me. Therefore, how will the Committee be able to find out the costs?
Simon Fraser: I'm sorry. I do not think that I fully understood the question. This is in relation to a FOI request?

Q136 Mr Roy: Yes. Therefore, if I as a Member cannot find out the individual costs in a country, how would this Committee be able to find out?
Simon Fraser: We are able to provide you with figures on the costs of our operations in different countries. But if it is the cost to find the answer to a specific question, that is calculated in the UK. If it exceeds a certain amount, according to the rules, we do not pursue it. That is the case whether it is in the UK or overseas.

Q137 Mr Roy: Perhaps I'll write to you because that was not the answer that I got to my written question

today. They told me quite clearly that it was cost prohibitive to answer. Therefore, as a member of this Committee, I would like to find out.
Simon Fraser: I'm very happy to come back on paper, if you would like to set it out.

Q138 Mr Roy: Thank you very much.
Can I carry on in relation to official development assistance, and the cost? Vernon Ellis, the Chair of the British Council, told the Committee that at present £40 million of the British Council grant is classified as ODA, but that that could be increased—his words—still further. How much of the increase in the FCO family's contribution to the ODA will come from the British Council and the BBC World Service?
Simon Fraser: Part of our settlement is that we agreed to increase the amount of our spending across the Foreign Office that will be contributing to ODA, and therefore to the national target to increase our overall ODA contribution. We are going to be doubling that contribution from the FCO. That will come from a number of areas of activity: partly from our programme activity in the Foreign Office; partly from subscriptions to international organisations that are counted against ODA; partly from some aspects of our front-line diplomatic activity in developing countries; and partly, indeed, from activities of the British Council. All those activities have to be eligible to be counted as ODA spending, according to the OECD rules. We are now looking at how we are going to put that overall amount together. Mr Bevan might want to comment further on the composition of that.
James Bevan: As the Permanent Secretary said, what the settlement does is require the Foreign Office family effectively to double the amount that we score as official development assistance. At the moment, the answer to your question is that the Foreign Office family currently scores about £130 million a year as ODA, of which roughly £90 million is from the Foreign Office and £40 million is, as I think you said, from the British Council. We need to double that and we anticipate doing that by working with the British Council, so that it moves from around £40 million to between £90 million and £100 million a year ODA spend, starting next financial year. We will move from our current £90 million to about £150 million.

Q139 Mr Roy: Can I just clarify? How much additional spending on new activity is required to meet the ODA target, outwith the World Service and the British Council?
James Bevan: The Foreign Office core, outwith the British Council and the World Service, has to go from our current ODA spend of about £90 million this year, to about £150 million ODA spend, starting next financial year, and maintain that for the four years of the spending review. As the Permanent Secretary said, the way we are going to do that is partly by maintaining existing Foreign Office activities that already count as ODA, of which the main one is our programme activity—money that pays, for example, for our low-carbon high-growth programme for scholarships for students from developing countries. We will maintain those programmes, with some adjustments, and we will do some additional ODA activity that we have not done previously, which will probably include some more programme activity. There will be a proportion, which we have not yet finalised, where we will reclassify as ODA activity that we have not previously scored as ODA. We will do that by agreement with the OECD, which decides what does or does not qualify.

Q140 Mr Roy: So there will be that reclassification, but will there be any extra spending?
James Bevan: Yes, there will be three elements. There will be sustained spending on many of the things we already spend on, which do count as ODA. There will be increased spending on things that we currently score as ODA, but where we will do more activity: the best example, I think, is spending on programmes. The third category is some reclassification as ODA of activity that we have not previously classified as such, but which the OECD tells us we can legitimately classify as ODA.

Q141 Mr Roy: On that point, why has the FCO family failed to categorise accurately its ODA spend in the past?
James Bevan: Partly because we have been a very small player. The Foreign Office spends about 2% of the UK's ODA spend. Obviously, the vast bulk of that comes from DFID. As it became clear when we went into the negotiation that a likely requirement would be that we should increase our own ODA spend, we wanted to make absolutely sure that the way that we did that was legitimate. That meant talking to the OECD, which is the body that decides what is and isn't legitimate; and talking to DFID, which is the key player in the UK.
Together we came to the conclusion that there were areas of our existing spend, of which the main one is diplomats in developing countries directly contributing to development, which we could legitimately score as ODA and had not been, and which, as we now understand, various other countries already classify as ODA. It seemed to us right that we should include that in future—right, both in terms of telling the UK's story, which is a good one, and in terms of the UK taxpayer, ensuring that every penny that they're spending is being properly classified.

Q142 Mike Gapes: Can I just clarify this? Does this mean that expenditure that was previously done by the FCO is now paid for from the DFID budget, or does it mean that DFID's budget spend, and therefore the 0.7% target, will not need to be increased as much to meet the international OECD definition and that, therefore, in effect, what would have been DFID's spend on poverty reduction programmes or other things—for example, in Africa—will no longer be needed to meet that target, because your expenditure on other areas, and the British Council's expenditure, is now counting towards meeting that target?
James Bevan: No, I think—

Q143 Mike Gapes: No to both?
James Bevan: The overall picture is that the Government are committed to meeting the 0.7% GNI target by 2013. The main way that they are going to

do that is by a very substantial increase in DFID's budget—an extra £3 billion or so by 2013. In addition, the Foreign Office will contribute a little bit more than it previously had, which will help get us to that target. But the additional ODA that we are contributing will go from about £90 million to about £150 million, so you just need to—

Q144 Mike Gapes: Can I put it another way? If you had not changed your definitions of FCO spending, presumably the DFID budget would have had to increase by more to meet the UN target.
James Bevan: If we were not doing legitimately additional ODA from next year, then yes, DFID would have needed to spend more.
Mike Gapes: Thank you.
James Bevan: But most of what we are doing next year is additional ODA activity—new activity—with a small proportion of reclassification.

Q145 Mike Gapes: I understand that, but I think you gave me an answer—
Simon Fraser: Of course, the target is a Government target, not a DFID target.
Mike Gapes: I understand that.

Q146 Mr Ainsworth: I find it quite extraordinary. I know the pressure that has been on for some long time to ensure that all ODA spending was properly classified, therefore meaning that targets could be reached, because we've been struggling to reach the target that we set ourselves. Yet we can continue, after all this time, to find new ways of reclassifying money. Don't you think that I'm entitled to feel that that's a bit extraordinary?
Simon Fraser: I don't know if Mr Bevan wants to comment further. I think that the issue here is that we have a clear desire to contribute as much as we can.

Q147 Mr Ainsworth: And you didn't have that previously?
Simon Fraser: In the context of this spending review, there was a particular discussion relating to the FCO's contribution and that target. In that context, we are examining carefully all the ways that we can meet the requirement that has been laid on us in this spending round to increase our contribution. That's where we are.
James, do you want to add anything about where we were previously, prior to this spending round?
James Bevan: I think all I'd add is that the OECD defines ODA. It does that in a clear way. It's essentially financial flows to developing countries in cash or in kind, which directly contribute to development. But the way that different countries have interpreted that has varied widely and still does. As I said, some countries score a lot more of their activity as ODA than others. The UK has always had a pretty restrictive definition, for good reasons.
I think what happened was that, when we had the conversation with OECD and DFID about how we would score additional ODA if we were to get that mandate from the appropriate spending review, we established that there were ways that we could score things that we are currently doing that we had not previously been doing.

Q148 Mr Ainsworth: Moving on, can I understand what's happened with regard to the conflict pool? We've separated out the conflict pool from the FCO bottom line and it is £178.5 million. Is that right?
Simon Fraser: The conflict pool has indeed been increased in this spending round. It sits, as I understand it, on DFID's baseline. It draws the money down from the Treasury and then allocates the money to the MOD and the FCO, which are other participating Departments, to fund the activities in the pool. So, it remains a tripartite pool, and DFID is the primary responsible Department.

Q149 Mr Ainsworth: It's been separated out from the FCO baseline, then.
Simon Fraser: It's not on the FCO baseline.

Q150 Mr Ainsworth: Why was that done?
Keith Luck: I was just going to add, that's no change. That is as under the previous spending review. The significant change for us—which, as a result, will reduce the exposure and the risk that the Foreign Office is open to in terms of managing its budget—is that the peacekeeping budget has been removed from our baseline, so there'll be no Request for Resources 2 in the coming spending review.

Q151 Mr Ainsworth: So, the peacekeeping budget is a separate amount of money.
Keith Luck: It is indeed.

Q152 Mr Ainsworth: How much is it?
Keith Luck: It's nominally £374 million, and it is held by the Treasury. It comes directly out of the Treasury reserve and is then allocated to whichever Department—MOD, DFID or us—to spend.

Q153 Mr Ainsworth: Conflict prevention and stabilisation are due to rise to more than £300 million. Does that include spending from the stabilisation unit?
Simon Fraser: I believe it does.

Q154 Mr Ainsworth: So, what percentage increase are we planning in conflict prevention and stabilisation over the period?
Simon Fraser: The totals over the period go from £256 million to £309 million, which is an increase of £50 million. It is quite a considerable increase in percentage terms.

Q155 Mr Ainsworth: When are we going to allocate that to the four separate programmes? Is there any proposal on that yet?
Simon Fraser: I don't immediately know the answer to that question. Allocation will need to be decided collectively by the three Departments concerned, now that we know what the actual amount is and we look at what our options are for spending it.

Q156 Mr Ainsworth: And what timetable have you got for that?

Simon Fraser: Now we've got the Strategic Defence and Security Review under our belts as well, which helps us because it sets some new parameters—for example, for DFID spending in relation to some areas—and we can, I think, move forward. I can't tell you the exact details, but I'm happy to come back with some more specific information on the process for allocating the money.

Q157 Sir Menzies Campbell: You won't be surprised to learn that the BBC World Service has a number of friends on the Committee, as I am sure it has in the Foreign Office. We've had a letter dated 22 November from Mr Horrocks. Has a copy reached you in advance of today, Mr Fraser?
Simon Fraser: I think I have received that, yes.

Q158 Sir Menzies Campbell: In the letter, he effectively says that when unavoidable cost increases such as those arising from the BBC-wide pensions deficit are taken into account, "the like-for-like savings which need to be made in our"—that is the World Service's—"existing and ongoing services is more than 25% by 2014–15". Do you agree with that calculation?
Simon Fraser: The 16% figure that was agreed by the Secretary of State did indeed include some provision to cover some of these additional costs, particularly in relation to pensions. So, they are included in the 16% figure. It is therefore true that there are some additional costs, which will accrue to the World Service and which will have to be met. But if I may say so, that is true pretty broadly across Government. For example, in the Foreign Office, as we have just indicated, we know that we are going to have additional costs to meet differential inflation costs around the world and we know that we're going to have to find additional money to fund the Olympics. So, the World Service is not alone in this, and that was taken into account in the decision that the Foreign Secretary made.

Q159 Sir Menzies Campbell: Broadly, the answer to my question is yes, but the position for the World Service is the same as, for example, for the Foreign Office.
Simon Fraser: I think that it's yes, but I don't think that it is exceptional in facing those sorts of additional pressures in the environment we're in.

Q160 Sir Menzies Campbell: Coming on to another matter, the friends of the World Service, both in the Foreign Office and on the Committee, were, shall we say, rather taken aback by the events that resulted in the transfer of the responsibility for the World Service to the BBC budget, along with, of course—it is sometimes forgotten—BBC Monitoring, which is to be another charge to the BBC budget. How is the Foreign Office going to retain a role in setting the objectives, priorities and services of the World Service once the financial responsibility passes to the BBC?
Simon Fraser: That is a very important question. I want to underline and agree with you that the Foreign Office and the Foreign Secretary consider the BBC World Service an extremely important organisation and an extremely important part of our, if you like, national projection internationally. So we are extremely concerned that the World Service should continue to function effectively. In that context, the terms of the agreement under which the Foreign Secretary will continue to set priorities, objectives and targets for the World Service, along with the BBC's management, remain in effect, as indeed does the provision that he has formally to agree to any proposals for opening or closing a service.
Sir Menzies Campbell: Closing a particular service, yes.
Simon Fraser: So, the terms of the relationship remain unaffected, other than in the sense of who holds the purse strings.

Q161 Sir Menzies Campbell: May I say, perhaps in rather less fanciful terms than I did on a previous occasion, that if it comes down to a dispute between light entertainment and the World Service, it will be the board of trustees of the BBC that determines which is to prevail?
Simon Fraser: It will be they who are responsible for funding, but, as I have said, the decisions will have to be made in consultation and discussion with the Foreign Secretary and he would have formally to agree to any closures. It is important to underline that, in meetings with the Foreign Secretary, both Sir Michael Lyons and Mark Thompson made clear their commitment and support for the World Service, and indeed their intention to maintain funding for the World Service to enable it to carry out its projected plans.

Q162 Sir Menzies Campbell: But they've got a flat licence fee for six years, haven't they?
Simon Fraser: Yes.

Q163 Sir Menzies Campbell: It is inevitable that that budget of the BBC—indeed, I think it is accepted almost as a purpose of the flat licence fee—will come under very considerable scrutiny and pressure.
Simon Fraser: Well, I think all budgets are coming under a lot of pressure. Of course, the Foreign Office has a flat cash budget itself over a similar period, so that is not particularly unusual. I have, since we are referring to correspondence, been in correspondence with the head of the BBC World Service myself, who has given me his assurance that he believes that the BBC is committed to providing the sort of level of funding, or indeed more, to the World Service in the fourth year of this settlement than—

Q164 Sir Menzies Campbell: But he gave the Committee the same assurance. I am just trying to look ahead to the reality of the position in, say, 2016 if there were circumstances in which the budget of the BBC came under very substantial pressure, it was unable to raise its licence fee and was forced, to put it colourfully once more, to choose between Mr Bruce Forsyth and the World Service.
Simon Fraser: Well, Sir Ming, that is a legitimate point, but I'm not sure that it is a question that I can answer as Permanent Secretary at the Foreign Office in the sense that a decision has been made and it was

a cross-Government decision about the future funding of the BBC World Service. What is important is that the sort of concerns that you have expressed were expressed by the Foreign Secretary and by the Foreign Office. We have done our utmost to ensure that they have been registered, and I believe they have.

Q165 Sir Menzies Campbell: In that case, can I just round this off by asking, what is going to be the level of continuing interest taken in the BBC World Service by the Foreign Office? How would you characterise and describe that, so that we can measure what you say today against performance in the future?
Simon Fraser: I think I can say without any hesitation that the level of interest of the Foreign Office will remain high as it is now. It is, as I have said, an extremely important part of our national ability, if you like, to project our values in the world. It is a very important part of Britain's presence in the world, and of course we, as the Foreign Office, are very mindful of that. It is a part of the broader soft power projection of this country. But, in a way, it is extremely important and the BBC World Service has always made this point that full editorial independence should be maintained and that there should be a clear sense of the independence of the World Service, and we must preserve that. To some extent, this new funding arrangement might re-enforce that.
Sir Menzies Campbell: Thank you.

Q166 Chair: Mr Fraser, do you accept that this inevitably means a reduction in services by the World Service?
Simon Fraser: I don't think I can comment on that because I certainly have not seen any proposal at the moment for a reduction in services.
Chair: If the budget is reduced quite substantially, it must inevitably mean that. Given that the Foreign Office still has a say—an aspect—in the editorial side, is that not something that you should look at?
Simon Fraser: We certainly will. If we receive a proposal that involves the reduction in services, then of course we would engage in that discussion. Informal contacts do go on between the BBC World Service and the Foreign Office to think about the future priorities of the organisation. It is fair to say, and I think it is correct to say, that the World Service's offer has changed over the years, both in terms of the way it provides information and the services that it operates—the language services, for example—reflecting political change and different priorities and developments around the world, so I don't think we should assume that the closure of services is automatically a bad thing. What is important is that there is a proper process to ensure that the service that is offered is one that we believe is appropriate and effective in terms of the projection of our national voice in the world.

Q167 Mr Baron: Can I pursue that point, if you don't mind, Mr Fraser? The director of the World Service has clearly stated that there will have to be some service cuts and some services should close. Looking around the world, I am not conscious of any cuts to other countries' world services. The Foreign Secretary has quite rightly talked about the importance of soft power and promoting a British presence abroad, and the World Service is an integral part of that. Do you not think it a slight madness that we are forcing cuts on the World Service at a time when, more than ever perhaps, a British presence abroad is needed?
Simon Fraser: I think it's very important that we have an effective projection and presence abroad. As I have said, the World Service is a very important part of that. That doesn't necessarily mean that the same offer of services needs to be applied at all times. It may be that some new services are required and some others are no longer required. I do have to point out that, in the present public finance environment, it is hardly surprising that there should be pressure on the budget of the BBC World Service, as there is on virtually all public sector organisations.

Q168 Mr Baron: Looking forward, given the interest that the Foreign and Commonwealth Office will, quite rightly, retain in the output of the BBC World Service, and picking up a point made earlier, precisely how do you see the relationship working between the trustees of the BBC and the Foreign Office? To put it more crudely than Sir Ming did, it could come down to quite a choice between "Match of the Day" or funding the World Service. The pressure on the trustees could be quite significant. What sorts of mechanism have been put in place to regulate this relationship between the Foreign Office and the trustees, or are we just winging it for the moment, given that we have four years to get there?
Simon Fraser: Of course, that relationship is going to evolve as things change, and in a sense it will develop, but we do already have very close relations. We have mechanisms in place. There is frequent contact and discussion with the World Service through the Foreign Office through our communications directorate, but also at ministerial level and at senior official level. I myself am in frequent correspondence and contact with Mr Horrocks, the Foreign Secretary is in contact both with the trustees and with the Director General, and I shortly am to have a meeting with the Chief Operating Officer of the BBC, so I think those contacts are effectively in place. I also believe there is a strong commitment on both sides to avoid the sort of circumstance that you have described. In other words, I think there is a clear understanding of the importance of the World Service and the need to protect its capacity to provide the appropriate level of service.

Q169 Mr Baron: Before we get to the four-year point—just looking at the practicalities of the situation that has been forced on the BBC—service cuts will be proposed, according to the Director of the World Service. It will be very difficult for the Foreign Secretary to say no to proposals to cut services, given the budget targets that have been forced on the BBC World Service.
Simon Fraser: If I may, I would rather wait until we have had some proposals, so that we can see what they are. There is a range of ways in which the BBC World Service, like any other organisation faced with

these circumstances, can achieve savings. For example, the BBC World Service informed me some time ago that it was already prepared to make 15% efficiency savings. It will be able to make efficiency savings, as we are, and it may have to or wish to address some of the services. It may wish to propose the closure of services, but I have not yet received such a proposal and I would not like to speculate on what it might be.

Q170 Mr Watts: To pursue the same questions as my colleagues, is it legally binding on the BBC to use the money that has been earmarked for the World Service for that purpose? If the circumstances changed and the BBC found itself in a poorer position, could it ignore that? Secondly, if there is a negotiation, which you said there would be, between the Foreign Office and the BBC about the type and delivery of service, who has the final say?
Simon Fraser: On the first point, under the present arrangements, the funding for the BBC World Service is ring-fenced within the Foreign Office budget. When it transfers to the BBC, there will not be a formal ring fence, but there is a commitment from BBC senior management to maintain the funding of the World Service for the level of activity that it is proposing. That is an agreement, not with the Foreign Office, but between the DCMS and the BBC.
On your second point—who has the final word—there is a clear understanding that there has to be a written, formal agreement between the Foreign Secretary and the BBC if there is a proposal to close specific services.

Q171 Mr Watts: What happens if there's no agreement?
Simon Fraser: According to the rules, if there's no agreement, there can't be a closure.

Q172 Mr Watts: And how will it be funded? The point I'm trying to make is that, if a proposal is made that is not seen to be acceptable by one party or the other, how will you break that deadlock when you've already reduced the budget and we know that there isn't enough money to continue to do what you're already doing?
Simon Fraser: I don't accept that we know that at this point. If there is a proposal and there is not full agreement, there will be negotiation and discussion until agreement can be found. That is the way that this will have to be handled.

Q173 Mr Watts: That's one way of looking at it. Or the BBC could just decide that it will cut the budget somewhere else, because it is not bound legally.
Simon Fraser: Indeed, it may do that.

Q174 Mr Watts: What you've got is a deal that you hope will be okay, but there's no guarantee that it will be okay, because there's no legally binding agreement.
Simon Fraser: There is no ring fence for the funding of the World Service once the funding transfers to the BBC—that is correct.

Q175 Chair: Mr Fraser, I hope it has become apparent from the questions we are putting to you that there is a lack of clarity at the moment. On this very point, you said that you would wait until a proposal was initiated. Who would initiate the proposal, the Foreign Office or the BBC?
Simon Fraser: There are continual contacts between us and the BBC World Service because we have a commitment to engage in setting its priorities and to discuss them with the Foreign Secretary. Those contacts go on between the Foreign Office and the World Service. I think that any proposal to close services would come from the World Service side, not from the Foreign Office.

Q176 Mike Gapes: When the Foreign Secretary came before us, he seemed to be quite pleased with the new arrangement with the World Service, but when the World Service came before us, it seemed to be pretty uncomfortable with it. I understand that the BBC was given an ultimatum that it take over paying for either the licence fee for the over-75s or for the World Service. I am interested to know who came up with the World Service idea. Did it originate in the Foreign and Commonwealth Office, the Treasury, the World Service or the BBC?
Simon Fraser: I'm afraid I'm not able to answer that question, Mr Gapes, because I wasn't involved. I don't know at what point the idea arose. I don't think, in a sense, that that is particularly germane to the finance and performance of the Foreign Office. It is a broader question that relates to the funding of the BBC.

Q177 Mike Gapes: Okay, but following the question from Mr Watts, I put it to you that if BBC licence payers are told that they are paying towards a service in languages that they don't understand and broadcast to areas where they cannot receive it, it might be rather difficult to explain why that should be the case. Isn't this a rather uncomfortable botch that has been pushed through at the last minute?
Simon Fraser: I don't think it is. I wouldn't describe or characterise it as that, Mr Gapes. I think that the arrangement we have made is a satisfactory one. It is true that we will have to see how it is carried forward in the future after this spending round. Of course, the World Service is not just about providing services to people in languages that they don't understand. I don't know whether you are as much of an insomniac as I am, but I am an avid listener to the World Service throughout much of the night, on some occasions. It has a pretty broad following and support.

Q178 Mike Gapes: Yes, but BBC Persian television, for example, or BBC Arabic television, which are services that the FCO was keen to have established, are clearly not available to the vast majority of British people in terms of understanding or following them. Don't you see that there is a possible contradiction?
Simon Fraser: There is an issue, but of course taxpayers fund the Foreign Office just as much as they fund the BBC licence fee. That service has been provided at taxpayers' expense in the past, as it will—
Mike Gapes: No, the taxpayer doesn't pay that—

Chair: Order. We are drifting into a political debate. This hearing is about the finances of the Foreign Office.

Q179 Mr Baron: Mr Fraser, let me turn to the British Council, which does a very good job promoting, among other things, a greater understanding of British interests abroad and so forth. From the figures we have, it appears that it is taking a real-terms cut over the period of something like 25%. Can you understand our concern? The BBC World Service and the British Council seem to be responsible for delivering a fair chunk, if not the bulk, of the FCO family's savings during the period of the spending review. I accept what you are about to say about the British Council—it is a relatively small amount of money in the big scheme of things—but taken together in the sum, it creates the impression that the World Service and the British Council have more than suffered from the cuts. Do you sympathise with that?

Simon Fraser: I would reiterate the point that it is a relatively small part of the overall budget. Secondly, I would reiterate the point that over a period of years, as a proportion of the overall FCO family budget, it has increased because of ring-fencing and protection within a diminishing overall budget. If indeed there is a relatively slightly higher demand on them this time, that only recalibrates the relativities. Having said that, it is important to note that both the World Service, and the British Council in particular, are able to increase their revenue-raising ability—to some extent, they can compensate for the cuts through commercial means. The Foreign Office does not have that ability. There are ways in which they can mitigate the impact.

Q180 Mr Baron: Okay. I take your point, and we discussed that with representatives from the British Council when they were in front of us. They have the ability to develop commercial interests that would, or could, compensate for the cuts in the budget. Are you at all concerned that pursuing more commercial interests may—may—or could tarnish the brand somewhat? We discussed that at the time, and there was an element of concern within the British Council. Do you have any view on that with regard to any safeguards that need to be put in place? I know that a lot of this is about informal talks and contacts, but there is a concern out there that that could happen and a very good brand could be tarnished.

Simon Fraser: I absolutely share your view that it is important to preserve the brand of the British Council. It is a very strong and valuable brand and we must strive to preserve it. Having said that, I don't think that asking the British Council to look at ways of increasing its revenues through commercial means needs necessarily to lead to that result. We can do that while preserving its brand.

Another point relating to that, is that the British Council, in particular, is quite dependent on its relationship with the Foreign Office network around the world. So, to the extent that we have talked about the impact on its budget and on the FCO budget, there is, in fact, a mutually supportive relationship between the two organisations. We would like to go further in seeing to what extent we can achieve savings together through, for example, co-locating premises or sharing back-office services, while at the same time not threatening the independence of the British Council brand. We need to be sensitive to that.

Mr Baron: Thank you.

Q181 Mr Watts: You face a £25 million cut in your capital budget. What is the impact of that, and can you give us some demonstration of which schemes will be cut as a consequence?

Simon Fraser: May I ask Mr Bevan to answer that?

James Bevan: The settlement gives us an average of about £100 million capital every year for the four years, which is for the whole of the family, including the Council and the World Service. As you say, that is a significant drop from our previous allocation. However, we did also agree with the Treasury that, as part of the settlement, we would be allowed to raise an additional £100 million capital a year through recycling assets, which we could plough back into investments. So, we can sell buildings that we no longer need, and we can use the capital that we generate in that way to invest in new buildings.

The bottom line is that it will be a tight four years, in terms of our capital allocation. We intend to do some quite ambitious recycling. We're looking at a target of £50 million a year recycling to plough back into the operation, but it will still be tight. In terms of what that means, we want to prioritise and there are a few main things to highlight. The first is buildings—either building them or acquiring them in places where we need them to protect our staff; a good example would be somewhere such as Sana'a, which is a very dangerous place, where we probably need a better building. Then, there is investment in other security, such as hardened vehicles and other measures that protect staff in dangerous places. Finally, there is investment in the modern ICT that we need as an organisation to be able to communicate effectively. So, while the settlement does not give us all the capital we want, we think it does give us all the capital we need.

Q182 Mr Watts: Are you confident that the shortfall can be made up from sales of assets that you have already got?

James Bevan: I am confident that we can meet the asset recycling target that I mentioned of £50 million a year.

Q183 Mr Watts: When you say recycling, do you mean sales?

James Bevan: We are talking mostly about selling off buildings that we no longer need, or where we want to downsize, and generating a net additional capital income of £50 million a year. That is ambitious, but I am confident we can achieve it. I am also confident that, when we put that together with what we have got in the settlement itself, provided we prioritise carefully, that will give us the basic capital that we need for the next four years.

Q184 Mr Watts: Can you assure the Committee that the safety of staff will not be put at risk by that sort of sale or cutting in capital programme?

James Bevan: Yes because, as I have said, our top priority in allocating not only capital, but other resources will always be the safety and security of our staff. If we were to conclude that we could not adequately protect the safety and security of our staff in a given place—for example, because we could not afford a building that we needed—we would recommend to the Foreign Secretary that we withdrew those people, so they were not under an unacceptable threat.

Q185 Mr Watts: Finally, can you give us an example of the things that won't happen, which you had planned to do?
James Bevan: On the capital side, I think there are going to be quite a lot of buildings that we would have wanted to build or acquire, but which we will not. We have not yet made a decision, because the Foreign Secretary has not made a decision, about the overall allocation of resources. However, we have a whole spreadsheet of projects that are in the highly desirable category because they will give us modern, fit-for-purpose, better-value-for-money offices around the world. In my judgment, we are unlikely to be able to afford those in at least the first couple of years because we want to prioritise projects that are about keeping people safe and secure.

Q186 Rory Stewart: The Foreign Office has had a pretty miserable track record in flogging off the family silver with its building sales over the past 20 or 30 years. It is perhaps second only to the Church Commissioners in its ability to get rid of great historic sites with slogans such as "fit for purpose" and "modern." It has essentially ended up with a series of slightly second-rate and embarrassing buildings that, although we feel they are modern and secure, people in the countries concerned often feel are a bit of a comedown for Britain. We can see that all the way from Kabul to Jakarta. How will we ensure that we won't continue the trend of the past three decades with your next round of reallocations?
James Bevan: First, we are not going to sell off the icons. The embassy in Paris is a classic example of a building that pays its way because it is so effective as a representational tool. There are, as you and members of the Committee know from your visits, a bunch of other buildings across the world that are neither iconic, nor fit for purpose—in some cases they aren't even safe. Those are precisely the kind of buildings that we want to get out of and downsize into more modern, appropriate accommodation.
Finally, in answer to Mr Watts, Jakarta comes into the category of places in which we have both a real security threat, which we don't feel comfortable with, and buildings that aren't currently fit for purpose. A project to build a new safer embassy and office compound in Jakarta would be top of our list when we come to look at priorities.
Simon Fraser: I recently came to this job, and I would like to say that I feel that it is probably true that the estates management record of the Foreign Office over quite a long period of time may have left something to be desired. I fully take the message from the NAO report on that last year. We have taken those steps that we can take, and we have introduced a number of measures to improve our performance. Mr Bevan has led that effort.
I absolutely take the point about the desire not to sell off valuable properties. On the other hand, we need an ambition for efficiency, modernity and health and safety for our staff across the world. The latter of those is a legal requirement, so we have to get the right balance in managing the estate.

Q187 Ann Clwyd: I am intrigued by the conclusion of the report of the previous Foreign Affairs Committee, which concluded that some of the cuts that you were making then were unacceptably disrupting, curtailed the Department's work and represented a threat to its effectiveness. What notice did you take of that report? It seems to me that these cuts are even more severe, so how did you react to the previous Committee's observations? In light of those, how are these further cuts justified?
Simon Fraser: Are you referring to the cuts that were made in-year in the current financial year?
Ann Clwyd: Yes.
Simon Fraser: The first point is that those cuts had to be made, because they were part of the Foreign Office's contribution to the Government's wider purpose of seeking to reduce the deficit.

Q188 Ann Clwyd: Do you not think that you rolled over too easily?
Simon Fraser: All Departments were asked to make a contribution to the £6 billion target, and the Foreign Office made its contribution. I don't think that it's a question of being rolled over. We had to find a £55 million contribution to that target, which we did in a number of ways. We sought to do it in a way that had the least deleterious impact on the operations of the Foreign Office, but, clearly, there were some areas in which we had to make reductions. One of those, for example, was our in-year programme spend, in which we agreed an £18 million reduction, which, almost inevitably, will have some impact on our ability to do things, but I think that that is an inevitable consequence of the circumstance. I assure you that, in making our savings and efficiencies, we have sought to do as much as we can through the reduction of so-called overhead and back-office costs while protecting our front-line activity wherever we can.

Q189 Ann Clwyd: Can you tell us how much of the savings in the administrative spend will come from the core FCO budget, and how much will come from administrative savings at the British Council and the BBC World Service?
Simon Fraser: You're talking here about our 33% requirement to find administrative savings in the four-year period ahead. That means that we have to find, I think, £66 million of savings over that period. We are going to do that through a pretty ruthless focus on improving our corporate service performance and looking at other aspects of our organisation in order to drive out inefficiency. We have to find that within our FCO core budget. Mr Luck will correct me if I am wrong, but my understanding is that the World Service and the Council are classified as programme

spend, and will therefore need to seek their own administrative efficiencies. But they will not be counted against the FCO target.

Keith Luck: That's right. It's £66 million over the four years, and we have some plans in place to achieve that. Indeed, we have had a successful and good track record in exceeding efficiency targets in recent years.

Q190 Ann Clwyd: You said in your letter that some of your administrative savings will come "in more equitable sharing of the costs of corporate services provision across Government Departments overseas." Will this deliver actual savings to the public purse, or are you simply reducing your administrative budgets by passing on some costs to other Departments?

Simon Fraser: The issue there is that in a number of countries around the world, different Departments are represented and possibly have duplicate arrangements, into which we could drive greater efficiency through co-location and the sharing of common services. If we achieve that, that will be a saving, in the sense that it will achieve the administrative saving and/or help us to put more money into the delivery of actual, what we call front-line activities.

Q191 Chair: Can you clarify one point? As you say, many of the savings have come from the FCO's corporate services programme. This was set out in your letter of 12 November, and it is key to delivering a 33% reduction in your administration spend. We've got the impression that that is on a 2008–09 baseline. Can you confirm that the 33% administrative spend saving will be against a 2010–11 baseline?

Simon Fraser: Mr Bevan conducted this part of the negotiations.

James Bevan: The answer is yes. It will be against this financial year.

Q192 Chair: Where did we get this impression it was 2008–09?

James Bevan: I can't answer that.

Chair: Fair enough.

Q193 Rory Stewart: Can I bring you on to staff? The Foreign Office has one of the most unique and impressive reputations in the world, and a lot of that is based around our UK-based diplomats. Yet there is a sense—we are getting this from the PCS and elsewhere—that morale has been hit quite hard by some of the benefits cuts, and people are not sure about their futures within the Office. What are you doing to make sure that people are as proud and excited about being diplomats today as they were 10 or 20 years ago?

Simon Fraser: That's a very important question. The reason for that is, as you say, that we have a very good reputation, and we need to preserve that; we are determined to do that. Also, of course, our staff are our real asset—that is what we do; we are a people organisation. We have to have our people enthused and positive.

What I'd like to say on that—I will ask Mr Bevan to fill in more detail—is that we have just had the headline results of the cross-civil service staff survey, which looked at all these issues. You might not be surprised to hear, given the events of the last year, that we're expecting a fairly considerable hit on the staff engagement scores. Indeed, they have taken a slight dip. Last year it was 69% for the overall positive engagement, and this year it has gone down to 66%. In the circumstances, that is a pretty positive result, which gives me some encouragement that although, as you rightly point out, there are issues causing concern, nevertheless we have maintained enthusiasm and engagement in the organisation. I don't know whether Mr Bevan wants to give more detail.

James Bevan: Thank you. As the Permanent Secretary has said, we participate, as does every other Department, in an annual survey of our staff. We have just got this year's initial results. The first thing to say is that there was the highest response rate that we've ever had as an organisation. It was 88%. Response rates tell you something about people's belief that change will happen if they bother to vote, so that was encouraging. It was actually the highest response rate of any Department except for one, DFID, which had 89%—we'll beat them next year.

What was interesting on the substance was, as the Permanent Secretary has said, that there was a slight drop in the overall positive scores about working for the Foreign Office, but not a very big drop. It was, on average, between 1 and 2%. The overall figures are still, in relative terms, impressive. The vast majority of our people think that what they do is really important. They are proud to work for the organisation and they want to stay in it. Those numbers are starting to soften, and I think we know some of the reasons for that, but we will need to keep going over the next few years to continue to improve what we can improve, and to manage what we can't.

Q194 Rory Stewart: As people who are more on the administrative or operational change management side, how do you engage with the very unique culture of policy stream diplomats? They have, in particular, their reputation for language expertise and country expertise, their ability to get on with foreigners and their representational functions, which are all things that are very difficult to measure. There is a culture where, over the past five to 10 years, people have sometimes felt that people have been promoted on the basis of their performance in management tests and boards, and that if you were a traditional country or language expert, you were being marginalised by people who were perhaps slicker with the jargon.

Simon Fraser: The first thing that I would say is that I regard myself as somebody who has come up through the policy streams of the Foreign Office. I'm sure that Mr Bevan does as well. So, with respect, I don't really recognise the distinction between the two sides of the Office that you paint, Mr Stewart. I think it has been important in recent years that the Foreign Office has made some pretty impressive strides in improving its management and its leadership. Those sorts of things are reflected in these figures.

On the other hand, it is also very important that we maintain those unique skills in diplomacy, policy, international activity, languages and negotiation that you described. Certainly, the Foreign Secretary has placed a high emphasis on that since he has come to office, which I entirely applaud. We are seeking to ensure that as we look forward, building on the achievements that we've made in terms of the organisation, we have a very clear focus on what we call diplomatic skills and excellence. So, for example, we will be increasing the money that we spend on language training, we will be ensuring that there are very strong policy processes in place in London, and we will be ensuring that the excellence of our missions overseas, which, by the way, Ministers have commented on positively since coming to office, is maintained. I entirely accept that we have to have a clear focus on the core purpose of the Foreign Office, which is diplomacy.

Q195 Rory Stewart: How concretely are you going to change promotion to the very senior levels in management to reflect this new initiative of the Foreign Secretary?
Simon Fraser: I don't believe that it is necessary to do so, because promotions within the Foreign Office are done in a transparent and merit-based way.

Q196 Rory Stewart: Sorry, but let me push that point. There has been a huge culture shift in the kinds of transparent, merit-based things that you are looking for when promoting people. There has been a shift over the past decade from one sort of person to another sort. The kinds of things that are proving to be stumbling blocks for people who seek to be promoted to senior management positions are often more their management skills than their policy skills. How could you re-weight the system, so that if someone was genuinely a brilliant Arabist, with an astonishingly deep understanding of the culture and the history, that counted strongly in their favour, as against somebody else who might be an efficient administrator?
Simon Fraser: What we need to ensure is that we have the right balance of the two. When you are appointed to a senior diplomatic position, of course you have very senior diplomatic responsibilities, but you also have senior management and leadership responsibilities, including the management of money and of people. What we are striving to do is achieve the promotion of people who have the appropriate balance of those skills, but not either at the expense of the other. That is our ambition. I think it is the correct ambition.

Q197 Rory Stewart: So you are not going to change in any way the sorts of things you are looking for in a promotion in order to reflect the Foreign Secretary's agenda?
Simon Fraser: We are seeking to ensure that the people we promote to senior positions have the range of competencies that we have established as being appropriate to that position, but of course we are going to give very heavy weight to the diplomatic expertise, including, for example, language and regional experience, to which the Foreign Secretary rightly attaches a lot of importance. But not at the expense, I would argue, Mr Stewart, of people's ability to be responsible stewards of public funds and good leaders of their teams, and people having that broad range of skills. For me this is about the balance of the skills of the leader.

Q198 Mr Watts: The balance includes, does it not, the things that my colleague, Mr Stewart, raised, but also the ability to actually act on behalf of Britain as far as business is concerned? One of the things that we heard from the Foreign Secretary was that he wanted more emphasis on that. You didn't mention that. Is there a change? Are you looking for different people? Is it something that you are going to have to do with training or recruitment policy? It seemed to us, from what the Foreign Secretary said, that he was looking for a completely different type of person than had perhaps been in the Foreign Office before.
Simon Fraser: I myself spent six years in the European Commission doing trade policy, and a year and a half as Permanent Secretary in the Business Department, so I feel that I speak with some experience on this. I think it is important that the Foreign Office has a clear, commercial mindset in the way that it approaches its business and the development of relations around the world. That is one of the diplomatic skills, among others, that Mr Stewart identified, and that we need to promote. I think that diplomats and good heads of mission should be perfectly capable of conducting and pursuing commercial diplomacy on behalf of the Government. I don't therefore necessarily think that we need to be looking for a wholesale introduction of different people. It is more about the mindset of the organisation and making sure that people think in a certain way and are trained to do certain types of activity. There are, of course, some jobs in which more specialised professional backgrounds outside the Foreign Office, in other parts of the public service, or outside the public service may be appropriate, and we will bear that in mind. In some cases, we will seek actively to bring in those with that expertise.

Q199 Rory Stewart: The two major changes that seem to be happening in the staffing are the 2.5% reduction in the UK base staff every year during the CSR period, and a corresponding push to have more locally engaged staff. How are you going to manage that change? I understand that most of the locally engaged staff are coming in at administrative level—ambassadors' assistants and various others. How are we going to make sure that that pretty dramatic change in both UK and overseas staffing isn't going to have an effect on the culture and performance of the Foreign Office?
Simon Fraser: There are slightly different questions in that, Mr Stewart, but clearly we have a work force strategy already in place that will help us, over a period of time, to manage down the size of our overall work force. We need to do that in order to meet our budgetary requirements, because people are our most expensive asset. One of the ways that we have been doing that is to look at the opportunities available to us to employ locally engaged people overseas in some jobs where, in the past, UK-based diplomats were placed. There are a number of reasons for doing that. It is, in most cases, cheaper to do that. In addition to that, sometimes you can attract highly qualified people

with strong local contacts and experience who actually add to our ability to perform. It can actually enhance our performance, in some cases, but you are absolutely right that we have to be very aware of the overall impact of these changes, in terms of the overall shape of our service.

We now have a service that is more than two thirds locally engaged staff, so we have to bear that in mind. There are some cases in which it's not appropriate to take these steps because, for example, there are security or other concerns that prohibit it. And, of course, we need to have the right number of British diplomats overseas who are seen as British diplomats in their relations with foreign Governments. There are a number of factors to take into account. I hope we're striking the right balance, but the concerns you raised are absolutely legitimate ones. Mr Bevan has been closely involved in that process over time, so he may want to add something.

James Bevan: I just want to illustrate where it can work really well, because the Permanent Secretary's absolutely right that we still have to front up with senior British diplomats to the world. I visited Karachi a year ago. We have a young Pakistani political officer employed in Karachi who is not just cheaper but far better than I could be in that position, because he speaks the language, he understands the networks, he knows who's influential and who isn't, and he can move around that environment in greater security than a British diplomat could. That's an example of where the Foreign Office is winning by employing somebody like that. But equally, in Islamabad, if you want to go into the Foreign Ministry at a senior level, clearly a High Commissioner has to go in, and it's got to be a British diplomat fronting for us if we want to get the result we want.

Q200 Mr Roy: Can I come in on localisation? It seems to me to be a rather sensible idea, but the problem you've got there is that the negative to localisation is the job prospects of young people in this country. Has localisation brought, for example, a lowering of morale for recruits to the FCO, who now see a diminishing market for their work abroad?

Simon Fraser: At the moment, we're operating in an environment of an overall recruitment freeze in the civil service, so we can't actually recruit young people in this country at the moment. But you're absolutely right that, of course, there are structural implications for policy shifts of this type. That is why I referred to our work force strategy. We have to try to make sure that we are giving people appropriate expectations, creating the opportunity to manage careers and creating opportunities for people as circumstances change. We are seeking to do that, but it is true that at the junior levels, there is a perception that there are fewer opportunities for people to go overseas now than there were several years ago in some of the supporting functions.

Q201 Mr Roy: Is that a perception or a reality? Surely it's the reality.

Simon Fraser: I said it is true. It is a fact to which we are having to adjust.

Q202 Mr Roy: How, then, does the younger member of the FCO get experience abroad if those jobs are already taken up? Does that mean that the first time they actually go abroad is when they get a more senior position? Surely that's not advantageous.

James Bevan: As you said, Mr Roy, it's a fact, not a perception. The way to illustrate that is that even five years ago, if you were a junior UK Foreign Office employee, you could expect to spend two successive postings abroad and one posting back in London. The ratio is now one abroad to one in London. We've been very clear with our staff, as the Permanent Secretary says, about the reasons for that.

That is a changed expectation. It doesn't apply to everybody. The one exception to the recruitment freeze imposed on all Government Departments across Whitehall is a cross-Whitehall agreement that we will continue to take in so-called fast stream entrants, who are graduates who are particularly talented. Those are still following the historic career path of coming into the Foreign Office for a year or two and then going off abroad for their first experience. The people who are being hit—the ones you're talking about, Mr Roy—are our more junior staff, who may have joined the Foreign Office previously with an expectation of a greater percentage of time spent abroad. That's now diminishing.

Q203 Mr Roy: Okay. Lastly, apart from the quality or lack of quality, is the cost. Two years ago, it was stated that the savings would be £14 million; last year it was said it was £12 million. Now I understand we're talking about £10 million. Does that mean, therefore, that someone's got their sums wrong and actually, this is not the great big idea that they thought it was?

James Bevan: I don't think so. I would need to see the figures to be clear what we are talking about. We are continuing with programmes of localisation, which are continuing to save us significant amounts of money. For example, we are in the middle of a programme of localising about 120 management officer slots overseas. Some of those are currently occupied by UK staff, but in a couple of years they will be completely localised. That is already saving us a significant amount, and it will save us at least £9 million a year once it is complete. So, that is an ongoing process.

Q204 Mr Roy: Okay. Would you be able to write to the Committee just to clarify the costs?

James Bevan: Of course.

Q205 Mr Baron: I am going to turn to the network of posts, but before I do I will ask a quick question, following on from earlier ones, about policy versus managerial skills when it comes to the promotion of individuals. The answer given was that we need a balance, and one can understand that as it is a very reasonable answer. But the danger of such a balance is that managerial skills will always be looked at first, because we live in an age of bureaucracy, box-ticking and all the rest of it. Isn't the answer that it comes down to team work at the end of the day? You can have somebody who is a brilliant Arabist leading your mission, wherever that may be, as long as the team

around him have the appropriate skills, whether those are managerial, budgetary or financial. That would be the answer, because you are looking at the mission as a sum, rather than as just one individual.
Simon Fraser: I don't recognise the description of policy versus management, which is an important thing to say, because my point of balance is important in my perception of where we should be going. I agree with you that you need a mix of skills in any organisation, including any mission, but the head of mission sets the tone for the organisation, as does the head of any organisation. It is therefore important that our heads of mission demonstrate a broad range of skills. Of course, not everybody will be the same, and we need brilliant Arabists, Sinologists and experts on Latin America. We need such cadres of experts, and we need to reinforce those cadres—that is a fair point. For example, we need to improve our language skills in areas where they may have dropped away a bit, and we will do that. Those traditional diplomatic skills—languages, negotiation, interaction with people and being an impressive representative of your country—are absolutely critical, but they are not everything, in my view. Therefore, we need to try to train our people, to coach them and to give them the opportunity to have a broad range of skills. Where particular individuals have particular strengths, we look to backfill those strengths with complementary strengths in the staff around them.

Q206 Mr Baron: Thank you for that. On the network of posts, I don't think there is any doubt that on paper it is good value for money, particularly compared with near neighbours, such as France, which has double the budget for a similar number of posts. But in this world of budgetary restraint, one has to look at how viable posts are. The Foreign Secretary has made it very clear that he believes that having a presence on the ground is terribly important, and I think we all agree with that. He once came up with the figure that the cheapest 40 posts would save only something like £2 million or £3 million anyway. Mr Fraser, in your letter of 12 November you suggested that we had to examine the existing network of posts to see whether it adequately meets the new realities. Can you expand on that? What are the new realities that the FCO will use to judge the adequacy of its network of posts?
Simon Fraser: I am not sure whether I used the word "realities" or "priorities".

Q207 Mr Baron: "Realities" is my understanding.
Simon Fraser: My view is that the Foreign Secretary has taken a very clear position, which is that he wants us to maintain a network of diplomatic posts that has global reach. He believes that that is one of the top priorities for the organisation, and we agree with that. We are now in the process of looking at the priorities that he has set for the organisation in the period ahead, looking at our resource allocation in the spending round and looking at how we are going to fund that network to support those priorities. We are going through that process right now, and we will make recommendations to Ministers on the future of the network in the coming weeks. I hope that that will be before the end of this calendar year. I think the Foreign Secretary's view does not mean that we have to stick with the network we have. Our view and, I think, his view is that we should look at the future priorities and realities in the world and in particular, for example, emerging markets—those areas where economic growth and greater political weight are shifting in the world—and we should try to ensure that our future network is geared in that direction. For example, we may want to open some new posts and we may want to close some other posts to fund that, because our finances are a bit of a zero-sum game. That's what I mean when I say we need to look at and plan for new realities over the next four years, but also beyond the next four years, in terms of our understanding of the way the world is developing.

Q208 Mr Baron: Yes. I want to push you a little more, in the sense that although you're looking at that at the moment, we know what the new realities or priorities are. They are the promotion of soft power, the emerging markets or emerging economies coming through and the emerging countries, both politically and economically. You've suggested a change or a shift in emphasis from some regions to others. Can you give us any more details on that? How long is that reassessment going to take?
Simon Fraser: As I said, we are working on that now. Mr Bevan and I have been discussing it, and I hope that we will be in a position to make recommendations to our Ministers about our resource allocation in the office as a whole, including funding for the network, before the end of this calendar year, because we need to be in a position by the beginning of the next financial year to begin to make those changes when the new spending round cuts in. It is, of course, worth saying that although we will be looking to allocate resource towards new priorities, there are some limits on the extent to which we can shift resource around, because we have a lot of static assets and also because, to go back to Mr Stewart's point, there are some places, such as Afghanistan and Iraq, where the cost of our post is very high because of security concerns, but they are critically important commitments for the organisation and therefore we can't flex resource easily out of some of those commitments.

Q209 Mr Baron: Just one quick remark in response. A presence on the ground is terribly important if you're going to promote trade.
Simon Fraser: Yes.

Q210 Chair: Very specifically on the question of posts, how is co-location with DFID going? Can we have an update on that?
Simon Fraser: We are actively pursuing that with DFID and, indeed, we are talking to other Government Departments. One of the things I would like to draw your attention to, if I may, Chairman, is the language in the Strategic Defence and Security Review about how we are going to try to increase the co-operation and co-ordination between different Government Departments represented in countries overseas under the overall leadership of the Ambassador or High Commissioner. I think that's

quite an important thing for us to pursue, and we're working with other Departments on that. One aspect of that will be attempts to increase co-location. With DFID, I think we now have 36 co-locations in operation, and we're discussing more, so we've made quite good progress on that and I hope we can make further progress.

Q211 Chair: Is any sharing of corporate functions going on?

Simon Fraser: That comes within the same category—the attempt both to improve our co-ordination and to drive down our costs.

Chair: Mr Fraser, I wanted to draw this session to a close at 4.30. It is now 4.18. We have a number of questions on the business plan for 2011 to 2015. We'll make a start, but I suspect we won't cover all the ground. They fall into the category of questions that can be dealt with in writing, but let's make a start. Frank will lead off on this.

Q212 Mr Roy: In May, the coalition announced five foreign priorities, and in July the Foreign Office and Prime Minister announced three priorities. In relation to the structural reform plan, isn't that confusing for the people in the FCO?

Simon Fraser: Mr Roy, that is a very important question and I'm grateful to you for asking it. The Foreign Office, like all Departments, was requested to produce a business plan—a published business plan—that reflects the particular priorities represented in the coalition agreement, and that is what we have done. That was the plan published on 8 November. But I think it's important to say that that does not reflect all the activity of the Foreign Office. The objectives identified there include one to protect and promote national interests. There's one on Afghanistan. There are also objectives on the machinery of government, policy in Europe and soft power. Those are important, but the Foreign Office does a lot of other things.

We came to the conclusion that in order to do our internal business planning and allow our Posts around the world to set their priorities, we needed an internal set of priorities that went a bit further. They subsumed those but added others so that we could allocate our activities and our funding to them, and be accountable for our funding against those. That is why we came up with this set of what we call "The FCO's Priorities", which are encapsulated in a poster that we have just produced. They talk about what we seek to do and indentify these three priorities of security, prosperity and consular services. That is a more comprehensive description of what the Foreign Office is going to be doing.

Q213 Mr Roy: So that is what the FCO wants as opposed to the coalition?

Simon Fraser: No, the coalition priorities are subsumed within this. I would say that these are the priorities against which I hope you will hold us accountable, as you rightly should, in the proper use of our resources.

Q214 Mr Roy: Okay. More specifically, you are devising lots of metrics to measure your impact indicators. How are you developing these and what is the cost? How will you judge from these indicators whether the FCO's priorities are being achieved?

Simon Fraser: May I answer briefly then ask Mr Luck to come in? In the published business plan a number of milestones are identified, and we are required to report every fortnight and every month against those. We have just submitted our first report this week on our performance against the milestones, and I am happy to say that we haven't yet missed any. Beyond that, we have a further exercise to identify indicators with the Treasury, which Mr Luck may be able to tell us more about.

Keith Luck: We do indeed. As the Permanent Secretary has implied, we have some activity recording, and we have looked again at our activity codes and what we record against the new priorities and the internal implementation plan that the Permanent Secretary has referred to. Our proposal is that as of Q3—the end of December—we will be recording again our activity against these new priorities, in line with the new settlement and spending review results that are implemented from 1 April.

Chair: Turning to FCO performance for 2009–10, a question from Bob Ainsworth.

Q215 Mr Ainsworth: You have a new programme that you introduced in 2007 called "Five Star Finance". How far has the development of that gone? Potentially, if it measured up, there was to be a new phase to be designed. Will you be able to go further down that road with the cuts that are being imposed on the Department?

Simon Fraser: Can I just say a word and then ask Mr Luck to back this up? I think that the Five Star Finance programme has been a very important programme for the Foreign Office. A few years ago we were in a situation in which we didn't have effective financial management processes, and we didn't have effective, reliable financial information. We have made huge strides on that. That is really important to run the organisation and a lot of the credit for that actually goes to Keith Luck, who came to the organisation with a specific brief to achieve this. We have made further progress, and maybe I could ask him to update you on where we now stand.

Keith Luck: Thank you very much. We have indeed made further progress; it has been an important programme of driving improved financial management across the Foreign Office. Indeed, based on recommendations from this Committee and the Public Accounts Committee, it is being used as a model with other Government Departments for them to use the same sort of really focused, programme-based approach.

That said, the final phase is to achieve four and a half stars by July. We think we just about got there in July of this year, but we asked the National Audit Office to come in and do an evaluation. It is currently doing that, and its indicative report was presented to my programme board earlier this month. We are clearly somewhere in that territory between four and five stars, but it will probably be December before the NAO can come down with a firmer figure. Based on

its recommendations, we then decide how much effort to continue in trying to get to five stars. You can appreciate the declining utility in return for the investment made around that.
This is a good opportunity to tell the Committee that on Monday we achieved recognition under the Chartered Institute of Management Accountants awards. We were runner-up in the public sector category for the Five Star Finance programme so it also has brand recognition and so on.

Q216 Mr Ainsworth: What you appear to be indicating is that any further roll-out or development is effectively going to have to be self-funding and that there is a law of diminishing returns, and those are decisions that you are about to take depending on whether the return would justify further development.
Keith Luck: We'll take the decision on whether to continue dedicated investment in the team and the effort based on the NAO's report, offset of course by other priorities and pressures within the organisation. It is fair to say that we have achieved many of the objectives that we set out to achieve, and, as the Permanent Secretary has indicated, financial management—and good management of resources more generally—is much more firmly embedded in the organisation and is part of our leadership toolkit. When it comes to the number of accountants, almost a quarter of our finance staff are now professionally qualified—a significant change from where we were only a few years ago.

Q217 Mr Ainsworth: Facilities management outsourcing in India and the Asia-Pacific region was supposed to deliver savings of, I think, between £7 million and £15 million. Where are we with that? How are we measuring it?
James Bevan: Shall I take that one? The answer is that we have just signed a contract for facilities management in Asia-Pacific, covering things such as the management of our buildings, security, gardening, maintenance and so on. The contract goes live on 1 April next year. You're absolutely right on the anticipated savings—between £7 million and £15 million over the seven-year lifetime of the contract.
It is important to say that we are not doing this just to save money—although we expect it to save money—we're also doing it to cut the overall work force and to ensure that our staff remain focused on diplomacy, which is our core purpose, as Mr Stewart rightly reminds us. We also want to ensure that we have the same standards of maintenance across our network, because where we have not had such contracts we have seen widely varying—sometimes worryingly so—standards of maintenance and health and safety, and we want to ensure that those are properly in place. We will ensure that we drive those savings out by, first, putting them in our budget for the next four years, so they have to be made. Secondly, we've enlisted the support of our heads of mission and ambassadors in the region, who will help us to ensure that it happens. Thirdly, in London we have, under me, a facilities management client unit that tracks whether, and is responsible for ensuring that, those savings are realised.

Q218 Mr Ainsworth: And you have structured the contract in such a way as to ensure that those savings will be made, so you won't be coming back to the Committee in years to come saying, "We had to adjust and make savings elsewhere because the contract simply didn't deliver what we anticipated".
James Bevan: We have done a great deal of research and cost-benefit analysis to assure ourselves that it will deliver the savings that we've predicted. I very much hope that you will hold us to account for their delivery.

Q219 Mr Roy: The memorandum to us from the National Audit Office stated that the value of assets of residential land and buildings was nearly £900 million. We know from recent press criticism that the luxury of some of the residencies has a question mark against it. Will you seek to lessen that type of criticism of such luxury through your planned asset sale?
Simon Fraser: We constantly seek to reduce the opportunity for that sort of criticism, much of which is in my view unjustified. We do have an estate around the world and it is true that some of it is very impressive. The value of the Ambassador's house in Rangoon is about £26,000, so I hope you will recognise—

Q220 Mr Roy: The same as the average in my constituency.
Simon Fraser: We also have people operating in very difficult circumstances around the world. Of course, a lot of the cost in many of the places we are in is attributable to essential security provision for our staff, and that comes at a very high price. Having said that, while of course we need to preserve the estate—and its prestige—on behalf of the country, we are also seeking to ensure that we demonstrate very efficient use of that estate. Increasingly, for example, we have sponsored events taking place in our buildings, financed by companies and others. We are allowing them access to those prestigious environments in order to promote commercial and other British interests. That is very common practice.

Q221 Mr Roy: In the residencies?
Simon Fraser: Yes, in the residencies. For example, the residence in Paris is heavily used for those purposes.
Mr Roy: Very expensive?
Chair: Last questions.

Q222 Mr Watts: As well as the spending review, cutting capital budgets and revenue budgets, you lost some of your flexibility from 2010 and 2011. How will that loss of flexibility affect your planned or future use of EYF stocks?
Keith Luck: The new spending review is clear in stating that end-year flexibility is no longer available for Departments. There might be some exceptions on that on capital items where the Treasury recognise the lumpiness of some of those expenditures. There will be some reduced flexibility on account of not being able to access EYF in quite the same way that we did.

That comes back to us having to manage our cash and resources as best we can. Indeed, our track record in spending the budget fully is good—we were at less than 1% last year. I think that we continue to manage within a range of plus or minus 1%, even in the current financial year.

Q223 Mr Watts: Do you expect that to reduce the overall budget, or will people just stay within the disciplines of each individual budget and make sure that there is not an underspend at the end of the year?
Keith Luck: End-year flexibility has always been on the underspends accumulated. It had got to the position where that was unsustainable given the wider issues facing the country and the need to reduce the deficit. It does mean that we need to ensure that every pound spent is spent well and that the value is maximised for our spend.

Q224 Mr Watts: But it does not necessarily mean that that will be the case. If you lose the flexibility, but you allow the people to spend within the budget heads, all you will get is that every one who is in charge of a budget makes sure that it is spent by the end of the year. That is why I was asking whether you expect to make savings on the overall budget at the end of the year, or whether you think that the same amount will be spent, but that it will not be spent in a flexible way.
Simon Fraser: We are obliged to spend our budgets within plus or minus 1% of the total that we are set. That is the target that we are required to meet.

Q225 Mr Watts: You were required to do that before, when you had the flexibility on moving them at the end of the year. What makes you think that you will be any more successful this time?
Simon Fraser: I hope that we will be successful, because, as we have been discussing, we have better financial performance and management. Of course, it is very difficult for us, because we spend money in many currencies in many places around the world, and it is a very complicated organisation. To be frank with you, financial management in this organisation is difficult. I have come from a Department with a budget of £22 billion, which is much larger than the Foreign and Commonwealth Office's budget. However, actually controlling the budget in the FCO is a rather more complicated exercise.
Chair: On that note, we wish you well. I need to draw this meeting to a close. We have a couple of questions outstanding on winter supplementary estimates and savings in 2010–11 and we will write to you about that. We would be grateful if you could put the answers in writing. Thank you very much indeed. I am going to move the session to a private session, so I must ask members of the public to leave, but thank you very much for attending.

Written evidence

Letter to the Chair of the Committee from Rt Hon William Hague MP, First Secretary of State, Secretary of State for Foreign and Commonwealth Affairs

SPENDING REVIEW 2010: FCO SETTLEMENT

Thank you for your letter of 21 October. Following the Chancellor's statement on the CSR of 20 October, I would like to take this opportunity to provide details of the settlement for the FCO.

I am determined that the FCO should play its part in helping to reduce the large budget deficit left by the last government. The Settlement does that. It also provides a secure basis for the FCO to lead the Government's distinctive and active foreign policy. And it allows the FCO to maintain a strong global network, which is key to building our prosperity and strengthening our security, as set out in the National Security Strategy (NSS).

The Settlement

The FCO's Settlement is a 10% real reduction in funding for the FCO family by 2014–15. Taking account of the transfer of BBC World Service funding to the BBC in 2014–15, our baseline falls by 24% overall. This is the figure the Chancellor used in his speech.

While 10% real is at the lower end of cuts across Government, it is still a significant reduction in the FCO budget, coming on top of the unplanned purchasing power reduction of 10% resulting from the previous government's removal of exchange rate protection in 2008. Higher inflation overseas than in the UK and the rising costs of operating abroad (such as security) will increase the impact of the Settlement on FCO's operations.

In addition, the Settlement increases the FCO family's contribution to UK Official Development Assistance (ODA) in line with the Government's commitment to devote 0.7% of Gross National Income to ODA by 2013.

£m nominal[1]	*2011–12*	*2012–13*	*2013–14*	*2014–15*[2]
Resource DEL for FCO family	1,497	1,461	1,427	1,165
Capital DEL for FCO family	107	102	102	98
Of which BBCWS (capital & resource)	253	242	238	0
British Council (capital & resource)	180	171	162	154

Implications for the FCO

This is a good settlement for the FCO in the circumstances, although it will require a continuing drive for savings and efficiency.

Firstly, the FCO has greater budget certainty. The Settlement restores exchange rate protection through a new Foreign Currency Mechanism (FCM). This is a major improvement and an outcome to which the Committee has attached great importance, as have I. Neither the FCO budget nor British foreign policy will be again at the mercy of foreign exchange rate markets. The new mechanism will be less bureaucratic and more transparent than the previous Overseas Price Movements Mechanism (OPM). Unlike the previous OPM however, it does not cover differential inflation—the impact on FCO's purchasing power of different overseas inflation rates.

Like the OPM, it will be symmetrical, increasing FCO's cash allocation if Sterling weakens below the baseline rate (October 2010), reducing it if Sterling strengthens.

Secondly, the Settlement also separates funding for the Government's international peacekeeping responsibilities and the financial risks that accompany them from the FCO's baseline. The FCO will continue to report this expenditure to Parliament.

And third, the Settlement allows the FCO to fulfil the National Security Strategy priorities: using agile and energetic diplomacy to protect our country's interests, building connections for Britain in a networked world and leading foreign policy thinking across government.

We will be able to maintain the global reach of the UK's diplomatic network that is key to delivering Britain's security, economic growth and prosperity. We will ensure that the network and the FCO's global and programme expenditure are aligned with this role and the new Foreign Policy Priorities I have set out: safeguarding Britain's national security, building Britain's prosperity, and supporting British nationals around the world. We will engage early to tackle emerging threats and exploit opportunities—a key focus of FCO's increasing contribution to UK ODA. And we will inject a greater commercial focus into our work.

[1] Figures exclude depreciation.

[2] Includes a transfer of £212 million from RDEL and £15 million from Capital DEL for World Service funding from the FCO to the BBC.

But the Settlement is also a tough one. The FCO will not need to undertake drastic urgent restructuring. We will need to make real choices about what we do; to continue to reduce the overall size of our workforce; to streamline our structures and working methods; and to pursue rigorous efficiencies and even better value for money.

British Council and BBC World Service

In September I emphasised to the Committee my strong commitment to the World Service and British Council. I believe that both organisations are fundamentally important parts of Britain's presence in the world. Like all public bodies they must play their part in reducing public expenditure.

The Settlement maintains the FCO's grant relationship with the British Council and restores the Council's Grant as a share of the FCO family's budget to historic levels. It also reflects the Council's ability to generate significant income and make a contribution to deficit reduction. A headline reduction of 25% real is equivalent to the Council's own efficiency plans and around one third of the surpluses on the Council's projected rising income.

I am asking the Council to devote a proportion of new surpluses to activities in support of their charitable objects and the FCO's international priorities in order to maintain their reach and impact. I am also asking the Council to meet an ambitious ODA target, and I expect to start a strategic dialogue with the Council quickly to agree how best to maintain the Council's significant global impact, and target it to greatest effect in these new circumstances.

Your letter of 21 October sought clarification of the interim funding arrangements for the BBC World Service. From 2014–15, the BBC will provide World Service funding from the Licence Fee, and the amount I had allocated (£227 million for resource and capital) will be cut from the FCO's baseline. If the BBC provide funding to the World Service at the anticipated level in 2014–15, the overall reduction in World Service funding will be 16% real over four years. This includes additional funding for the World Service's element of the BBC pensions deficit. This transfer of funding responsibility will enhance and safeguard the World Service's vital role, and allow the BBC as a whole to maximise efficiencies. Until then the FCO will continue to fund the BBC World Service in line with the settlement figures in the above table.

I have agreed with the Chairman of the BBC Trust and the Director General of the BBC that governance arrangements for the BBC World Service will remain as now, safeguarding World Service quality, reach and impartiality. The BBC will continue to set the objectives, priorities and targets for the World Service with me, and will obtain my written approval for the opening or closure of any language service.

I believe that the British Council and World Service will be able, through efficiency and other measures, to absorb these cuts and maintain their important global reach and activities.

We will work closely with both organisations to ensure that they can.

I should be happy to discuss the Settlement and its consequences further with you and the Committee.

27 October 2010

Letter to the Chair of the Committee from Simon Fraser CMG, Permanent Under-Secretary of State, Foreign and Commonwealth Office

FCO FINANCES AND PERFORMANCE

In advance of the formal evidence session on 24 November, I am submitting a memorandum which addresses the terms of reference that were published for this hearing. This memorandum will also act as a forward look in lieu of the FCO's Annual Departmental Report. I am enclosing a copy of our new Departmental Business Plan Report.[i] Some of the input indicators are still subject to consultation with HMT.

This hearing has traditionally been used to examine the FCO's Annual Departmental Report, but as the Committee will be aware, at the change of Government, a decision was taken across all Departments not to publish full departmental reports. HMT has also confirmed that Autumn Performance Reports will not be published this year. We do not expect them to ask for any further public reporting on our previous Public Service Agreements (PSAs) or Departmental Strategic Objectives (DSOs). Instead, for 2009–10, the FCO published "core tables" of key financial, administrative and policy performance data as an annex to our statutory resource accounts 2009–10, which were laid before Parliament on 30 June 2010. We were again the first Department to lay our accounts before Parliament.

The Committee's terms of reference for this session covered five areas:

1. *The FCO's new performance framework: its three new official priorities, the development of the new "activity recording process" against these new priorities, and the department's new Structural Reform Plan;*

The Foreign Policy Priorities

In July, the Prime Minister and the Foreign Secretary agreed new high level foreign policy priorities for the FCO to replace the eight DSOs. Under these the FCO will pursue an active and activist foreign policy, working with other countries and strengthening the rules-based international system in support of our values to: safeguard Britain's security, build Britain's prosperity, and provide consular support to British nationals around the world.

More specifically, the FCO will work to safeguard Britain's **national security** by leading work across Government on countering state threats and proliferation through our global diplomatic activity and on the security impacts of climate change and resource competition. With DfID, we shall also lead the Government's work to build stability overseas, including through our on-going inter-departmental activity on conflict prevention. We shall take a key role in work to reduce the risk to the UK and UK interests overseas from international terrorism. The FCO will contribute to Britain's efforts in Afghanistan including by working to create the conditions for a sustainable political process on the ground. We shall use our unique network of partnerships and alliances to achieve all of these aims.

The FCO will also lead a process across government to produce integrated strategies for key countries and regions to be agreed by the National Security Council. These will ensure support by all government departments and reflect agreed priorities. We will work with the MOD and Home Office to promote defence and security exports both for commercial reasons, and where this will build the capacity of our partners and allies, increase interoperability and reduce our own acquisition costs.

The FCO will work on **prosperity** to contribute to the Government's top priority of reducing the deficit and returning Britain to strong sustainable growth by using our network and resources to promote the British economy, increase exports and inward investment, open up markets, ensure access to resources and promote sustainable global growth. In all of this the FCO will work closely with UKTI. A new joint FCO/UKTI Commercial Task Force was established in August 2010 to raise the standard and profile of UK commercial diplomacy and embed the necessary skills and culture with the FCO to deliver on this agenda. The FCO will lead a new whole-of-government approach to strengthening bilateral relations and elevating relations with emerging powers. The new National Security Council sub-committee on Emerging Powers, chaired by the Foreign Secretary, will drive this collective approach.

Under the prosperity agenda the FCO will also: work with UKBA to control migration in order to secure the UK's borders and promote the UK's prosperity; work with DECC to drive international action to tackle climate change; and work with other Governmental Partners to advance Britain's interests and prosperity by proactive engagement on key internal EU priorities.

In our Consular services over the next five years, we will merge the FCO and Home Office passport operations by 1 April 2011, so that the Identity and Passport Service will take over responsibility for issuing passports to British nationals overseas as well as at home. We will implement the new 2010–13 Consular Strategy so as to improve the quality of service we provide our citizens.

Departmental Business Plan and Implementation Plan

These Foreign Policy priorities form the basis of the FCO's Departmental Business Plan, which has been published on the No. 10 and FCO websites and is also included with this memorandum.[3] This document is not intended to be fully comprehensive, but it does cover key areas of focus for the Coalition Government. It also reflects the Foreign Secretary's wish that the FCO provide the lead for all government policy overseas.

The FCO's Implementation Plan, which flows from and underpins the Departmental Business Plan, is designed to help us manage and account for the full range of our departmental business. It enables all FCO staff to see how their work fits within the Foreign Policy Priorities. It is fully consistent with the Departmental Business Plan, but goes into more detail, and covers a broader range of our work, to enable our Directorates and Posts to plan their business.

Both the Departmental Business Plan and the Implementation Plan cover the four-year period of the Spending Review. This new system aims to bring greater transparency, accountability and cohesion to the UK Government's activity overseas. Progress on the Business Plan will be monitored monthly and published on the No. 10 and FCO websites. The FCO Board will take stock of activity under the Implementation Plan every six months.

[3] Not published. Already in public domain.

Business Activity Recording

One of the key tools that allowed us to monitor and plan our resource costs was Activity Recording. The FCO stopped full staff activity recording against the old DSOs in Quarter 1 of FY 2010/11, on the appointment of the Coalition Government and pending agreement of the FCO's new Foreign Policy Priorities. However, Activity Recording is a necessary and important tool for capturing data both as part of the Government's public accountability agenda and for our own internal reporting processes. Therefore we continued to collect activity data on the costs of the Management & Support we provided to Partners across Government, so that we could continue to recover the costs of that support.

We have now developed new Activity Recording headings, flowing from the three Foreign Policy Priorities and the FCO Business Plan. Fewer codes should reduce the burden on staff to complete activity recording returns. We have asked staff to re-start full activity recording from Quarter 3 of FY 2010/11. This will enable us to account for the resources that we allocate to each of the Foreign Policy Priorities.

2. *The FCO's Financial Management*

The FCO achieved two key measures of effectiveness in our Resource Accounts for 2009–10. The first was that my predecessor as Accounting Officer, Sir Peter Ricketts, and his Board of Management, hit their target for the FCO's final out-turn being within 1% of our allocation. In numerical terms this was an underspend of £22 million against a budget of £2,367 million and demonstrated taut budgetary control given how much of our spending can be affected by exchange rate movements. As part of the financial management progress made by the FCO, recognised by your colleagues in the Public Accounts Committee, the Board of Management now has better management information. As a result, we are able to take early steps to identify and mitigate forecast overspends. For example, in autumn 2009, the FCO Board took decisive action to reduce expenditure in order to eliminate the forecast risk of an overspend in 2009–10. Again at the end of June this year, the Board called for decisive measures to reduce the forecast overspend and implement the £55 million cuts the FCO made as our contribution to the deficit reduction in this year. We still face financial pressures we must manage and will again aim to deliver an underspend of less than 1%.

The second measure of effectiveness was that for the third consecutive year, the FCO was the first major Whitehall Department to lay our accounts before Parliament, with an unqualified audit opinion. This is a demanding achievement given the geographical dispersal of the FCO's network.

At a more detailed level, the FCO continues to achieve better results through its Finance and Prism Performance Measures (FPPMs), which are a form of internal benchmarking. These measures of financial performance focus on: the accuracy of accounts; the extent of compliance with the cycle of processes from purchasing through to payment; and the efficiency of invoice processing. By June 2010, all Posts and UK Departments were achieving an acceptable score of 85%. To sustain improvement, the bar was raised and the target acceptable score is now 95%. These measures underpin the reliability and integrity of financial management information, so the improving scores enable the FCO to reach a higher standard of effectiveness.

Much of this progress has been made under the 5* Financial Management programme. The 4.5* work phase of the Programme ended in July 2010, and the Programme team are now measuring the benefits and assessing the FCO's overall financial management performance. The NAO, who have taken a close interest in our progress since early 2009, are doing an independent assessment at our invitation. On the basis of the assessments, and taking into account any recommendations made by the NAO, the FCO will design the next phase. This will focus on further embedding these improvements and continuing the FCO's leadership in developing and sharing best practice with other Whitehall departments.

When the NAO reviewed our internal controls, they found we had a solid framework in place to oversee production of the Statement on Internal Control (SIC). All their recommendations have now been implemented and a more robust evidence-gathering process adopted. We are reviewing the wider risk management framework to make sure it remains relevant and effective as the FCO evolves.

We will continue to improve our systems and staff to continue improving the FCO's financial effectiveness. Investment in staff training has continued with 67 staff in training to gain professional finance qualifications and 23% of our Finance function now have professional qualifications. The implementation of new planning, budgeting and reporting systems has allowed the FCO to increase our capability. Near real-time information is now available and the ability to budget in foreign currencies has been a major step forward.

I should also cover the work of our Internal Audit Department here. Our "zero tolerance" of fraud and financial impropriety is rigorously enforced and our default position is that where there is sufficient evidence the perpetrator(s) are dismissed and the matter reported to the relevant authorities. I can confirm there have been no significant[4] cases of fraud reported to the FAC since the last evidence session of 9 December 2009. Although the level of identified fraud is low, we are not complacent and remain vigilant to the risk and endeavour to ensure that public money is not lost through fraud. We have good whistle-blowing procedures in place, all staff are reminded of them on a regular basis, and all reports of financial impropriety are investigated. We are challenging the way that we administer ourselves in line with defensible risk management and central

[4] We are required to report all frauds in excess of £250K to the FAC, as well as those that we believe are significant on other grounds (ie may attract adverse press attention, involving a senior member of staff).

to this are the 5* Finance Programme and the Corporate Service Programme, backed-up by a robust disciplinary process.

3. *Spending Allocations and Effectiveness within the FCO*

The main corporate issue facing the FCO over the coming months is strategic resource allocation: deciding how to allocate and use the resources which the FCO secured in the Spending Review (SR10). The FCO's Resource Allocation Round, now underway, will allocate our SR10 Settlement across the FCO for each of the four Financial Years of the SR10 period (2011–12 to 2014–15).

The Foreign Secretary and the FCO Management Board are agreed that the allocation of resources should be guided by the new Foreign Policy Priorities, by the Foreign Secretary's wish to sustain a strong global network; and by our determination to keep our staff safe, secure, and well equipped, and to ensure they have the skills we need for the future (ie diplomacy, commercial and trade policy, and leadership and management skills).

Implementing the FCO's SR10 will be tough. We need to realise a 10% real cut over the next four years, whilst managing rising costs and other pressures on our budget. For example like all government departments, we must also make a 33% cut in "Admin" spend over the four years of SR10. This will involve restructuring to achieve efficiencies, primarily in back office activities through our Corporate services Programme. Our internal allocations may also be affected by changes in plans of other Departments and Agencies if they reduce their presence overseas following their own Settlements eg UKBA, as this will impact on the amount we need to support them.

We will take the opportunity presented by the Spending Review to reshape the organisation so that it is stronger and more efficient in the future. We do not intend simply to replicate past spending patterns, but to make some clear choices; this will mean achieving further savings, continue to reduce its headcount and streamline its structures. The FCO Board intends to reach agreement on allocations for the FCO as a whole by December, so that we can allocate resources to our Directorates and Posts, including our programme allocations, early in 2011, and finalise business plans well before 1 April (the start of the SR10 period).

4. *The impact of the Comprehensive Spending Review on the FCO's core business, including the department's overseas network, and especially as regards future arrangements for the management of the department's exchange-rate risk, and the allocation and management of overseas spending between the FCO and the Department for International Development*

The Foreign Secretary's letter to the Chairman of the Foreign Affairs Committee of 27 October explained the Spending Review Settlement and its broad implications for the FCO, including the management of exchange rate risk. We are continuing to assess the impact of the Settlement during the Resource Allocation round currently underway, but the key elements of the Settlement I would highlight are:

- For the core FCO it is a 10% real cut over the four year SR period, with a 33% Admin cut target.
- The creation of a new Foreign Currency Mechanism to replace the old Overseas Price Movements mechanism will restore some protection to FCO purchasing power overseas.
- The peacekeeping budget has moved off the FCO baseline.
- The FCO family's contribution to UK Overseas Development Assistance (ODA) spending has increased to £273 million per year.
- The Capital budget for the FCO family will reduce by around half immediately, with provision for recycling some asset disposal receipts.

It is worth expanding first on how we will work through the implications for the FCO. In the coming weeks, we will take strategic decisions on how to live within our Settlement, including what we do, and how we do it, and whether our existing network of Posts adequately meets the new realities. In other higher priority Posts, such as emerging markets or countries critical to UK security, it might mean opening new Posts. The Foreign Secretary is clear that Britain will continue to need a global diplomatic network, not least to promote our commercial interests to help bring the UK economy back to long term health. We have no plans—and in the light of SR10 no need—for widespread post closures. We will report any major decisions to Parliament.

We will meet the Treasury target of cutting administrative spending by 33% by 2014–15, by continued improved procurement practices and continuing to streamline back office work, including through outsourcing, localisation and consolidating functions regionally overseas or back to the UK. We will also continue to reduce the number of FCO staff. Our previous Strategic Workforce Plan planned to reduce numbers of UK staff by 10% before the Spending Review; a 2% year on year reduction, so the FCO is well placed to react to the additional financial pressure. Over the next few months therefore, we will revise the strategic workforce plan covering the spending review period. The flat cash settlement equates to around a 2.5% per year real terms budget reduction and we expect the UK-based workforce to shrink at about this rate, making use of natural wastage, early retirement and voluntary redundancy as far as possible, including the recent autumn early retirement exercise, under which around one hundred staff left.

Official Development Assistance (ODA)

In making these plans, we will take full account of the FCO's increased target for ODA. The FCO will continue to contribute to the economic development and welfare of developing countries through activities that include but are not limited to stopping conflict, promoting good governance and supporting economic development, thereby contributing also to the Government's commitment to provide 0.7% of GNI as ODA by 2013.

We will be planning how to achieve the rise in ODA Spending over the next few months in consultation with both the British Council and BBC World Service. All the FCO family's ODA spend will be in accordance with DAC guidelines. The settlement will allow us to increase areas of our work which contribute to international development. We have not yet taken decisions on which particular activities we will scale-up, but we would expect to sustain a large proportion of our current ODA work (eg governance and scholarship programmes which support developing countries) and add some new ODA-eligible activities. There will also be some reclassification. In the past we did not score some FCO activities which could count as ODA. In a tight public expenditure environment, it's only fair to taxpayers that all eligible expenditure is counted. So we will ensure, working with the OECD and DFID, that all FCO work which should legitimately be scored as ODA in areas such as stopping conflict, promoting good governance, capacity building and supporting economic development.

We will be assisted in all this by the agreement of a Foreign Currency Mechanism that will remove from the FCO the foreign exchange risk we have borne since April 2008. Protection will now extend not only to Post budgets but also to foreign currency movements in estates, security, capital and programme expenditure. The FCO has already stopped forward purchases of foreign currency pending start of the new arrangement in FY 2011/12.

Staff Morale

The Civil Service 2009 staff engagement survey showed the FCO has very high levels of staff commitment ("engagement"), ie staff readiness to say good things about the FCO, stay in it, and strive to deliver better for it. Our positive engagement score (69%) is 10% over the Civil Service average, 6% above the average of the highest performing group in the survey, and the best of all the main government departments. The three strongest drivers of engagement are leadership and the way we manage change; "my work"; and "inclusion and fair treatment". FCO scores here are much higher than the Civil Service average, for example staff confidence in decisions made by FCO senior managers is 17% higher; belief that change is managed well is 21% higher. Staff also have a widely shared sense of pride in working for the FCO, at 79% in the 2009 staff survey, 24% higher than the rest of the Civil Service. 63% of our staff say "the FCO inspires me to do the best in my job", 23% above the Civil Service average.

A higher than ever number of staff (88%) took part in the 2010 survey, which closed on 29 October. We have just received our initial, high level, survey findings on the FCO as a whole and we received a positive engagement score of 66% [against 69% last year]. Although there were minor decreases in satisfaction across questions since the 2009 survey, the findings are still generally positive, particularly in view of recent austerity measures. We will receive the full survey results in early December 2010, when we will receive the comparative Civil Service averages and we will know what our key drivers of engagement are. We are not able to make any conclusions on what our staff have said until we have received the full results. As we take forward work on our agenda in the coming CSR period, we will continue to emphasise the importance of good leadership, including effective, ongoing, two-way communication with staff on the changes that affect them.

The FCO's global estate

The diplomatic estate is a key tool for achieving our objectives. It is a unique and highly diverse public asset, ranging from buildings from which we deliver consular services in popular holiday destinations to some of our most important overseas missions such as Washington, Moscow, New York, New Delhi, Brussels and Beijing.

We will continue to modernise the way we procure and manage our global estate, driving down costs wherever possible, and allowing the FCO to concentrate on our front-line functions. We have taken a number of steps to improve our operations this year, including:

- a new asset management framework for estates work;
- new governance arrangements for estates investment decisions;
- greater rigour in delivery of major projects;
- improvements to our property management database; and
- better coordination between the FCO and other departments using the overseas estate.

Looking ahead, we will continue to draw on professional property expertise as appropriate and carefully prioritise our capital spending, including addressing the need for new premises in Jakarta and refurbishment of our existing embassy in Tel Aviv. Our Spending Round settlement allows us to undertake prudent capital investment on an appropriate scale given the pressures on public finances.

We will also continue to look critically at whether the leased and owned property assets we hold are fit for purpose and represent value for money. As the Committee will know, we regularly dispose of properties which are surplus to requirements and will continue to do so. In 2009–10, we achieved some £9.2 million in asset sales. We use the funds generated to invest elsewhere or to achieve co-location with other government departments and hence save money. I will continue my predecessors' practice of informing the Committee of the value of such sales in arrears.

I should add that, while we will need to generate more of our capital from asset recycling over the next four years, there is no intention to rush to sell off buildings which are fit for purpose, which represent value for money and which meet our operational needs. Ministers fully recognise the impact that certain historically important overseas buildings can have in support of the UK's international objectives, especially support for British business.

As mentioned above the FCO was included in the Chancellor's announcement that all Government Departments would reduce "administration spend" by 33% as part of the overall drive to increase efficiency. The FCO's Corporate Services Programme is a key part of the FCO achieving this. The aim of the Programme is to save time and money for the FCO by standardising and streamlining our corporate policies, processes and tools. We are on track to reduce corporate spend by £30 million each year from our initial 2008–09 baseline.

The majority of these savings will come from the localisation of UK-based positions abroad and from restructuring our local staff overseas. We are also planning to save money by joining up the corporate services operations of different government departments abroad and from outsourcing our facilities management. By the end of this CSR period (2011–15), all Posts where there is more than one Government Department will share corporate services where it makes sense. This is the Government Consolidation Overseas policy as announced by the Chancellor last month. This will result (assuming agreement with other Whitehall departments on a new cost sharing mechanism) in more equitable sharing of the costs of corporate services provision across government departments overseas.

Finally, we are putting in place more cost-effective, efficient and streamlined arrangements for day-to-day maintenance and getting the basics of health and safety right through increased Facilities Management Outsourcing. I wrote to the Committee on 4 November to notify you that the FCO signed our second regional contract to outsource facilities management (FM) in India and Asia Pacific with ISS to outsource facilities management in 28 posts in 14 countries in Asia-Pacific and India. The contract with ISS is for seven years, with the option of up to three additional years. It will deliver between £7–14.9 million savings over the life of the contract. Furthermore, it will mean significant benefits in terms of standardisation of services across the region, professional management of FM activities and a significant reduction in the FCO's local staff headcount. It will also free up resources, allowing FCO staff to concentrate on their core business of delivering the UK's foreign policy priorities.

FCO staff security

If we are to achieve our foreign policy goals, it is essential that we engage on the ground in difficult and often dangerous circumstances. Staff security is an essential driver of resource allocation and a prime concern of ministers.

We take a risk management approach, since no "one size" solution fits all circumstances. We assess the threat and vulnerabilities at each post and put in place the most appropriate measures to protect staff, families and other assets. We expect to complete all outstanding "high" and "medium" risk security projects by the end of this year, and our spending round settlement contains provision to continue this work in the next few years.

The threat from terrorism is the biggest threat to the safety of our staff. The number of posts where we assess the terrorist threat to be critical or severe has increased threefold since 2006. The nature of the terrorist threat is constantly evolving. Determined suicide bombers are very difficult to prevent, as saw in the attack on our Ambassador in Sana'a in April and then the more recent rocket attack against staff there on 6 October. Fortunately, there were no serious casualties and our security procedures worked in both cases. But we cannot be complacent, and we have taken a range of additional security precautions to protect staff in Yemen on which I would be happy to brief the committee privately.

The Yemen example illustrates the dilemma we face: it is often precisely in those places where the foreign policy challenges are the most pressing that we face the biggest threat to FCO operations: other examples of high-threat posts include Kabul, Helmand, Baghdad and Islamabad. While there are no absolute guarantees—and we are tightly resourced here as elsewhere—we believe we have a calibrated but robust security regime which provides value for money, and keeps the balance between security and conducting our diplomatic business efficiently.

Other security threats

I should also add that we assess that the threat from espionage to be probably as high as it was during the Cold War—with the added complication that there are more opportunities because of the greater use of IT systems. We work closely with other departments and agencies to counter the espionage threat and the emerging cyber threat. Again, I would be glad to brief the committee in more detail privately.

5. *The work and performance of the British Council and the BBC World Service, and the impact of the Comprehensive Spending Review on these organisations*

The Committee has already had a separate evidence session with both the Council and World Service. We recognise the valuable work of both organisations: the Foreign Secretary has set out his vision of a new British Foreign Policy in an increasingly interconnected world. The work of the British Council and the World Service provides Britain with an unrivalled platform for the projection of our culture values; and as such are useful channels of engagement with audiences who may be reluctant to deal directly with Her Majesty's Government.

The impact of the SR10 Settlement on the organisations is that the FCO will continue to provide from our overall Settlement a grant-in-aid to both the BBCWS and the British Council. The Foreign Secretary has repeatedly made clear the importance he attaches to both organisations but also that all parts of the FCO family must contribute to efforts to cut public spending. The Council's Grant-in-aid will reduce from £180 million (excluding capital funding) in FY10/11 to £149 million in FY14/15. This represents a cut of 17%, which (with inflation) amounts to a real cut of around 25%. The British Council will implement this cut through a mixture of efficiency savings and increased income from English teaching, examinations and contract delivery activities. The British Council will contribute to the increased UK ODA spend that is part of the overall settlement. The Council, unlike the FCO and World Service, is able to raise a significant part of its own revenue. Its commercial income is currently £450 million p.a. and after costs this provides a small surplus.

The FCO will also continue to provide a grant to the BBC World Service. The amount will reduce from £229 million (excluding capital funding) in FY10/11 to £212 million in FY14/15. This represents a cut of 7%, equating (with inflation) to a 16% real cut. World Service funding will be transferred from the FCO to the Licence Fee from FY14/15 to enhance and protect the World Service's vital role. The BBC has made a clear commitment to providing sufficient investment in the World Service to support its plans and safeguard its independence and the Foreign Secretary will continue to play a role in setting the World Service's objectives, priorities and targets and agreeing any closure of services.

I was pleased to hear that the Committee found their recent visits to Afghanistan and Pakistan so useful. I hope the forthcoming visits next year are as useful.

I hope you find these answers helpful. I will shortly forward a more detailed description of how the FCO will be taking forward the Structural Reform Priorities/Coalition Priorities set out in Section B of the FCO Departmental Business Plan and I look forward to appearing before your Committee soon to discuss the issues covered in this letter.

12 November 2010

Annex

FCO FINANCES AND PERFORMANCE

I have submitted a memorandum addressing the detailed Terms of Reference for my forthcoming hearing before the committee. Ahead of this hearing, and also the hearing scheduled for January, "**The Role of the FCO in UK Government"**, I would like to set out for the Committee a broad sense of how the FCO intends to take forward the Coalition objectives set out in the FCO Departmental Business Plan, published on 8 November, which I have already sent to you.

1. Protect and Promote the UK's National Interests and Security

The National Security Strategy sets the context for Britain's security, outlines the goals we aim to achieve for the United Kingdom internationally, and identifies the main risks to our interests on which the Strategic Defence and Security Review (SDSR) was based. It notes that the United Kingdom is an open, outward-facing nation whose political, economic and cultural authority and global interests are disproportionate to our size.

The SDSR confirmed that counter terrorism remains at the top of the Government's security agenda. Under the broad strategic direction of the National Security Council, the Home Secretary is the lead Minister for CONTEST—the UK's strategy for countering International Terrorism. The FCO co-ordinates and leads the delivery of CONTEST internationally, both in terms of the work that needs to be delivered overseas and the way that work is linked to domestic efforts to tackle the terrorist threat. We will continue to work closely with partners across government to achieve that goal. Our efforts are underpinned by the FCO's Counter Terrorism and Radicalisation Programme fund, which is the principal funding stream for cross-Whitehall overseas counter terrorism work. We will also continue to build both strong and productive bilateral and multilateral counter-terrorism relationships.

The UK plays a central role in international efforts to prevent the illegal proliferation of weapons of mass destruction. We will work bilaterally with a wide range of international partners to improve nuclear and biological security, and to strengthen export controls and other barriers to illegal transfer of weapons technology. In particular we will actively engage in international efforts to prevent Iran from obtaining a nuclear weapon.

We continue to work in multilateral fora to maintain and strengthen the international rules-based system of organisations, treaties and regimes, which has helped build global confidence and security over the last 50 years. This includes working to achieve success at the Comprehensive Test Ban Treaty Preparatory Commission in 2010, the Review Conference for the Biological Toxin Weapons Convention in 2011, the Nuclear Security Summit in 2012 and the Review Conference for the Chemical Weapons Convention in 2013, as well as active participation in the Arms Trade Treaty negotiations and follow-up from the 2010 Nuclear Non-Proliferation Treaty Review Conference.

As mentioned in my memorandum of 12 November, we recognise the importance of commerce and trade to our national interests and security. The FCO will increase the impact of our commercial diplomacy in order to contribute to the Government's priority of reducing the deficit and returning Britain to strong, sustainable growth. The FCO will work closely with UK Trade & Investment (UKTI) and the Department of Business Innovation and Skills (BIS) to support the economy and British firms, to help them exploit global opportunities; and to support a strong, sustainable and open global economy. Commercial objectives are now central to the UK's bilateral relations and the activities of FCO Ministers.

UKTI, which is a joint FCO and BIS department, has a network of 1,300 trade and investment staff operating in 96 different markets. Heads of Mission play an important role in delivering trade and investment objectives. In Posts where there are no dedicated trade and investment staff, Heads of Mission offer political support to UK companies in the market and signpost local companies to UK investment opportunities.

We will work across Government to re-inject momentum into global efforts to combat climate change. We want to see the UNFCCC negotiations in Cancun in November/December 2010 and in South Africa in 2011 build the foundations for a comprehensive global agreement. In parallel we will work to promote low carbon growth, especially in the emerging powers, EU and traditional partners.

We will also work to ensure the UK's energy security (including reliability, affordability and sustainability) by promoting effective and transparent global energy markets; supporting the development and implementation of effective EU energy strategies; and prioritising engagement, including commercial opportunities, with key consumers and producers.

The UK's prosperity requires the FCO to work with the UK Border Agency to secure our borders by controlling migration. The FCO's Migration Directorate will work with UKBA to increase the numbers of failed asylum seekers and foreign national prisoners we return to their country of origin, build the capacity of partner governments to assist returnee re-integration and reduce the drivers of irregular migration. We will support development and delivery of a migration policy that meets our economic needs by attracting the brightest and best economic migrants from the global talent pool. We will do so, whilst working closely with UKBA on the development and implementation of an annual limit on non-EU migration to the UK to reduce net migration.

Conflict overseas represents a significant threat to UK interests, by impeding economic development, causing instability, promoting illegal migration or fuelling terrorism. The SDSR confirmed the Government's commitment to building stability overseas through preventing conflict and identifying and tackling emerging threats including from fragile and conflict-affected states.

The National Security Strategy and SDSR sets out an approach to conflict and instability that integrates diplomacy, defence and development actions in support of cross-government strategies. With DFID we shall lead cross-Whitehall work with MOD and others, to help to prevent conflict and build stability. As part of the tri-departmental management of HMG's conflict resources, FCO will manage and report to Parliament on the Peacekeeping Budget on the basis that these are resources it holds and manages on behalf of the Government but which do not form part of the FCO family's core budget and/or DELs.

The FCO and DFID will jointly lead work to develop a new "Building Stability Overseas" strategy, which will be published in Spring 2011. This will set out the Government's overall approach and priorities, including how we will support our work through the tri-departmental Conflict Pool and the Peacekeeping Budget. We will ensure that our effort and funding is directed to those places and activities where the UK's interests are greatest and where it will be most effectively spent.

The Foreign Secretary has set out his vision of a distinctive British foreign policy that builds up the UK's global influence. By 2015, we intend to have strengthened bilateral relationships with a number of key countries including India, China, Turkey, Brazil and the Gulf States. We will use the National Security Council framework to elevate relationships with individual countries in a systematic fashion, in areas such as health, education and commerce as well as diplomacy.

We have already sought to elevate our relationship with India through a new "enhanced partnership." The Prime Minister led a major visit in July which agreed specific initiatives to develop economic and trade relations, science and technology, energy, education, defence, culture and people to people contacts.

The Prime Minister has recently returned from leading the biggest ever British delegation to China, which reflects the importance of China as a global player. China has a vital role to play in delivering strong sustainable and balanced global growth. As the world's largest emitter of greenhouse gases, China is critical to a global deal on climate change and a shift to a low carbon economy. It plays a key role on a number of security and foreign policy issues, notably on Iran, the NPT, the DPRK, UNSC and international institutional reform and international development.

The Prime Minister visited Turkey in July and launched an updated UK/Turkey strategic partnership under which the Government aims to double UK/Turkey trade over five years and build stronger co-operation on foreign policy issues including the Middle East, Afghanistan and the Western Balkans. All of this is underpinned by the UK's lead role in the EU as a supporter of Turkey's accession process.

We will work to intensify our relationship with Brazil over the next six months across a broad agenda including the commercial opportunities related to Rio's infrastructure development for the 2016 Olympics and the 2014 Football World Cup in Brazil.

We are working to elevate our political, economic, commercial and defence relationships with the Gulf States in the Middle East. In the region more widely we will engage with the new government in Iraq, to deepen ties and help build stability. The British Government will continue to press for progress towards a two-state solution to the Israeli-Palestinian conflict which provides a secure and universally recognised Israel living alongside a sovereign and viable Palestinian state, with Jerusalem the future capital of both states, and a fair settlement for refugees. The Foreign Secretary was in the region earlier this month. We will continue to work with the US and our EU and UN partners to this end, to secure change on the ground in Gaza and to build the institutions of a future Palestinian state.

The Commonwealth of the 21st century should stand for democracy, development, and human rights, acting as a recognised force for good on the issues of our times. In our engagement with the Commonwealth we aim to inject new life into its network and underline the UK's commitment to, as well as the benefits it seeks to draw from, this unique global organisation. We will encourage the Commonwealth to focus on the contribution it can make in inter-faith dialogue, conflict prevention, democracy, development and trade and the work of international organisations. The FCO will work more closely with the Commonwealth Secretariat and associations, member states and other interested parties. We will encourage the Eminent Persons Group (EPG) and Commonwealth Ministerial Action Group (CMAG) review to issue strong recommendations from the Commonwealth Heads of Government Meeting (CHOGM) 2011. The EPG report will be finalised at its meeting on 20–22 March 2011, and the recommendations will be considered by Heads at the Commonwealth Heads of Government meeting in Perth, Australia, in October 2011.

The Foreign Secretary has been clear that we support expansion of the United Nations Security Council. We support permanent membership for the G4 (Japan, Germany, Brazil and India) as well as African representation. Our goal is a UN Security Council that is more representative of the twenty-first century. Discussions continue on how this should happen, but fundamental differences remain. The UK will continue to push for reform.

The Foreign Secretary has commissioned a review of our overall approach to the Overseas Territories as part of the Government's development of a more dynamic relationship with them. The great majority of those living in the Overseas Territories are British citizens. The Foreign Office will co-ordinate across Government to ensure the security and good governance of the Territories and to support their economic wellbeing.

2. Contribute to the Success of Britain's Effort in Afghanistan

Violent extremism in both Afghanistan and Pakistan poses a threat to UK interests and to regional stability and has already claimed the lives of thousands of civilians and security personnel. Extremism and the instability it causes also hold back good governance, development and economic progress.

The UK's objective is to prevent Afghanistan once again becoming a place from which Al Qaeda and other extremists can attack the UK and our interests. Our policy has four main goals:

— A more stable and secure Afghanistan.

— The conditions for withdrawal of UK combat troops in 2015, including capable Afghan National Security Forces.

— An Afghan-led political settlement that represents all Afghan people.

— Regional political and security cooperation that supports a stable Afghanistan.

From 2015 UK forces will no longer have a combat role in Afghanistan. But this will not signal the end of our engagement in Afghanistan. The UK will work with the Afghan Government, regional partners, international allies and multilateral institutions to deliver lasting security, stability and prosperity in Afghanistan.

Work on increasing the size and capability of the Afghan National Army (ANA) is ahead of schedule. The right and necessary number of forces are now deployed in Afghanistan. There have been two sets of Afghan-run elections in two years, giving Afghan people a say in the future of their country.

The Lisbon NATO summit is a key opportunity to set the pace of security transition and to ensure a sufficient number of trainers are pledged to help build Afghan security capability.

In Pakistan, the UK's immediate priority is to support the Government in addressing the flooding, helping to minimise the humanitarian impact and supporting longer term stability and growth. We will also continue to deepen the relationship with Pakistan through a refreshed strategic dialogue and work with Pakistan to tackle militancy in the border areas and elsewhere.

3. Reform the Machinery of Government in Foreign Policy

The National Security Council was established as the centre of decision-making on international and national security issues. It oversaw the development of the National Security Strategy and the SDSR which, taken together, support the position of the FCO at the centre of delivering the Government's international priorities. The FCO was deeply involved in the preparation of both these documents and will continue to be involved in the delivery of the SDSR. Specifically the FCO will lead on the delivery of three work strands: building stability overseas (jointly lead with DFID), state threats and counter-proliferation, and the security impacts of climate change and resource competition.

The SDSR confirmed the Government's commitment to maintaining our global diplomatic network to protect UK interests, address risks before they become threats and meet new challenges as they emerge. The FCO will lead in the production of integrated strategies for key countries and regions, ensuring a new whole-of-government approach, and the FCO will improve the co-ordination of all UK work in countries overseas under the leadership of the Ambassador or High Commissioner.

4. Pursue an Active and Activist British Policy in Europe

The Foreign Secretary and Government have emphasised the importance of the UK playing an active and activist role in the European Union. The EU Bill we are preparing is aimed at strengthening the democratic accountability of EU decision-making in this country. We will be working to make the EU's agenda focus on certain priority areas over the next few years: conflict prevention, energy security, climate change, enlargement, furthering our collective international objectives and, above all, on improving the growth and competitiveness of European economies.

We are focussing on strengthening the Single Market as it is the key to delivering the long term, sustainable growth EU citizens need; better regulation to eliminate unnecessary burdens and ensure effective enforcement of European rules across the Union; and opening external markets to ensure greater openness globally and within Europe. We also want the Commission to put forward a coherent and overarching vision for an EU low carbon economy, and ensure that the influence of the European Union is more effectively deployed to help deliver foreign policy goals.

By 2015 we hope to see the European External Action Service (EAS) set on a course that complements and supplements the execution of our national foreign policy. It is in our interest that the EU uses all the tools at its disposal, including crisis management missions, development spending, in concert to improve the EU's collective weight in the world. This is especially important in areas of key strategic interest to the EU, such as the Western Balkans.

We are working at home to promote the EAS as a stepping stone in the career of talented UK officials, in order that the UK has influence within EU institutions. UK nationals have already been appointed to a number of senior positions eg Rosalind Marsden as EUSR for Sudan—the first Briton appointed to be an EUSR. The European Fast Stream recruitment has been relaunched and the FCO hosted an event on 18 October to encourage applications to the European Concours.

5. Use "Soft Power" to Promote British Values, Advance Development and Prevent Conflict

In my memorandum I referred to the increasing proportion of work by the FCO and its arms-length bodies which will be classed as Official Development Assistance. We will ensure that the new "Building Stability Overseas" Strategy covers all the levers of power at our disposal. We will make effective use of the BBCWS and British Council to make "soft power" a tool of UK foreign policy, across the full range of FCO and HMG's work. As set out in the SDSR, we will also be working with MOD to ensure that we make most effective use of our global defence engagement.

The promotion of human rights and British values is essential to and indivisible from our foreign policy objectives. The Foreign Secretary has established an advisory group on human rights to ensure that FCO policy is informed by the best possible human rights advice. The Committee will be aware that funding to the Strategic Programme Fund on Human Rights and Democracy was reduced by 10% this year, as a contribution to reducing public expenditure. The FCO consulted Posts and project implementers about the best way to make this reduction in order to limit the impact on our human rights and democracy work. This programme continues to show value for money, making a significant impact around the world in ending state executions, reducing torture and protecting the rights of marginalised groups. We will report our work on human rights through a Command Paper to be laid before Parliament and also through greater reporting of our human rights activity online.

Consular

In addition to the above we will of course continue to support British nationals around the world through modern and efficient consular service. We have launched a new five-year Consular strategy which is designed to:

— work to achieve successful merger of the FCO and Home Office passport operations by 1 April 2011. After more than 20 years of running separate passport services, the Identity and Passport Service will take over responsibility for issuing passports to British nationals overseas as well as at home to reduce costs and increase security.

— continue to bear down on our costs as part of the Government's priority to bring the public finances back into balance. By 1 April 2011, we will have cut 110 jobs as part of a plan to downsize the consular service by 25% by 1 April 2013.

— deliver the early priorities of the new 2010–13 Consular Strategy in four areas: to improve the quality of service we provide our citizens by using their feedback more effectively; to invest in our staff to sustain professionalism and encourage those on the frontline to take decisions; to strengthen our network by using different types of consular representation, new technologies, partnerships and by using resources more flexibly; and to achieve greater clarity and control over consular finances.

I hope this summary of our work on the Coalition objectives will be useful background for the committee in preparing for the hearing.

Supplementary written evidence from Simon Fraser CMG, Permanent Under-Secretary of State, Foreign and Commonwealth Office

Thank you for the constructive and positive FAC hearing last month on the "FCO's Finances and Performance". I very much wish to maintain that positive relationship in future. In the time available for the hearing the Committee Members were not able to ask a number of questions they had in mind, and I said I would write.

Three of these questions were in relation to the £55 million in-year cuts required as the FCO's contribution to immediate deficit reduction. You asked how and when we will decide to deliver them and what their impact would be on front-line services.

These were spending cuts to be achieved in this financial year. Our Parliamentary Main Estimate, published in June, was net of this £55 million cut. Effectively from the start of the year our Budget was reduced by £55 million. FCO Ministers set out to Parliament on 7 June how these reductions would be achieved. They said that the £55 million would be delivered by cutting waste and inefficiency, and reducing lower priority spend, including through:

— reduced spend on consultancy and support functions;

— more collaborative procurement with other Departments who have a presence overseas, such as the Department for International Development;

— increasing asset sales in less-used parts of Foreign and Commonwealth Office's (FCO) overseas estates;

— a review of the FCO's programme spend. The results of the Programme review, which was the only front-line impact of these cuts, were that we reduced our planned programme expenditure by 18 million in this financial year. The details of the break-down of this £18 million were set out in a Written Ministerial statement on 29 June.

You also asked a question whether the Winter Supplementary Estimate was consistent with these £55 million cuts. The FCO Main Estimate not only included the £5 million reduction in plans but also included the previous reduction of £20 million to the CSRQ7 plans for 2010–11.

As a general rule, Main Estimates reflect agreed plans and changes to baseline expenditure across years rather than in-year adjustments. However our Winter Supplementary Estimate allowed us to make required ad-hoc budget transfers with governmental partners, eg the costs of the Papal Visit which were shared between several departments, the HMT share of the annual costs of International Subscriptions, along with non-baseline expenditure such as the in-year modernisation money for the FCO and the transfers from DFID for conflict prevention.

The Committee asked about the modernisation work that the additional £30 million included in the Winter Supplementary Estimate would pay for, and why it had not been included in the Main Estimate. The £30 million for modernisation consists of £15 million agreed by HMT as part of a package of exceptional measures in spring 2010, and a further £15m for modernisation work within our Corporate Services Programme (CSP).

It was not included in our Main Estimate as HMT do not approve drawing down money in advance of need. We have used this sum to fund the early retirement of nearly 120 British staff, to enable some restructuring in our Consular network, and to reduce the number of LE staff employed in addition to the Corporate Service Programme's (CSP's) localisation/FM agenda.

Mr Roy also asked about the savings from the Corporate Services localisation agenda (Q203–204 on the transcript). The Foreign Secretary expects us to find further savings and create a reinvigorated Foreign Office, at the heart of government, playing a more leading role than has been possible in recent years. Localising positions in our overseas network is one of the ways we can make further savings in support areas in order to ensure we continue to deliver value-for-money and free our diplomatic staff to concentrate on front-line diplomacy.

The FCO's localisation initiative is forecast to save approximately £12 million annually from 2012–13. In addition to the clear financial savings, localisation of certain roles is also delivering other benefits through recruitment of talented local staff. Where appropriate, the localisation programme has allowed us to increase the level of professionalism in the way we deliver management and support functions and take fuller advantage of local knowledge.

Mr Roy also mentioned a Parliamentary Question (PQ) he asked recently about the admin cost of foreign transactions. We spend over £800 million a year in foreign currency in thousands of transactions. Across our global network, our staff pay bills and salaries in local currencies. To calculate the administrative cost of this process globally would incur disproportionate cost, which is why we answered as we did. If Mr Roy, or any Member of the FAC, is seeking more specific information, we would of course do our best to provide it.

Mr Ainsworth asked about the timetable to allocate the four separate programmes within the Conflict Pool. The allocations will need to be decided collectively by the three Departments concerned, now that we know the detail of the conflict settlement. The settlement covers both the Assessed (ie the obligatory) Peacekeeping Costs and the Conflict Pool (which funds discretionary UK conflict activity). The Treasury will provide £374 million annually for the Assessed Costs. This is the same amount provided per annum in CSR07. We expect the actual costs of our international peacekeeping obligations to be more than £374 million in each year of the Review period. Therefore money from the Conflict Pool will need to be used, as at present, as the first port of call to top up the peacekeeping budget.

The Conflict Pool funds five programmes aimed at achieving our objectives for conflict prevention: Wider Europe, Africa, Middle East, South Asia and Strategic Support to International Organisations. The tri-departmental Stabilisation Unit will also be funded from the Conflict Pool. Departments are currently preparing advice for Ministers on Conflict Pool allocations for 2011–12. These will be announced to Parliament.

I also need to clarify an area related to peacekeeping and conflict funding that we discussed in the hearing. To help improve the coherence, transparency and simplicity of the Government's spending documents Parliament has agreed some changes under the new Clear Line of Sight (CLoS) budgeting regime. One of these is that Departmental Net Resource and Capital budgets will be voted in Supply Estimates rather than the specific Request for Resources (RfRs) 1 & 2 as the present. The effect for the FCO is that, from 2011–12, there will no longer be an RfRl for FCO family and a separate RfR2 for tripartite Conflict Pool and peacekeeping expenditure.

We will continue to have separate lines in the Estimate for the FCO, BBC World Service (until end 2013–14), and the British Council, and we will also include lines for both the Conflict Pool and Peacekeeping tripartite funds. We will draw down our Conflict Pool funding from DFID, on whose baseline this budget will sit and Peacekeeping money from HMT as we do now. We will continue therefore to present Conflict Prevention and Peacekeeping expenditure explicitly in Supply Estimates and will need Treasury approval to move money between lines in the Estimate. We plan to show the FAC a dry run CLoS Main Estimate before the Christmas recess.

Finally, you asked me about the core FCO cut in SR10. The Treasury makes an allocation to the FCO family (the FCO, the British Council and the BBC World Service) and the Foreign Secretary then further allocates that overall budget within the family. The cut to the FCO family as a whole is projected to be 10% in real terms in year 4, taking account of estimates of UK inflation and the removal of BBCWS by that fourth year of SR10.

Within that the effective cut for the FCO itself by year 4 is also around 10%. The FCO will go from a core resource budget this FY of £981 million to a core budget in 2014–15 of £1016 million. On the projected level of inflation that equates to £925 million at today's prices—a mathematical real terms cut of around 6%. But those figures give only part of the picture. Within them there is an amount of ring-fenced HMT money to fund the costs of the UK's International Organisations membership subscriptions and a cost sharing agreement for additional costs. When this formula, and the best forecast of costs in the final year, are taken into account the predicted core FCO cut is a shade under 10%.

The difference between the cut to core FCO budget and those of the British Council and the BBC World Service was a decision by the Foreign Secretary designed to ensure long term proportionality and fairness across the whole FCO family. It took account of the impact of different pressures faced by its members and their ability to mitigate them. In particular the Foreign Secretary took into account that:

— the British Council can, and increasingly does, earn income from commercial work to supplement their Grant-in-Aid; and the BBC World Service can also do so to a lesser extent. The FCO cannot;
— the FCO took a particularly hard hit over the loss of the Overseas Pricing Mechanism, harder than the British Council—which has a natural hedge in its commercial operations—and World Service, which spends mainly in the UK. That hit cost the FCO 10% of its purchasing power since 2008;
— the FCO leads the UK's global presence and network on which the British Council's work in particular, but also that of the World Service, depend;
— the core FCO is taking the brunt of the steep reduction in capital allocations compared to SR 07;
— further increased costs, which will fall particularly on the FCO over the corning years, will come from differential inflation, especially in emerging economies; and
— a decline in the costs we will recover from our Partners Across Government (PAGs) for providing support to them on our platform.

In addition, as I have made clear, the FCO core budget has in previous years declined as a proportion of the overall FCO family budget as a result of ringfencing of the BBCWS and British Council budgets.

I hope this letter provides answers to your outstanding questions. May I take this opportunity to wish you and Members of the FAC season's greetings.

13 December 2010

Letter to the Chair of the Committee from Mr Christopher Moxey, Chief Executive, FCO Services

FCO Services Annual Report & Accounts 2009–10

I am very pleased to provide you with a copy of our Annual Report and Accounts for 2009–10. This is part of a very limited print run; we will communicate our report more widely via our website.

Our priorities this year have been twofold: rigorously managing down our costs and identifying efficiencies whilst at the same time seeking opportunities to grow our business across government. In this context, our report highlights the following achievements:

Sustained Value Delivery to the FCO in a Challenging Climate

Our headline results declare an operating surplus of £6.1 million on a turnover of £126.8 million, equating to a net margin of 4.8%. Our continued strong financial performance has enabled us to deliver further benefits to the FCO in our second year of operations: we have contributed a further £2 million savings to the FCO's CSR efficiencies and paid a discretionary dividend of £3 million. The latter payment is substantially ahead of plan and is in addition to our payment of a statutory dividend of almost £450k and the payment of £2 million to meet our stakeholder debt repayment obligations.

Delivering More with Less

The reduction of the budget deficit is an urgent priority for Government as a whole. In line with the imperative to achieve more with less resource, new ways of working and other efficiencies have enabled us to increase our productivity further this year and to deliver £3.45 million procurement savings, exceeding our target by more than 20%.

Increased Collaboration to Deliver Greater Public Value

In this climate, it is more vital than ever that we collaborate closely with our partners across government. This continues to be central to our business strategy, as is demonstrated by the further growth in our non-FCO revenue this year, representing an almost 25% increase on our normalised baseline for 2008–09. We have achieved this through deepening our relations with key customers such as HMRC, SOCA, the Home Office and the UK law enforcement sector. We will continue to seek out opportunities to deliver joint solutions in the provision of secure services across the government's global network.

Staff Engagement is Vital to Our Success

Our staff have ably risen to the challenge this year and our formal accreditation as an "Investors in People" organisation is tangible recognition of the efforts and dedication of all who work for FCO Services. We know full well that providing exceptional service to our customers is vital to our long-term sustainability and our ability to deliver ongoing value to the FCO and the rest of government. Accordingly, we will strive to build on the improvements in customer satisfaction that have been evident this year.

16 July 2010

Letter to the Committee Specialist from the Head of the Parliamentary Relations Team, Foreign and Commonwealth Office

FCO RESPONSE TO THE FOREIGN AFFAIRS COMMITTEE REPORT ON THE FCO DEPARTMENTAL REPORT 2008–09

In the memorandum which we sent to the Foreign Affairs Committee on 6 April we said that we would provide some further information on recommendations 36 and 46 in the FAC's Report of 21 March. I am pleased to enclose this information which I hope you will find useful.

Recommendation 36

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

FCO response: Following the FCO's Procurement Capability Review (PCR) in September 2008, we recognised that the FCO had more opportunity to improve our procurement capability. In response to the PCR, a Procurement Improvement Plan (PIP) was agreed in February 2009. This set out a detailed range of activities and measures, with a clear set of milestones, to be overseen by a dedicated project manager, in order to address the issues identified and bring significant transformation to FCO's procurement, over a period up to February 2011. The milestones included the recruitment of a new Commercial Director, a new Commercial Strategy and changes to the FCO's procurement organisational structure.

In March 2010 the Office of Government Commerce (OGC) conducted a 12-month milestone (stock take) assessment that focused on the progress made by the FCO against both its original PCR and its PIP—basically a half-way point in the change programme. We received the draft of the Report at the end of March. It sets out a positive position, concluding that during the first year solid foundations have been laid on which the FCO can build and continue to make improvements to its commercial and procurement capabilities, and which indicates that the programme is generally on track.

The report highlights a number of particular points that demonstrate progress and development, the most notable of which are as follows:

- FCO Board has demonstrated support for the development of our procurement capability by endorsing a commercial strategy and supporting the appointment of a new Commercial Director, as well as through the establishment of a Commercial Board that sets out a clear governance structure to oversee FCO's procurement activities, to manage risk and to track progress against the commercial strategy. The recruitment of the new Commercial Director, supported by her senior team, has been instrumental in raising the profile of procurement and injecting vigour and pace in the implementation of the PIP with solid progress being made.
- The procurement team was restructured and organised around teams that focused upon the FCO categories of procurement spend, prioritising the key categories. This was a radical change. As such there is a Category Team specifically working on Estates Category of Spend, one dealing with Security Category of spend, Travel category of spend and so on. This means the teams are aligned to the relevant FCO Directorates and embedded into them. Category management means truly understanding the business needs, managing demand, selecting the appropriate procurement approaches and managing the markets and supplier base to best serve these needs.
- Improvements to the management and reporting of procurement performance and spend.

We currently estimate a cumulative saving, up to end of FY 09–10, of £15.3 million. We cannot at this stage provide a projected estimate up to the end of FY 10–11, but we keep the cumulative savings figure under regular review and shall therefore be able to update the Committee at a later date.

Recommendation 46

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

FCO response: We are happy to provide you with the attached spreadsheets which show a breakdown of the 2009 Staff Engagement Survey results for UK-based and locally-engaged staff for all survey questions (Annex A). There is guidance at the top of each spreadsheet on how the data should be interpreted. The FCO took part in the newly launched Civil Service wide staff survey in 2009.

The results are in the form of the percentage positive (strongly agree and agree), the percentage neutral (neither agree nor disagree) and negative responses (strongly disagree and disagree). For ease of interpretation, we have presented the findings (positive, neutral and negative) for UK-based staff separately from locally-engaged staff.

The FCO places a great deal of importance in the staff survey results and we demonstrate that we act on what our staff have said. We achieved a response rate of 85%, which was a great achievement for an organisation with staff located across a global network. We achieved an Employee Engagement Index of 69%, which placed the FCO above the Civil Service benchmark (58%), above the High Performance benchmark (63%) and first among large Government departments (of more than 10,000 staff). The Employee Engagement Index measures advocacy, motivation and commitment to the organisation. Our locally-engaged staff are slightly more engaged (70%) than our UK-based staff (67%). This demonstrates that our locally-engaged staff are highly motivated and committed to the organisation.

17 May 2010

Annex A

Notes: These results show the percentage of people who responded positively, negatively or neutrally to the questions among UK based staff.
Most questions were asked on a five point scale (strongly agree, agree, neither agree nor disagree, disagree, strongly disagree)
Please note that L01 and L03 are negatively worded questions.
Please note that the neutral scores for L01 and L03 are for responses of "prefer not to say"; for P10 neutral scores are for responses of "Don't know".
The employee engagement index represents the level of engagement among staff and is made up of five questions (J50–J54).

Employee Engagement Index **67%**

			%	
		Positive responses	*Neutral responses*	*Negative responses*
	Line Management			
A01	My manager motivates me to be more effective in my job	67	20	13
A02	My manager is considerate of my life outside work	77	15	8
A03	My manager is open to my ideas	84	10	6
A04	My manager helps me to understand how I contribute to the FCO/Post's objectives	64	25	11
A05	Overall, I have confidence in the decisions made by my manager	75	16	9
A06	My manager recognises when I have done my job well	81	12	7
A07	I receive regular feedback on my performance	62	21	17
A08	The feedback I receive helps me to improve my performance	64	25	10
A09	I think that my performance is evaluated fairly	68	22	10
A10	Poor performance is dealt with effectively in my team	48	34	17
	Leadership and managing change			
B11	I feel the FCO/Post as a whole is managed well	50	25	25
B12	Senior managers in the FCO/Post are sufficiently visible	60	19	21
B13	I believe the actions of senior managers are consistent with the FCO/Post's values	56	27	16
B14	I believe the FCO Board has a clear vision for the future of the FCO/Post	36	37	27
B15	Overall, I have confidence in the decisions made by the FCO/Post's senior managers	46	31	23
B16	I feel that change is managed well in the FCO/Post	37	30	33
B17	When changes are made in the FCO/Post they are usually for the better	33	37	30
B18	The FCO/Post keeps me informed about matters that affect me	65	22	13
B19	I have the opportunity to contribute my views before decisions are made that affect me	41	28	31

		%		
		Positive responses	*Neutral responses*	*Negative responses*
B20	I think it is safe to challenge the way things are done in the FCO/Post	53	23	23
	My work			
C21	I am interested in my work	93	5	2
C22	I am sufficiently challenged by my work	81	10	9
C23	My work gives me a sense of personal accomplishment	79	12	9
C24	I feel involved in decisions that affect my work	68	17	15
C25	I have a choice in deciding how I do my work	79	13	8
	Resources and workload			
D26	In my job, I am clear what is expected of me	84	9	6
D27	I get the information I need to do my job well	70	18	11
D28	I have clear work objectives	79	13	8
D29	I have the skills I need to do my job effectively	87	9	5
D30	I have the tools I need to do my job effectively	70	16	14
D31	I have an acceptable workload	58	18	24
D32	I achieve a good balance between my work life and my private life	61	17	22
	Organisational objectives and purpose			
E33	I have a clear understanding of the FCO/Post's purpose	88	8	4
E34	I have a clear understanding of the FCO/Post's objectives	83	12	5
E35	I understand how my work contributes to the FCO/Post's objectives	86	10	4
	Pay and benefits			
F36	I feel that my pay adequately reflects my performance	30	21	49
F37	I am satisfied with the total benefits package	38	25	38
F38	Compared to people doing a similar job in other organisations I feel my pay is reasonable	21	18	61
	My team			
G39	The people in my team can be relied upon to help when things get difficult in my job	85	11	5
G40	The people in my team work together to find ways to improve the service we provide	83	12	5
G41	The people in my team are encouraged to come up with new and better ways of doing things	81	14	5
	Learning and development			
H42	I am able to access the right learning and development opportunities when I need to	67	19	14
H43	Learning and development activities I have completed in the past 12 months have helped to improve my performance	63	27	9
H44	There are opportunities for me to develop my career in the FCO/Post	56	23	21
H45	Learning and development activities I have completed while working for the FCO/Post are helping me to develop my career	58	27	14
	Inclusion and fair treatment			
I46	I am treated fairly at work	85	9	6
I47	I am treated with respect by the people I work with	88	8	4
I48	I feel valued for the work I do	70	17	13

		Positive responses (%)	Neutral responses (%)	Negative responses (%)
I49	I think that the FCO/Post respects individual differences (eg cultures, working styles, backgrounds, ideas etc)	74	16	10
	Engagement			
J50	I am proud when I tell others I am part of the FCO/Post	80	17	4
J51	I would recommend the FCO/Post as a great place to work	57	26	17
J52	I feel a strong personal attachment to the FCO/Post	63	24	13
J53	The FCO/Post inspires me to do the best in my job	57	29	14
J54	The FCO/Post motivates me to help it achieve its objectives	53	32	15
	Taking action			
K55	I believe that senior managers in the FCO/Post will take action on the results from this survey	54	25	21
K56	I believe that managers where I work will take action on the results from this survey	61	23	16
	Discrimination, harassment and bullying			
L01	During the past 12 months, have you personally experienced discrimination at work?	83	6	11
L03	During the past 12 months, have you personally experienced bullying or harassment at work?	84	5	12
	Data security			
M05	I know where to go to find out about how to handle personal and sensitive information	88	8	4
M06	In the past 12 months, have you received training on handling data and procedures to protect personal and sensitive information?	84	na	16
	The Civil Service Code			
N07	Are you aware of the Civil Service Code?	80	na	20
N08	Are you aware of how to raise a concern under the Civil Service Code?	43	na	57
N09	Are you confident that if you raised a concern under the Civil Service Code in the FCO/Post it would be investigated properly?	60	na	40
	Foreign and Commonwealth Office questions			
P01	I would feel able to report any discrimination, bullying or harassment without worrying that it would have a negative impact on me	66	15	18
P02	I believe the process of filling vacancies within the FCO/Post is fair	43	26	31
P03	Promotion within the FCO/Post is based on merit	40	28	32
P04	My line manager supports flexible working	78	16	6
P05	The FCO/Post fosters a culture where different ways of working (e.g. part-time working, flexible working, job sharing) can be openly talked about and supported	78	16	6
P06	I feel safe and secure at work	83	11	6
P07	I understand why the FCO is changing	77	16	7
P08	UK-based and Local Staff work as “One Team”	41	34	25

		%		
		Positive responses	*Neutral responses*	*Negative responses*
P09	Staff from the FCO and other UK Government departments work as "One Team"	36	31	33
P10	[Answer this only if you have a UK-based line manager: they can tell you whether they have passed an ADC] My UK-based line manager has passed an Assessment and Development Centre	28	32	40

Notes: These results show the percentage of people who responded positively, negatively or neutrally to the questions among locally engaged staff.
Most questions were asked on a five point scale (strongly agree, agree, neither agree nor disagree, disagree, strongly disagree)
Please note that L01 and L03 are negatively worded questions.
Please note that the neutral scores for L01 and L03 are for responses of "prefer not to say"; for P10 neutral scores are for responses of "Don't know".
The employee engagement index represents the level of engagement among staff and is made up of five questions (J50–J54).

Employee Engagement index **70%**

		%		
		Positive responses	*Neutral responses*	*Negative responses*
	Line Management			
A01	My manager motivates me to be more effective in my job	72	16	12
A02	My manager is considerate of my life outside work	65	20	15
A03	My manager is open to my ideas	75	15	10
A04	My manager helps me to understand how I contribute to the FCO/Post's objectives	66	22	12
A05	Overall, I have confidence in the decisions made by my manager	69	19	12
A06	My manager recognises when I have done my job well	80	12	8
A07	I receive regular feedback on my performance	68	19	14
A08	The feedback I receive helps me to improve my performance	73	18	9
A09	I think that my performance is evaluated fairly	66	20	14
A10	Poor performance is dealt with effectively in my team	55	28	17
	Leadership and managing change			
B11	I feel the FCO/Post as a whole is managed well	63	24	14
B12	Senior managers in the FCO/Post are sufficiently visible	67	21	12
B13	I believe the actions of senior managers are consistent with the FCO/Post's values	61	27	12
B14	I believe the FCO Board has a clear vision for the future of the FCO/Post	56	33	10
B15	Overall, I have confidence in the decisions made by the FCO/Post's senior managers	56	29	14
B16	I feel that change is managed well in the FCO/Post	53	30	17
B17	When changes are made in the FCO/Post they are usually for the better	45	37	18
B18	The FCO/Post keeps me informed about matters that affect me	65	23	12
B19	I have the opportunity to contribute my views before decisions are made that affect me	45	31	25
B20	I think it is safe to challenge the way things are done in the FCO/Post	46	32	22

		Positive responses %	Neutral responses %	Negative responses %
	My work			
C21	I am interested in my work	95	4	2
C22	I am sufficiently challenged by my work	82	10	7
C23	My work gives me a sense of personal accomplishment	82	12	6
C24	I feel involved in decisions that affect my work	64	20	17
C25	I have a choice in deciding how I do my work	69	17	14
	Resources and workload			
D26	In my job, I am clear what is expected of me	89	7	4
D27	I get the information I need to do my job well	75	16	8
D28	I have clear work objectives	85	10	5
D29	I have the skills I need to do my job effectively	92	6	2
D30	I have the tools I need to do my job effectively	76	14	10
D31	I have an acceptable workload	74	14	12
D32	I achieve a good balance between my work life and my private life	77	14	9
	Organisational objectives and purpose			
E33	I have a clear understanding of the FCO/Post's purpose	81	14	5
E34	I have a clear understanding of the FCO/Post's objectives	78	16	6
E35	I understand how my work contributes to the FCO/Post's objectives	85	11	4
	Pay and benefits			
F36	I feel that my pay adequately reflects my performance	39	23	38
F37	I am satisfied with the total benefits package	39	26	35
F38	Compared to people doing a similar job in other organisations I feel my pay is reasonable	34	24	42
	My team			
G39	The people in my team can be relied upon to help when things get difficult in my job	81	12	7
G40	The people in my team work together to find ways to improve the service we provide	81	13	6
G41	The people in my team are encouraged to come up with new and better ways of doing things	76	16	8
	Learning and development			
H42	I am able to access the right learning and development opportunities when I need to	67	20	13
H43	Learning and development activities I have completed in the past 12 months have helped to improve my performance	70	20	10
H44	There are opportunities for me to develop my career in the FCO/Post	41	26	32
H45	Learning and development activities I have completed while working for the FCO/Post are helping me to develop my career	59	25	16
	Inclusion and fair treatment			
I46	I am treated fairly at work	76	13	11
I47	I am treated with respect by the people I work with	84	10	6
I48	I feel valued for the work I do	73	16	10
I49	I think that the FCO/Post respects individual differences (eg cultures, working styles, backgrounds, ideas etc)	74	17	9

		%		
		Positive responses	*Neutral responses*	*Negative responses*
	Engagement			
J50	I am proud when I tell others I am part of the FCO/Post	79	16	5
J51	I would recommend the FCO/Post as a great place to work	66	24	10
J52	I feel a strong personal attachment to the FCO/Post	65	25	10
J53	The FCO/Post inspires me to do the best in my job	66	24	10
J54	The FCO/Post motivates me to help it achieve its objectives	62	27	11
	Taking action			
K55	I believe that senior managers in the FCO/Post will take action on the results from this survey	61	25	13
K56	I believe that managers where I work will take action on the results from this survey	60	26	14
	Discrimination, harassment and bullying			
L01	During the past 12 months, have you personally experienced discrimination at work?	70	12	18
L03	During the past 12 months, have you personally experienced bullying or harassment at work?	74	9	17
	Data security			
M05	I know where to go to find out about how to handle personal and sensitive information	74	15	10
M06	In the past 12 months, have you received training on handling data and procedures to protect personal and sensitive information?	67	na	33
	The Civil Service Code			
N07	Are you aware of the Civil Service Code?	22	na	78
N08	Are you aware of how to raise a concern under the Civil Service Code?	19	na	81
N09	Are you confident that if you raised a concern under the Civil Service Code in the FCO/Post it would be investigated properly?	35	na	65
	Foreign and Commonwealth Office questions			
P01	I would feel able to report any discrimination, bullying or harassment without worrying that it would have a negative impact on me	60	21	19
P02	I believe the process of filling vacancies within the FCO/Post is fair	54	27	19
P03	Promotion within the FCO/Post is based on merit	42	36	22
P04	My line manager supports flexible working	72	17	11
P05	The FCO/Post fosters a culture where different ways of working (e.g. part-time working, flexible working, job sharing) can be openly talked about and supported	65	23	12
P06	I feel safe and secure at work	73	15	11
P07	I understand why the FCO is changing	67	24	9
P08	UK-based and Local Staff work as “One Team”	51	25	24
P09	Staff from the FCO and other UK Government departments work as “One Team”	46	38	16
P10	[Answer this only if you have a UK-based line manager: they can tell you whether they have passed an ADC] My UK-based line manager has passed an Assessment and Development Centre	16	69	16

Letter to the Chair of the Committee from Simon Fraser CMG, Permanent Under-Secretary of State, Foreign and Commonwealth Office

I am writing to update you on the latest FCO management issues. This letter covers the period January to July 2010.

FCO Priorities

In July, following a strategy review, Ministers and the Board agreed with the Prime Minister a new set of priorities for the FCO, as follows:

"Britain will pursue an active and activist foreign policy, working with other countries and strengthening the rules-based international system in support of our values to:

- **Safeguard Britain's national security** by countering terrorism and weapons proliferation, and working to reduce conflict.
- **Build Britain's prosperity** by increasing exports and investment, opening markets, ensuring access to resources, and promoting sustainable global growth.
- **Support British nationals around the world** through modern and efficient consular services".

The new priorities will form the basis of the FCO future Activity Recording process. We are working to adjust processes and systems to capture and cost staff activity against these new priorities. We also developing an updated business planning system to support implementation of these priorities.

FCO Finances

On 30 June the FCO 2009–10 Resource Accounts were laid before Parliament. For the third year running the FCO was the first major department to have laid its accounts. The FCO managed its expenditure well during the year, resulting in an underspend in our Resource Budget of less than 1% (£22.2 million). Against our HMT Capital Departmental Expenditure Limit of £203 million our underspend was £3.7 million (1.8%).

The Government has said its most urgent priority is to tackle the UK's record deficit in order to restore confidence in our economy and support the recovery. As part of this, the Chancellor announced that the government will save over £6 billion from spending during this financial year. The FCO family's share of this cut is £55 million (including £5 million capital); which represents around 2.5% of the departmental budget (including the budget allocated to the British Council and BBC World Service)

To live with this cut we have made savings from a number of areas including general efficiencies, reduced consultancy spend, savings on procurement, asset sales, reprioritisation and other adjustments to the FCO overall spending. Additionally a Ministerial-led review of our strategic programme activity identified over £18 million of in-year savings. Details of these were reported to Parliament in a Written Ministerial Statement on 29 June. (HC Deb, c37–8WS).

At the end of Qtr 1 we have identified and forecast a number of additional pressures we will have to manage on top of the cuts mentioned above. Nevertheless, we will rise to the challenges presented by the Government strategy, and intend to deliver a full spend this Financial Year within 1% of Parliamentary Control Totals.

Five Star Finance

Between January and July 2010, we carried out the work phase for 4.5* 'Far Flung Finance' to further improve how we manage resources. This focused on mainstreaming good financial management across the whole FCO. We successfully rolled out a new and improved budgeting and reporting system (Hyperion/OBIEE) to our overseas network. This is enabling improvements in the FCO Board Key Performance Report so that the management information can be built up on-line from the post level providing senior management with greater assurance and to better support Board discussion and decision-making. The NAO will assess the FCO's financial management performance in the autumn. We will build on their recommendations in planning the next phase of financial management transformation in the FCO.

Spending Review

On 8 June the government set out plans for this year's Spending Review, and in July we submitted the FCO bid to the Treasury. Our bid reflects the Foreign Secretary's belief that we must remain an effective global organisation capable of promoting and protecting our economic recovery and our national interests. He is equally clear that the FCO must play its part in cutting expenditure and delivering better value for money. We are now in discussion with the Treasury. The outcome of the Spending Review will be announced on 20 October.

Efficiencies

The FCO overall results for the second year of CSR07 (financial year 2009–10) amounted to delivery of £148 million efficiency savings, against the forecast at the start of 2009–10 of £136 million. Where we have exceeded efficiency targets, the excess has been recycled to help us manage rising costs from the fall in sterling's overseas purchasing power. During 2010–11, we will continue to consolidate the work of the previous two years.

Corporate Services Programme

The Programme hit its 09/10 efficiency targets, saving £4.6 million and releasing 224 slots, and is on track to deliver £40 million of efficiencies by 11/12. The Programme continues to drive simplification and savings from improved Prism (ie Oracle) technology and the FCO's corporate functions, including the Corporate Services Centre in Milton Keynes. Our project to replace UK-based staff with talented local staff in some corporate services roles overseas is progressing well—over 30 jobs have been localised to date. And our project to outsource the running of our buildings in selected posts in Asia Pacific is now in the latter stages of the procurement process.

The FCO Board has asked the Programme to build upon this success and to look for further savings in light of the drive to cut public expenditure and deliver better value for money. The Programme has therefore expanded its scope to include some repatriation of corporate services processing activity overseas to the Corporate Services Centre, more localisation of corporate support jobs, reductions in the costs of the Central Units in London, and cuts in directly employed residence staff, drivers and support staff overseas.

ICT

Installation of our new IT System (F3G) is now complete in the UK and at all but two overseas posts. FCO staff are now realising the tangible business benefits of the new system such as: improved mobile working options, greater collaboration between colleagues enabling 'One Team' working, better information management tools and a greener, more secure and stable IT system. We are gathering positive case-studies from around the world and publicising them on our internal FCONet website and in our monthly 'Wire' newsletter. Focus is shifting to how Firecrest is working in practice and delivering performance improvements.

Top Risks Register

The risk register was updated in March. No change was made to the number of operational risks (Physical, Technical and Personnel Security; Resources; IT Systems; and UKBA) or strategic risks (Iran, Afghanistan, Pakistan, Terrorism, Middle East Instability, Horn of Africa, Overseas Territories, Litigation and the Economic Outlook). At the June update two further strategic risks were added: Turkey and the EU. The FCO Board continues to discuss individual risks in depth at its monthly meetings to make sure these risks are being effectively managed.

UKBA

The FCO and UK Border Agency continue to work closely together to deliver and communicate overseas the government's migration policy, including the net migration limit and removals of immigration offenders. This work is set against a backdrop of efficiency savings and the impending outcome of the Spending Review.

The current phase of the FCO-managed quadrilateral (UKBA/FCO/DFID/Ministry of Justice) Returns and Reintegration Fund comes to an end in March 2011. The Fund has made a significant contribution to delivering Government targets for the return and reintegration of failed asylum seekers and foreign national prisoners. Funding for future years is dependent on the outcome of the Spending Review.

The simplified mechanism for charging the Agency for use of FCO resources resulted in early settlement of the cost charge for 2010–11. Significant progress has been made on a joint review of the overarching FCO and UK Border Agency Memorandum of Understanding and Service Level Agreements on Human Resources, IT and Finance which underpin our partnership. These have been brought into one document with a view to improved planning and delivery of the single global platform.

Service Level Agreement with Partners Across Government (PAGs)—Recovery of Costs from PAGs on our Network

The FCO Board decided to retain, for the rest of this Comprehensive Spending Round period (CSR07), the existing charging framework for Partners Across Govt (PAGs) who use our platform. We have agreed and implemented a simplified charging model with the UK Border Agency (UKBA), our biggest partner, to provide budgetary certainty for both parties.

For other Departments, charges for central overhead costs will remain capped at last year's levels for the rest of this Financial Year. Work has begun on identifying how funding for the overseas platform can be improved for the next Spending Review (SR10) period (FYs 11/12–14/15) with a view to moving away from the current charging framework. We are engaging with PAGs and HMT to identify a more simplified charging framework to recover costs that will reduce bureaucracy whilst ensuring that the FCO is fairly compensated for the risks and contingent liabilities it carries for others on the platform. This will also facilitate work to improve the efficiency of the Government's wider use of shared services.

FCO Services

FCO Services, our Trading Fund, continues to focus on meeting the challenge of doing more with less. They have responded to the need for closer collaborative working with partners across government in order to deliver the best possible value for money and reduce costs for government as a whole.

I understand that you have received copies of their Annual Report & Accounts for 2009–10 which set out how they provided financial benefits by:

- keeping prices flat for the second year running;
- contributing a further £2 million savings to help us meet our current Spending Review obligations;
- delivering ahead of plan a discretionary cash dividend of £3 million;
- providing a statutory dividend of £450k;
- repaying with interest, £2 million of their working capital loan; and
- making procurement savings of £3.45 million.

Customer satisfaction remains high on their agenda and their improved performance has been demonstrated by an increase in customer satisfaction by 2% since 2008–09. However, recognising there is still more to be done, they are committed to working closely with us to deliver an even better service in future.

Given the current economic climate and the need to deliver greater public value, FCO Services is presenting opportunities to facilitate government savings through seeking efficiencies in secure services and by contributing towards the shared services agenda across government. Evidence of this collaborative working is highlighted in their performance where they report almost a 25% growth in wider market activity compared to the year before.

FCO Services set a prudent annual business plan for 2010–11 and we have agreed to the following six formal performance targets, which they will report on in their Annual Report and Accounts next year:

- An in-year surplus before interested and tax of at least £4 million.
- A return on capital employed of at least 3.5%,
- Wider market revenue growth of 10% on that achieved in 2009–10.
- A contribution to the FCO's current CSR commitments by delivering £12 million of cumulative savings (over the years 2008 to 2011).
- A utilisation rate for revenue earning staff of at least 76%.
- A customer satisfaction rating of at least 85% satisfied or very satisfied.

Human Resources

We have run a number of early departure schemes over recent years to keep our workforce numbers in balance and in line with our business needs. In Q4 2009–10 we ran a limited voluntary early departure scheme in which 36 staff left the FCO. In July 2010 we launched another voluntary early departure scheme, which is currently under way, under existing civil service compensation scheme rules. All bids will be rigorously assessed against workforce and business needs and value for money criteria, and staff selected will be required under Cabinet Office rules to leave the FCO by the end of October.

Estates

We continue to follow up and implement the previous Public Accounts Committee's recommendations[5] on our management of the FCO's global estate. In addition to the steps set out in the Government's response to the Committee's report[6] published recently, we have:

- identified two external, professionally qualified candidates to take up new posts as head of programme delivery and head of asset management;
- further improved the management information collected on our estates database (Pyramid) to bring it into line with central government requirements for the civil estate;
- reminded all heads of mission of the importance of accurate data entry, and re-started training for overseas staff on its use;
- continued to improve our adherence to government procurement rules.

The Committee will be aware of the flood at our Embassy in Madrid in late January. We will inform the Committee of any liability once any claims have been assessed and settlement reached. Whilst we will be defending our position robustly to minimise the FCO's exposure through our local loss adjuster, our financial exposure to this issue may remain open for a number of years.

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5 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, 1 April 2010.

6 "Treasury Minutes on the Tenth to the Eleventh and the Fourteenth to the Thirty Second Reports from the Committee of Public Accounts Session 2009–10", July 2010.

Following the successful refurbishment of the UKRep building in Brussels last year we undertook a smaller scale refurbishment of the UK delegation office at the Justus Lipsius (Council) building which was completed to a high standard by FCO Services in January.

Our review of work to provide a new embassy in Damascus concluded that the project to convert a former villa into offices no longer represented good value for money, due to the Syrian Government's change of policy on the location of their planned new diplomatic quarter and to security issues at the site. We accordingly cancelled the construction contract on 31st March. We are in discussion with the Syrian Government concerning the acquisition of a suitably sized and well located plot of land on which to construct new, fit-for-purpose, premises.

The Moscow Residence was completed and occupied in March 2010 for £13.8 million (although disputed claims from the contractor are not finally settled).

A project to replace ageing, inefficient and potentially unsafe chillers, cooling towers and associated plant and equipment in the FCO Main Building is due for completion by end-September, below the original cost estimate of £4.8 million.

I attach at Annex A our report for properties sold and purchased in the second half of financial year 2009–10 and first quarter of financial year 2010–11.

1 September 2010

SALES & PURCHASES REPORT—OCTOBER 2009 TO JUNE 2010

SALES

	Sale Date	*Post*	*Property Type*	*Sale Price £*
Oct–Dec 2009	17/02/2009	Abidjan	Office	202,500
	29/09/2009	Gabarone	Residential	243,468
	31/11/2009	St Johns	Residence	268,178
	15/10/2009	Ottawa	Residential	196,056
	30/10/2009	Vientiane	Residential	1,219,680
	03/11/2009	Berne	Residential	1,315,860
Jan–Mar 2010	12/01/2010	Almaty	Offices	147,000
	03/02/2010	Dar es Salaam	Amenity	328,548
	03/02/2010	Dar es Salaam	Residential	392,502
	26/02/2010	Paris	Residential	322,514
	03/03/2010	Colombo	Residential	2,047,500
	26/03/2010	Paris	Residential	516,083
	26/03/2010	Paris	Residential	467,294
Apr–Jun 2010	15/04/2010	The Hague	Residential	309,260

PURCHASES

	Purchase Date	*Post*	*Property Type*	*Purchase Price £*
Oct–Dec 2009	No properties purchased in this period			
Jan–Mar 2010	15/03/2010	Canberra	Residential	474,193
	24/03/2010	Canberra	Residential	474,193
Apr–Jun 2010	No properties purchased in this period			

Further letter from Simon Fraser CMG, Permanent Under-Secretary of State, Foreign and Commonwealth Office

I am writing to update you on the latest FCO management issues. This letter covers the period August to December 2010.

FCO Priorities

The FCO Departmental Business Plan was published on the No10 and FCO websites on 08 November. The plan sets out the FCO's departmental priorities, structural reform plan, expenditure and our commitment to transparency. I sent a copy of this to the Committee ahead of the hearing on Financial Performance in November. We have started to publish transparency data, including monthly implementation updates on our

Structural Reform Plan. We have also produced a fuller Implementation Plan which will be the key internal document underpinning our business planning work.

Heads of Mission are currently drafting Country Business Plans which will run from the beginning of next financial year and will cover the four-year SR10 period and for which they will be held responsible. The Country Business Plans set out the work of each Sovereign Post to deliver the Government's Foreign Policy Priorities. They encompass all of HMG's activity in country, reflecting the requirement in the National Security Strategy and Strategic Defence and Security Review that Ambassadors and High Commissioners will lead closer coordination of all UK work overseas.

Diplomatic Excellence

In December I launched the Diplomatic Excellence initiative, which will be our programme for reform and modernisation of the FCO over the next four years. It will replace the High Level Change Plan, which closed at the end of 2010. The Diplomatic Excellence Programme will have three interlinked goals of first class foreign policy and diplomacy, a strong global network and a strong and skilled workforce. It will build on the gains we've made over the last few years on leadership, management, diversity in the broadest sense, and the modernisation of our corporate functions, but place a strong, renewal emphasis on driving forward excellent policy making and diplomatic skills across the FCO in London and abroad.

FCO Finances

The Foreign Secretary and the FCO Board are agreed that resource allocation and spending should be guided by the new priorities the Foreign Secretary has set for the FCO; by his wish to sustain a strong global network; and by our determination to keep our staff safe, secure, and well equipped. As I set out in my letter to you following the November hearing the Foreign Secretary has also required us to continue to seek efficiencies and look for ways to reduce costs.

I have already written to the Committee on the outturn of the Spending Review. Since then we have been preparing internal budget allocations in line with the priorities set by the Foreign Secretary. We aim to agree final allocations for 2011–12 shortly. The Board has also discussed indicative allocations for 2012–13 to 2014–15 and intends to agree them early in the new year so Directors and Posts can plan for the longer term.

Five Star Finance

In October/November we assessed the FCO's performance against the standards set out in the National Audit Office (NAO) Financial Management Maturity Model for the Public Sector with which the Five Star Finance Programme is aligned. In tandem, the NAO carried out their own independent assessment.

Our self-assessment concluded that, on balance, the FCO is operating at the 4.5* level. In some areas such as governance and leadership and decision-making, we found that the FCO is performing above the 4.5* level. In others, such as training and the reporting of our in-year working capital management, we found that we are operating below the 4.5* level. We recognised a challenge in maintaining standards against a constantly changing background and frequent staff rotations.

The NAO validated this finding, commenting that the FCO is "meeting the majority of the requirements of 4.5* by November though this is not consistent across the network."

Our and the NAO full assessment reports will be put to the FCO Board in January 2011 along with recommendations for next steps.

Efficiencies

The majority of our CSR07 Value for Money projects continue to deliver on or above their targets and overall the programme remains on course to deliver forecast savings of £190 million across the FCO family. Cumulative results to date are £156m against a family target of £144 million.

On 15 November the Chief Secretary to the Treasury announced that Departments would no longer be required to report formally to HMT against the previous Government's CSR07 efficiency target. However we will continue to track the programme internally until the end of the current financial year/CSR period in line with our commitment to utilise our resources as efficiently as possible.

Service Level Agreement with Partners Across Government (PAGs)—Recovery of Costs from PAGs on our Network

We have been working with Whitehall Partners to agree a new charging model for the next few years, based on cost-sharing principles. The objective is to produce a simpler charging arrangement that will reduce bureaucracy whilst ensuring that the FCO is fairly compensated for the risks and contingent liabilities it carries for others on the overseas platform.

Top Risks Register

In September the FCO Top Risk register, which is made up of the most significant risks from both the Strategic policy risk list and the Operational risk list, was updated. After consideration by the Board we removed the operational risk (IT Systems) leaving three operational risks on the Top Risk register:

— Physical, Technical and Personnel Security;

— Resources; and

— UKBA.

A new policy risk (Sudan) was added to the existing risks top level (Iran, Afghanistan, Pakistan, Terrorism, Middle East Instability, Horn of Africa, Overseas Territories, Litigation, EU, Turkey, and Economic Outlook).

At the December update, new strategic risks on the Eurozone and the Korean Peninsula were added. The operational risk on Resources was downgraded and the strategic risks on Turkey, EU, Economic Outlook and Litigation were also removed.

The FCO Board continues to discuss individual risks in depth at its monthly meetings to make sure these risks are being effectively managed.

FCO/Identity and Passport Service

On 29 April 2009 the FCO and Home Office Permanent Secretaries signed a Memorandum of Understanding on the integration of the FCO and Identity and Passport Service (IPS) passport operations. IPS agreed to take responsibility for the policies, finances and oversight of the FCO's passport operation from 1 April 2011.

The strategic case for unifying the two passport operations is straightforward. Having two UK passport services is clearly less efficient than one. Through economies of scale and by eliminating duplication, the cost of the overseas passport service will fall from £42m a year to under £20m a year. And having two UK passport services with two sets of security procedures makes us more vulnerable. As the cost and security around passports continue to increase, these changes will allow us still to offer a passport service to British nationals living abroad—and even bring down the fees we charge.

IPS and FCO are currently negotiating an Accord that will govern the full integration of the two passport operations after 1 April 2011 and set out the future shape of the overseas passport service.

UKBA

As set out in the FCO's new Business Plan, the FCO and UK Border Agency have committed "to control migration to secure the UK's borders and to promote the UK's prosperity." Recent collaboration has included work on the first measures to implement the government's commitment to introduce an annual limit on non-EU migration while continuing to attract the brightest and best to build Britain's prosperity.

Following the Spending Review and in recognition of the successful close working arrangement, the UK Border Agency has agreed to continue funding the FCO's Migration activity until March 2013. We have also secured cross-Government agreement to continue the quadrilateral (UKBA/FCO/DIFD/Ministry of Justice) Returns and Reintegration Fund until March 2015. This Fund is integral to the UK's efforts in increasing the return of foreign national prisoners and failed asylum seekers and helping them reintegrate more effectively in their countries of origin.

ICT

In September, the FCO signed a contract with Cable and Wireless Worldwide (C&WW) to introduce improved global telephony, data and videoconferencing services (the Echo programme) across the network between early 2011 and summer 2012. Echo is a collaborative procurement and delivery programme involving the FCO, UK Border Agency (UKBA) and the Department for International Development (DFID). It has the potential to deliver savings to the FCO of up to £90m through lower cost technologies, call charges, support costs, and shared infrastructure. Staff can also expect to see new and enhanced services, including unclassified video conferencing facilities at 130 Posts and greater capabilities for flexible working.

In the light of recent events, and in response to a request from the National Security Adviser, the FCO is undertaking a review of all measures in place to protect our information to ensure these continue to be robust and proportionate. We are working with recipient departments of FCO data to confirm with them that appropriate measures are in place for any onward handling or distribution. We continue to take the protection of our information seriously, and comply with the Cabinet Office Security Policy Framework (SPF), which covers all areas of security, including technical, physical, procedural and personnel security.

We have completed the final two deployments of our new Firecrest IT system (Beijing Visa Section and Alexandria) and the global upgrade to Outlook 2007.

Estates

I promised to inform the Committee of any liability following the flood at our Embassy in Madrid in late January. We have now settled the claim in the sum of €331,954 which represents a saving of over 18% compared to the original claim of €405,457.

We completed a major project to provide a new embassy and residence in Tbilisi in September/October at a total project cost of £16.7 million. The location of the previous embassy in the centre of Tbilisi was unacceptable on security grounds, and the new build provides us with a modern, fit for purpose platform from which to deliver the government's overseas priorities in Georgia.

I should also note that we have also secured approval from HM Treasury and from the Foreign Secretary to go ahead with projects to provide new embassy buildings in Tel Aviv and Jakarta, at an estimated cost of £19 million and £29.5 million respectively. Both these projects are security-driven; you will recall that James Bevan, Director-General Change and Delivery, mentioned the Jakarta project as a high priority during the Committee's evidence session on 24 November. I should be glad to write with further information on any of these projects if the committee wishes.

I attach at Annex A our report for properties sold and purchased in the second quarter of financial year 2010–11. One purchase not included in our last report is also included for the first quarter of the current financial year.

Security

Sana'a

As you are aware, a second terrorist attack took place against an Embassy vehicle on 6 October 2010. Since the attack a number of additional security measures have been taken, including a further reduction in staff numbers, the development of a quick reaction force and an operations centre, and an additional security manager.

The threat is likely to remain high for the foreseeable future and there is a limit to how much we can mitigate the threat to staff travelling around Sana'a, even in armoured vehicles. Therefore urgent work has begun to provide temporary, secure staff accommodation on the well-protected Embassy compound, at an approximate cost of £2 million, which will be met by re-prioritisation of our capital budget this financial year. We are looking urgently at a project to house staff securely in the longer term. We will keep the FAC informed of progress.

Management Structures

Keith Luck, Director General for Finance, left the FCO in December on the expiry of his fixed term contract. I have decided to reorganise the operational side of the FCO in London under a single DG level Chief Operating Officer. James Bevan has now assumed this role. Our Finance Director, Alison Currie, has joined the FCO Board of Management.

6 January 2011

SALES

	Sale Date	*Post*	*Property Types*	*Sale Price £*
July to Sep 2010	01/07/2010	Stockholm	Residential	532,559
	02/07/2010	Dar es Salaam	Residential	532,560
	08/07/2010	Copenhagen	Residential	807,472
	14/08/2010	Canberra	Residential	956,923
	10/09/2010	The Hague	Residential	299,055
	13/09/2010	Kuala Lumpar	Residential	4,593,039
	27/08/10	Ottawa	Residential	513,108
	30/09/2010	Washington	Residential	749,144

PURCHASES

	Purchase Date	*Post*	*Property Type*	*Purchase Price £*
April 2010	01/04/2010	Warsaw	Residence	3,349,473

Further letter from Simon Fraser CMG, Permanent Under-Secretary of State, Foreign and Commonwealth Office

FM Outsourcing Contract Asia Pacific and India

I am writing in confidence to let you know that yesterday we signed a contract with ISS to provide Facilities Management services to HMG's diplomatic missions in Asia Pacific & India. [ISS is the largest global provider of FM services.]

This is the Foreign and Commonwealth Office's second regional Facilities Management contract. The first, signed in September 2008, covers the FCO's estate in the UK and our diplomatic missions in 11 countries in Europe.

The Asia Pacific and India contract will be for a period of seven years, with the option of up to three further years, and is estimated to deliver benefits of up to £14 million over the seven year life of the contract. Additionally, it will deliver significant benefits in terms of standardisation of services across the region, professional management of FM activities, improvements in estates compliance and a significant reduction in the FCO's local staff headcount. It also provides for other Government Departments based in the region to source services under the contract.

I will be happy to provide further details of the contract in the next FCO Quarterly Letter if that would be helpful.

4 November 2010

Written evidence from the Foreign and Commonwealth Office

Main Estimate 2010–11

Introduction

1. The Foreign and Commonwealth Office Estimate has two Requests for Resources (RfRs):

- RfR 1: Promoting internationally the interests of the UK and contributing to a strong world community, that covers:
  - Section A: Expenditure by the Foreign and Commonwealth Office (FCO), including UK Trade and Investment, on its administration, FCO Services, Wilton Park Executive Agency, hospitality and facilities; international organisations; grants in aid to bodies supporting FCO objectives; scholarships, information services and sponsored visits; special payments and assistance programmes to support foreign policy objectives including human rights, good governance, international security and the fight against the illicit drug trade; and international organisations; and on associated non-cash items;
  - Sections B and C: Resource grant in aid to the BBC World Service for broadcasting and to the British Council, respectively;
  - Sections D and E: Capital grant in aid to the BBC World Service for broadcasting and to the British Council, respectively;
  - Section F: AME Provisions and impairments; and
  - Section G: The refund of certain taxes and duties paid by certain Foreign and Commonwealth governments.
- RfR 2: Conflict prevention, that covers:
  - Section A: Expenditure by the Foreign and Commonwealth Office on conflict prevention, early warning, crisis management, conflict resolution/peacemaking and provision of specialist, targeted assistance in countries emerging from violent conflict;
  - Section B: Peacekeeping and peace building activity and on associated strengthening of international and regional systems and capacity; and

The former Section C of RfR 2 has been incorporated in Section A.

RfR 1 Main Estimates Changes

2. Owing to the short timescales between the FCO receiving its revised departmental budgets, in particular the reduction of £55,000,000 in the FCO's total DEL, and publication of Main Estimates we expect to revise the Estimate significantly at the Winter Supplementary round. The figures discussed below are in some cases provisional as final decisions on where the reductions to FCO spending will fall have not yet been made.

Claims of the DEL Reserve

3. There is a claim on the DEL reserve of £15,000,000 administration budget (Section A) in respect of adverse movements in Sterling exchange rates. There was also a non-voted uplift to administration DUP of £20,000.

4. We had previously agreed to surrender £20,000,000 of other current expenditure as the contribution of the Foreign and Commonwealth Office to the Operational Efficiency Programme (OEP) savings announced in the 2008 Pre-Budget report.

5. In addition to the OEP reduction, there is a further surrender of £55,000,000, of which £11,500,000 has been provisionally allocated to Administration, £38,500,000 to other resource budgets and £5,000,000 to capital, was announced by the Chancellor as part of the £6 billion package of savings**.** Final decisions on where the reductions will fall have not yet been made and are likely to be revisited in the Winter Supplementary round.

Clear Line of Sight (CLOS) Alignment Project Changes

6. The Alignment (or 'Clear Line of Sight') Project seeks to simplify government's financial reporting to Parliament by better aligning the recording of government spending in departmental budgets, Estimates and resource accounts. Full details of the alignment reforms were set out in Cm 7567 published in March 2009.

7. Changes to the budgetary framework resulting from the Alignment Project have been implemented in 2010–11. The main change is that the separate near-cash and non-cash controls within resource budgets have been removed. Of those transactions previously recorded in non-cash budgets:

- cost of capital charge has been removed from budgets, Supply Estimates and Resource Accounts;
- provisions, revaluations, write-off of bad debt and exchange rate gains/losses have been moved from DEL budgets into AME; and
- depreciation, impairments and notional audit fees have remained in Resource DEL.

8. All figures were subject to re-forecasting before the classification changes were made.

9. These classification changes, which are reflected in all departmental Estimates, have the effect of reducing DEL budgets across departments in all years. However, the adjustments have no impact on the purchasing power of departments or the planned level of expenditure.

10. The following specific budgeting changes in respect of CLOS have been agreed by the FCO with the Treasury. If a cost of capital figure had been included it would have amounted to £97,004,000 of non-cash budget cover. Prior to its removal, the cost of capital had increased by £40,000,000 since the CSR largely due to the introduction of International Financial Reporting Standards. We have also given up £1,000,000 in non-cash depreciation charges following the CLOS review of depreciation requirements.

Budget Cover Transfers

11. There is a transfer to DFID of £1,347,000 in respect of the Stabilisation Unit. The Stabilisation Unit is a UK Government inter-departmental unit that helps improve the UK's ability to support countries emerging from violent conflict. It is jointly owned by the Department for International Development (DFID), Foreign and Commonwealth Office (FCO) and Ministry of Defence (MOD).[7]

12. A transfer of £4,000,000 to other current expenditure (Section A) in respect of the Returns and Reintegration Fund from DFID. This fund is used to finance projects to increase returns of foreign national prisoners and failed asylum seekers to their countries of origin and to ensure that those who return voluntarily are effectively re-integrated.

13. Smaller transfers effected in previous years but impacting on the 2010–11 Main Estimate include £2,028,000 Administration costs and £60,000 capital from MOD in respect of Defence Export Sales, £2,254,000 other current from DIUS and £150,000 administration costs to DIUS for the Governments Science and Innovation Network, £500,000 other current expenditure from MOD in respect of Foreign Secretary's travel arrangements, £80,000 other current to the Cabinet Office in respect of the FCO contribution to the Government Secure Zone, £45,000 administration costs to the Office of Government Commerce in respect of sustainable procurement and £18,000 administration costs to DIUS in respect of the Skills Strategy.

14. There have also been internal transfers within RfR 1 of £2,600,000 resource grant in aid from the British Council (Section C) to the FCO administration budget (Section A), with no impact on Resource DEL, £2,400,000 from British Council capital grants (Section C) to the FCO administration budget (Section A) and of £3,700,000 from BBC World Service capital grants (Section E) to the FCO administration budget (Section A).

[7] http://www.publications.parliament.uk/pa/cm200304/cmhansrd/vo040916/wmstext/40916m06.htm#40916m06.html_sbhd1

RfR 2 Main Estimates Changes

15. As discussed in previous correspondence with the FAC we have updated the sub-head structure of RfR 2 to reflect the merger of the former Stabilisation Aid Fund (formerly Section C) into Conflict Prevention Programme expenditure (Section A).

16. Expenditure is added to by other pool partners through transfers between departments in Main and Supplementary Estimates. The effect of the transfers between pool partners to the 2010–11 FCO Main Estimates is a net increase of £496,000,000. This consists of £350,000,000 from the Treasury reserve for Peacekeeping (Section B) and £146,000,000 from DFID for Conflict Prevention (Section A).

Reconciliation of 2010–11 Main Estimates to CSR 2007 Outcome

17. The Comprehensive Spending Review 2007 settlement showed the FCO Resource Budget for 2010–11 as £1,616,000,000 and the capital budget as £205,000,000. Since October 2007 there have been a number of changes to the FCO's Departmental Expenditure Limits (DELs) which bring the current Resource DEL figure for 2010–11 to £2,082,238,000 and the Capital DEL to £198,960,000. The tables below show the main changes and reconcile the DELs with the Main Estimates figures.

Table 1
RESOURCE (2010–11)

Resource DEL Baseline from CSR 2007 (£m)	*1,616.000*
Changes to Resource DEL (Chronological Order)	
Changes effected in Main Estimates 2009–10	
Machinery of Government transfer from MOD for Defence Export Sales	2.028
Reserve claim for Peacekeeping	350.000
Transfer from DFID for Conflict Prevention	146.000
Transfer from MOD for FS travel	0.500
Machinery of Government transfer from DIUS for Science and Innovation Network	2.104
Transfer to Cabinet Office for Government Secure Zone	−0.080
Transfer to Office of Government Commerce for Sustainable Procurement	−0.045
Transfer to DIUS for Skill's Strategy	−0.018
OEP Efficiency Savings	−20.000
Reduction in Depreciation Charges	−1.000
Transfer from DfID for the Returns and Reintegration Fund	4.000
Transfer to DfID for the Stabilisation Unit	−1.347
Reserve Claim for Adverse Changes to Sterling Exchange Rates (Non-Voted DUP Element)	20.000
Reserve Claim for Adverse Changes to Sterling Exchange Rates (Voted Element)	15.000
Transfer from the British Council capital grant	2.400
Transfer from the BBC World Service capital grant	3.700
Uplift to Capital Charge as a Result of International Financial Reporting Standards	40.000
Removal of Capital Charges as a Result of Clear Line of Sight Budgeting Changes	−97.004
Resource element of £55 million contribution to £6 billion savings	50.000
Resource DEL at 1 April 2010	*2,032.238*
Difference between Resource DEL and Main Estimate	
Remove non-Voted Expenditure in the OCS (Common Foreign Security Policy)	−4.000
Include BBCWS Capital Grant from Capital DEL (Resource in Estimates)	27.300
Include British Council Capital Grant from Capital DEL (Resource in Estimates)	5.400
Include International Subscriptions Capital Grant from Capital DEL (Resource in Estimates)	29.510
Include Voted expenditure outside budgets (Reimbursement of certain duties, taxes and licence fees)	18.000
Remove unallocated resource provision (DUP)	−32.000
Include Voted AME (impairments)	20.000
2010–11 Main Estimate Resource Total	*2,096.448*

Table 2
CAPITAL (2010–11)

Capital DEL Baseline from CSR 2007 (£m)	*205.000*
Changes to Capital DEL	
Machinery of Government transfer from MOD for Defence Export Sales	0.060
Transfer from the British Council capital grant	−2.400
Transfer from the BBC World Service capital grant	−3.700
Capital element of £55 million contribution to £6 billion savings	−5.000

Capital DEL at 1 April 2010	*193.960*
Difference between Capital DEL and Main Estimate	
Remove BBCWS Capital Grant from Capital DEL (Resource in Estimates)	−27.300
Remove British Council Capital Grant from Capital DEL (Resource in Estimates)	−5.400
Remove International Subscriptions Capital Grant from Capital DEL (Resource in Estimates)	−29.510
2010–11 Main Estimate Capital Net Total	*131.750*

Departmental Expenditure Limit (DEL) & Administration Budgets

18. The tables below show a comparison of the 2010–11 DEL (Table 3 and 3a) and Administration (Table 4) budgets with the 2004–05, 2005–06, 2006–07, 2007–08 and 2008–09 outturn, the forecast for 2009–10 and plans for 2010–11.

19. Table 3a shows outturn on the definition of DEL used in the year concerned in order to be consistent with published Departmental Expenditure Limits. They do not therefore correspond to the outturns in Table 3 that are on a consistent basis year on year, including reclassification by the Treasury of expenditure across all years of the Public Expenditure cycle.

Table 3
DEL COMPARISON

	2004–05 Actual	*2005–06 Actual*	*2006–07 Actual*	*2007–08 Actual*	*2008–09 Actual*	*2009–10 Forecast*	*2010–11 Budget*
Resource DEL [1,2]	1,680.411	1,815.302	1,770.997	1,808,411	2,024.427	2,133,725	2,032.238
Capital DEL	112.517	133.340	160.786	227.792	226.803	199.638	193.960
Less Depreciation [1,3]	67.156	108.725	81.555	73.220	81.684	100.981	99.050
Total	1,725.772	1,839.917	1,850.228	1,962.983	2,172.546	2,232,382	2,127,148

[1] Figures for all years reflect Clear Line of Sight (CLOS) budgeting changes, in particular the removal of cost of capital charges.

[2] Resource DEL figures for 2010–11 are understated because they do not include all of the conflict prevention expenditure, which will be subject to a Reserve claim and transferred at the time of the 2010–11 Supplementary Estimates. In addition 2005–06 included expenditure on a number of one-off items (Tsunami expenditure, Efficiency Challenge Fund & G8 & EU presidencies).

[3] Depreciation, which forms part of Resource DEL, is excluded from the total DEL, since Capital DEL includes the purchase cost of capital assets. To add on the depreciation of those assets would double count their cost.

Table 3a
PREVIOUS YEARS' EXPENDITURE AGAINST DEPARTMENTAL EXPENDITURE LIMITS £M

Year	*Voted*	*Non-voted*	*Total DEL*	*Outturn*[1]	*Variance*
Resource					
2004–05	1,607,192	209,690	1,816,882	1,736,188	80,694
2005–06	1,999,224	6,713	2,005,937	1,916,190	89,747
2006–07	1,924,913	44,213	1,969,126	1,852,024	117,102
2007–08	1,950,523	5,862	1,956,385	1895,961	60,424
2008–09	2,074,701	3,000	2,077,701	2,085,310	-7,609
Forecast Outturn 2009–10	2,237,987	3,000	2,240,987	2,224.375	16.612
Capital					
2004–05	101,533	1,000	102,533	71,236	31,297
2005–06	135,697	1,000	136,697	92,959	43,738
2006–07	157,779	1,000	158,779	160,747	−1,968
2007–08	243,567	−	243,567	227,973	15,594
2008–09	216,060	−	216,060	230,060	−14,000
Forecast Outturn 2009–10	203,310	−	203,310	199,638	3,672

[1] Outturn is based on the definition of DEL in the relevant year and so is not consistent with the outturn in Table 3 that includes subsequent classification changes effective across all years.

Table 4
ADMINISTRATION BUDGET COMPARISON £M

	2004–05 Actual	*2005–06 Actual*	*2006–07 Actual*	*2007–08 Actual*	*2008–09 Actual*	*2009–10 Forecast*	*2010–11 Plans*
Administration budget	402.676	388.191	382.439	356.319	383.492	433.987	420.448

[1]Figures for all years reflect the removal of capital charges that no longer count in budgets.

Departmental Unallocated Provision (DUP) 2010–11

20. At the time of the Main Estimate, the FCO has £32,000,000 of unallocated resource.

Table 5
2010–11 DEPARTMENTAL UNALLOCATED PROVISION

	Resource	*Capital*
RfR 1 DUP to met unforeseen requirements arising in-year	£32.0m	£0.0m
Total	£32.0m	£0.0m

21. The DUP will be used to meet unforeseen pressures such as unfavourable currency exchange rate changes since CSR 2007.

End Year Flexibility (EYF)

22. The Public Expenditure Outturn White Paper published in July 2009 showed a total figure of £134.002 million for carry forward of underspend into 2009–10 under the DEL EYF scheme of which we took up £21.7 million in 2009–10 leaving a 2010–11 balance of £112.302 million.

23. We intend to spend resource EYF carried forward into 2010–11 on restructuring and any capital EYF on our ongoing programme to increase the security and safety of our Estate and the people using it.

Table 5
ACCUMULATION OF EYF £M

	Administration	*Programme*	*Total Resource*	*Of which near cash*	*Capital*	*Total*
Total FCO EYF Entitlement in Public Expenditure Provisional Outturn July 2009 (table 6—Cm 7606)	76.271	53.917	130.188	100.552	3.814	134.002
EYF drawn down in Winter Supplementary	2.000	11.000	13.000	–	–	13.000
EYF drawn down in Spring Supplementary	5.700	–	5.700	5.700	3.000	8.700
BALANCE OF ACCUMULATED END YEAR FLEXIBILITY GOING INTO 2010–11	68.571	42.917	111.488	94.852	0.814	112.302

June 2010

Written evidence from the Foreign and Commonwealth Office

Winter Supplementary Estimate 2010–11

INTRODUCTION

1. The Foreign and Commonwealth Office Estimate has two Requests for Resources (RfRs):

— RfR1: Promoting internationally the interests of the UK and contributing to a strong world community, that covers:

  - — Section A: Expenditure by the Foreign and Commonwealth Office (FCO), including UK Trade and Investment, on its administration, FCO Services, Wilton Park Executive Agency, hospitality and facilities; international organisations; grants in aid to bodies supporting FCO objectives; scholarships, information services and sponsored visits; special payments and assistance programmes to support foreign policy objectives including human rights, good governance, international security and the fight against the illicit drug trade; and international organisations; and on associated non-cash items;
  - — Sections B and C: Resource grant in aid to the BBC World Service for broadcasting and to the British Council, respectively;
  - — Sections D and E: Capital grant in aid to the BBC World Service for broadcasting and to the British Council, respectively.
  - — Section F: AME Provision for impairments and liabilities in relation to staff leave ; and
  - — Section G: The refund of certain taxes and duties paid by certain Foreign and Commonwealth governments.
- — RfR2: Conflict prevention, that covers:
  - — Section A: Expenditure by the Foreign and Commonwealth Office on conflict prevention, early warning, crisis management, conflict resolution/peacemaking;
  - — Section B: Peacekeeping and peace building activity and on associated strengthening of international and regional systems and capacity; and
  - — Section C: Provision of specialist, targeted assistance in countries emerging from violent conflict.

RfR1 Winter Supplementary Estimates Changes

Take up of EYF

2. We have taken up £15,000,000 DEL EYF administration costs in respect of modernising the core FCO.

Claims on the DEL Reserve

3. We have made a claim on the DEL Reserve of £15,000,000 administration costs in respect of modernisation of FCO Corporate Services.

Take up of Departmental Unallocated Provision

4. We have taken up of £17,000,000 administration DUP to offset adverse exchange rate movements.

Transfers of Budgetary Cover

5. Transfers of budgetary cover include:

- — Transfer of £1,850,000 administration from the Department for Education in respect of the Papal visit.
- — Transfer of £1,850,000 administration from the Department for International Development in respect of the Papal visit.
- — Transfer of £1,850,000 administration from the Department of Energy and Climate Change in respect of the Papal visit.
- — Transfer of £1,850,000 administration from the Department for Environment, Food and Rural Affairs in respect of the Papal visit.
- — Transfer of £1,850,000 administration from the Department for Communities and Local Government in respect of the Papal visit.
- — Transfer of £100,000 programme from the Department for International Development in respect of the Strategic and Bilateral Fund in the Democratic Republic of Congo (DRC). DFID DRC are contributing to the funding of small-scale, catalytic development projects across the DRC to achieve British Embassy Kinshasa objectives within the framework of the One Embassy vision.
- — Transfer of £180,000 administration from the Department for International Development in respect of the gratis visa operation in Chernobyl. This operation covers the costs of visas issued to Chernobyl children coming on medical recuperation breaks to the UK.
- — Transfer of £40,000,000 programme from the Department for International Development in respect of support for British Council Official Development Assistance.
- — Transfer of £200,000 programme from the Department for International Development in respect of a Police Training project in Tanzania.

Other Changes

6. A Capital to Administration switch of £25,000,000 in respect of exchange rate pressures.

7. A change in Annually Managed Expenditure (AME) due to an increase in Impairments of £20,000,000. Impairments are the loss of value on an asset (ie a building), due to the special requirement we have for the asset (ie enhanced security work), which will not be reflected in its overall market value.

8. A Capital transfer of £265,000 to the Department for International Development as a contribution towards building a new office in Juba, Sudan.

RfR2 Winter Supplementary Estimates Changes

Transfers of Budgetary Cover To/From Other Government Departments

9. Transfers of budgetary cover include:

— Transfer of £16,467,000 grants from DFID for conflict prevention and peacekeeping activities.

10. The above transfer reflects the revised structure of RfR2. Conflict prevention activities are now managed through five strategies: the SAF Afghanistan and CPP South Asia programmes have been merged; so too the SAF Iraq and CPP Middle East and North Africa programmes. A new Wider Europe programme funds activity in Russia/Commonwealth of Independent States and the Balkans (previously individual programmes). The Africa programme continues. A separate programme has been earmarked for thematic work, including support to international institutions. The Strategies continue to be managed tri-departmentally.

— Transfer of £54,000 grants to the Security Intelligence Agencies for expansion and capability.

11. No FCO activities are expected to be reduced as a result of the above transfers. Transfers between government departments such as these are a routine occurrence and are therefore incorporated in the normal budgeting process.

Table 1

DETAILED EXPLANATION OF CHANGES

End year flexibility		
15.000	RfR1	Section A1 administration EYF for FCO modernisation
15.000	**Resource Total Change to DEL**	
Transfers from capital to administration		
25.000	Section A1 increase from Section A7 to cover exchange rate pressures	
25.000	**Resource Total Change to DEL**	
−25.000	**Capital Total Change to DEL**	
Transfers between sections within the Estimate		
6.080	RfR1	DEL Neutral transfer to Section B2 from Section A2 for Grant-in-Aid for the BBCWS
4.720	RfR1	DEL Neutral transfer to Section C2 from Section A2 for Grant-in-Aid for the British Council
71.570	RfR2	DEL Neutral transfer to Section A2 from Section A1 for conflict prevention to peacekeeping switch
0.000	**Resource Total Change to DEL**	
Transfers from Other Government Departments		
1.850	RfR1	Section A1 administration transfer from DfE for Papal visit
1.850	RfR1	Section A1 administration transfer from DfID for Papal visit
1.850	RfR1	Section A1 administration transfer from DECC for Papal visit
1.850	RfR1	Section A1 administration transfer from DEFRA for Papal visit
1.850	RfR1	Section A1 administration transfer from DCLG for Papal visit
0.100	RfR1	Section A2 programme transfer from DFID for Strategic and Bilateral Fund in Kanshasa
0.180	RfR1	Section A1 administration transfer from DFID for Chernobyl gratis visa operation
40.000	RfR1	Section A2 programme transfer from DFID for British Council Official Development Assistance
0.200	RfR1	Section A2 programme transfer from DFID for Tanzania Police Training Project
16.467	RfR2	Section A3 grants transfer from DFID for Conflict Prevention and Peacekeeping
66.197	**Resource Total Change to DEL**	
Transfers to Other Government Departments		
−0.054	RfR2	Section A3 grants transfer to the Security and Intelligence Agencies for expansion and capability
−0.265	RfR1	Section A7 capital transfer to DFID as contribution towards building a new office in Juba, Sudan

−0.265 Capital Total Change to DEL
−0.054 Resource Total Change to DEL
Transfers from Central Funds
15.000 RfR1 Section A2 DEL Reserve claim for modernisation of FCO Corporate Services
15.000 Resource Total Change to DEL
Transfers from non-voted Departmental Unallocated Provision
17.000 RfR1 Section A1 take-up administration DUP to offset adverse exchange rate movements
Other budget neutral changes
7.000 RfR1 An increase in capital fully offset by an increase in non-operating appropriations-in-aid
0.000 Resource Total Change to DEL
121.143 NET TOTAL CHANGE TO RESOURCE DEL
−25.265 NET TOTAL CHANGE TO CAPITAL DEL

Departmental Expenditure Limit (DEL) & Administration Budgets

12. The tables below show a comparison of the 2010–11 DEL (Table 2 and 2a) and Administration (Table 3) budgets with the 2004–05, 2005–06, 2006–07, 2007–08, 2008–09 and 2009–10 outturn, and the forecast for 2010–11.

13. Table 2a shows outturn on the definition of DEL used in the year concerned in order to be consistent with published Departmental Expenditure Limits. They do not therefore correspond to the outturns in Table 2 that are on a consistent basis year on year, including reclassification by Treasury of expenditure across all years of the Public Expenditure cycle.

Table 2
DEL COMPARISON

	2004–05 Actual	*2005–06 Actual*	*2006–07 Actual*	*2007–08 Actual*	*2008–09 Actual*	*2009–10 Actual*	*2010–11 Forecast*
Resource DEL [1,2]	1,680.411	1,815.302	1,770.997	1,808.411	2,027.427	2,126.806	2,153.381
Capital DEL	112.517	133.340	160.786	227.792	226.803	200.732	168.695
Less Depreciation [1,3]	*67.156*	*108.725*	*81.555*	*73.220*	*81.684*	*100.980*	*99.050*
Total	1,725.772	1,839.917	1,850.228	1,962.983	2,172.546	2,226.558	2,223.026

[1]Figures for all years reflect the reclassification of impairment expenditure from DEL into AME.

[2] Resource DEL figures for 2010–11 are understated because they do not include all of the conflict prevention expenditure, which will be transferred at the time of the relevant Main and Supplementary Estimates. addition 2005–06 included expenditure on a number of one off items (Tsunami expenditure, Efficiency Challenge Fund & G8 & EU presidencies).

[3] Depreciation, which forms part of Resource DEL, is excluded from the total DEL, since Capital DEL includes the purchase cost of capital assets. To add on the depreciation of those assets would double count their cost.

Table 2a
PREVIOUS YEARS' EXPENDITURE AGAINST DEPARTMENTAL EXPENDITURE LIMITS £M

Year		*Voted*	*Non-voted*	*Total DEL*	*Outturn*[1]	*Variance*
Resource						
	2004–05	1,607.192	209.690	1,816.882	1,736.188	80.694
	2005–06	1,999.224	6.713	2,005.937	1,916.190	89.747
	2006–07	1,924.913	44.213	1,969.126	1,852.024	117.102
	2007–08	1,950.523	5.862	1,956.385	1,895.961	60.424
	2008–09	2,074.701	3.000	2,077.701	2085.310	−7.609
	Final outturn 2009–10	2,237.987	3,000	2,240.987	2,224.375	16.612
Capital						
	2004–05	101.533	1.000	102.533	71.236	31.297
	2005–06	135.697	1.000	136.697	92.959	43.738
	2006–07	157.779	1.000	158.779	160.747	−1.968
	2007–08	243.567	–	243.567	227.973	15.594
	2008–09	216.060	–	216.060	229.080	−13.020
	Final outturn 2009–10	203.310	–	203.310	199.638	3,672

1 Outturn in is based on the definition of DEL in the relevant year and so is not consistent with the outturn in Table 2 that includes subsequent classification changes effective across all years.

Table 3
ADMINISTRATION BUDGET COMPARISON £M

	2004–05 Actual	*2005–06 Actual*	*2006–07 Actual*	*2007–08 Actual*	*2008–09 Actual*	*2009–10 Forecast*	*2010–11 Plans*
Administration budget	402.676	388.191	382.439	356.319	383.492	431.768	484.698

[1]Figures for all years reflect the reclassification of impairment expenditure from DEL into AME.

Departmental Unallocated Provision (DUP) 2010–11

14. £17,000,000 FCO provision has been allocated in the Winter Supplementary Estimate leaving a balance of £15,000,000 to be taken up in the spring.

Table 4
2010–11 DEPARTMENTAL UNALLOCATED PROVISION

	Resource	*Capital*
RfR1 DUP to offset adverse exchange rate movements	£15.0m	£0.0m
Total	£15.0m	£0.0m

End Year Flexibility (EYF)

15. The Public Expenditure Outturn White Paper published in July 2010 showed a total figure of £110.017 million for carry forward of under spend into 2010–11 under the DEL EYF scheme.

16. We have taken up £15,000,000 DEL administration costs EYF in respect of FCO core restructuring.

17. In the Spring Supplementary Estimate we may take up resource EYF for RfR2 Conflict Prevention.

Table 5
ACCUMULATION OF EYF £M

	Administration	***Programme***	***Total Resource***	*Of which non-cash*	***Capital***	***Total***
Total FCO EYF Entitlement in Public Expenditure Provisional Outturn July 2010 (table 6—Cm 7911)	71.846	34.779	106.625	5.623	3.392	110.017
EYF drawn down in Winter Supplementary	15.000	–	15.000	–	–	15.000
BALANCE OF ACCUMULATED END YEAR FLEXIBILITY GOING INTO 2010–11	56.846	34.779	91.625	5.623	3.392	95.017

15 November 2010

Written evidence from BBC World Service

Part 1: The Year in Review—2009–10

Summary of key events and developments

BBC World Service continued to implement changes necessary to retain its reputation for the future in the face of profound economic, social and technological change.

2010 saw a dramatic drop in global short wave listening trends—BBC World Service lost 20 million short wave listeners, but this was counteracted by the addition of nine million new viewers to its television, online and mobile services, in addition to new listeners to BBC radio programmes through local FM and medium wave radio partner stations in a number of countries. The overall weekly multimedia audience is 180 million across television, radio, online and mobiles.

The estimated BBC Arabic television audience was up 3.5 million to 12 million, making it the BBC's largest language service with an audience of 22 million across all platforms. BBC Persian has an estimated 3.1 million viewers in Iran.

The figures show the success of our multimedia strategy and investments for global audiences. But the continued dramatic decline in short wave listening shows that those audiences are rapidly changing the way they access international news. Unless BBC World Service can accelerate its response to those changes, it will face a rapid deterioration of its impact as other technologies become more prominent in international media markets.

It was a year of major news events such as the earthquake in Haiti, the floods in Pakistan, the Moscow Metro attacks, and more recently, the ordeal of the Chilean miners. BBC World Service delivered outstanding journalism, bringing a wider perspective to audiences in closer collaboration with other parts of BBC Global News.

BBC World Service also played a role in raising editorial standards—we are only beginning to appreciate the full impact of our journalism on local media and even on the course of events. Examples of this include Kenya, where newspapers trusted BBC Swahili to verify reports of witness intimidation, and Nigeria, where President Umaru Yar'Adua's gave an exclusive interview to BBC Hausa shortly before his death, because it symbolised credibility—the interview played a central role in the country's constitutional debate. BBC World Service aims to be a standard-setter in the new platforms and the new spaces, just as it has been over the years in radio.

Independent research continues to indicate that BBC World Service's reputation for providing unbiased and objective news and information is stronger than that of any other international radio competitor in most markets surveyed.

BBC World Service launched 18 new mobile sites in 2009–10, attracting four million monthly page impressions by February 2010. This figure has increased by 150% in just seven months, to 10 million as of September 2010.

Online performance was up 39%, to 7.3 million weekly unique users.

BBC Global News—which includes BBC World Service, BBC World News television and the BBC's international news online services—had a record global weekly audience of more than 241 million during 2009–10.

BBC World Service faced distribution problems in a number of countries including Pakistan, India, Azerbaijan, Somalia and Sudan, as well as continuing problems in China and Russia.

BBC World Service programming excellence was recognised at the annual Sony Awards in 2010 where it secured six awards, two of them Golds—Lyse Doucet for News Journalist of the Year, and *Newshour* for Best Current Affairs Programme. Other awards received throughout the year included Hotbird TV News Channel of the Year Award for BBC Persian, two Peabody Awards, a CBA Award for Best Human Rights Programme for *Assignment: Africa's Guantanamo* and the Speaker Abbot Award for Bravery which went to Mohammed Olad Hassan, a reporter based in Mogadishu.

In polling commissioned by Chatham House (British Attitudes towards the UK's International Priorities, Chatham House/YouGov, July 2010), when asked "which of these do you think do most to serve Britain's interests around the world?" "BBC radio and TV world services" came out on top with both the general public (jointly with the armed forces) and UK opinion formers when compared to the FCO, DFID, armed forces, culture, and the intelligence services.

And from a detailed study by BBC World Service into its international audiences' perceptions, (Human Capital, research in Egypt, Pakistan, Turkey and Kenya, commissioned by the BBC in 2009) 80% of audience members in four key countries said it makes them think more positively of the UK—more than say the same of Premier League football, UK aid, the UK Government, popular British culture and the armed forces. 71**%** believed that it enhances the UK's reputation for democracy and fairness.

Meanwhile a Globescan poll commissioned by the BBC (based on 265 interviews with international business influencers in the US, India, Turkey, Nigeria and UAE in 2010) found that 89% of those who consume BBC News would speak positively about Britain as a place to do business. It revealed that business leaders who use the BBC are more positive about Britain as a place to do business, when compared to those who do not use the BBC.

Audiences

BBC World Service's Global Audience Estimate reported in March 2010 an overall weekly multimedia audience of 180 million across television, radio, online and mobiles. Whilst the World Service's position as the leading international broadcaster with the highest audience has been maintained, this is eight million down on last year's record.

Audience figures reflect global shifts in media consumption as short wave declines and new media platforms continue to expand rapidly. The internet is now used by 1.5 billion, set to rise by 50% in the next five years and with over 4.5 billion mobile phone users worldwide; mobile services are becoming the primary means of access to online news and information for many. TV has established itself over 20 years as the main platform for news consumption in many parts of the world.

In lifeline markets, BBC World Service continues to perform well on short wave (in Burma, the BBC now reaches 8.5 million listeners weekly, up 1.4 million on the last survey). However, BBC World Service lost 20 million short wave radio listeners during the year, as part of the increasing global decline in short wave listening. Losses were particularly significant in Bangladesh (−7.0m), India (−8.2m), and Nigeria (-2.9m).

There were radio audience gains in Tanzania (+1.4m), and the US (+0.6m), mainly through BBC programmes being used on local FM and medium wave radio partner stations. And there were nine million new viewers to BBC World Service's television, online and mobile services. Visitors to BBC World Service online increased by 39%, and there was a 72% increase in the estimated audience of non-English television. BBC Arabic now reaches 22 million people a week across all platforms, including 12 million on television.

Those figures demonstrate the need for BBC World Service to be able to accelerate its response to global trends, as audiences rapidly change the way they access international news. In Turkey for example, a strategically important market to the BBC and to the UK, digital partnerships established in 2009–10 increased weekly unique users from 37,000 in October 2009 to a young, vibrant Turkish audience of over 260,000 in October 2010. On TV, daily news and current affairs programme *World Agenda* broadcast on partner channel, NTV, targets an influential audience and reaches 1.7 million weekly viewers.

The BBC has continued to develop its mobile presence in important markets. For example in Pakistan, where mobile users have increased from one million to 100 million in a decade, BBC World Service will shortly be launching dial-up, on-demand audio news and sports bulletins available to subscribers who will be able to dial a short code for the latest BBC news in Urdu. This will also be launching very shortly in Bangladesh and India. The BBC now has mobile sites in 18 languages, notably in African languages where mobile is also growing rapidly as a source of news and information.

Performance against targets: The overall reach of radio, television and online was below the target of 192 million at 180 million. This was mainly due to the larger than anticipated decline in short wave and medium wave audiences. The figure does not include all areas—it was not possible to survey Pakistan because of the political situation, data from Iraq was delayed due to problems with fieldwork and the results from a survey in Sudan could not be used because the sample did not adequately represent the population.

The agreed targets for impact of the BBC's online offer were once again exceeded in all areas: the number of weekly users rose to 7.3 million (target was 6 million), the number of monthly video views rose to 27 million (target was 20 million) and the number of BBC WAP site page impressions rose to 4 million (target was 2 million).

BBC World Service's reputation as the best known and most respected international broadcaster remains strong—in surveys it scores higher than its nearest competitor in the majority of indicators, so the multimedia strategy of transition to FM, television, online and mobile continues to be successful.

Distribution challenges

Azerbaijan

The Azeri authorities have maintained the ban from January 2009 on all international radio broadcasters from transmitting on FM. The BBC continues to work with the FCO to secure a resolution.

China

BBCChinese.com (the news content site) and Chinese broadcasts on short wave continue to be jammed effectively by the Chinese authorities. It has been virtually impossible for the BBC to provide news to a Chinese audience on these platforms for some time. However, new technologies have enabled the BBC to reach Chinese audiences via other means. The BBC news app launched in April 2010 by the BBC and Apple now has 20,000 iPhone and iPad subscribers within China who can access news stories from BBCChinese.com. And in response to requests from BBC Chinese users, a simple to use circumvention service was launched in September 2010 in order to get around the blocking of the website. This is still very much at an experimental stage, but uptake has been very active so far and users have been sending appreciative feedback.

BBCUKChina.com (the non-news site) continues to be successful with more than twenty partners taking up our content in English learning, studying in the UK, British life and culture and the Premier League. In September 2010, BBC Chinese launched a partnership with China's third biggest portal site, sohu.com, with content and information on English Learning and studying in the UK, plus a joint project with provincial radio stations promoting UK culture, particularly lifestyle and music.

India

The BBC has faced difficulties with regulatory authorities for its mobile news provision in India. Regulators have directed that all foreign broadcasters should stop news bulletins that are available upon dialling a local number across all mobile operators in the country. This has obstructed the launch of new mobile services in India by the BBC.

Iran

Following the election, BBC Persian TV's satellite signal was subjected to deliberate and illegal interference from within Iran. The BBC is pleased to report that jamming ceased in May 2010. Since the aftermath of the 2009 election, the channel has continued to have a powerful role and impact for Iranian society. This was ably demonstrated when it emerged that BBC Persian TV is watched at cabinet meetings. Speaking in an interview in May 2010 after denying having watched any Persian language satellite channels, Iran's Vice-President then nuanced his response with "I have watched BBC Persian's programmes once or twice at cabinet meetings, but I do not have time for that…"

A recent highlight was an interview with Barack Obama responding to Ahmadinejad's UN General Assembly speech. A White House spokesman cited BBC Persian's "substantial viewership … radio reach … and a website that is one of the most trafficked websites in the region" making it "an effective platform to reach the Iranian audience". The interview had a massive impact on public discourse with over one million Google mentions in Persian and 54,000 Persian blog mentions, with editorial leadership shown as CNN, Sky News and CBS led with the interview.

Pakistan

The BBC has faced difficulties in recent years with the local regulator, PEMRA, in maintaining FM news broadcasts in Pakistan. A service broadcast on two networks, launched in June 2007, was disrupted and the BBC was taken off air by the regulatory authorities; the BBC subsequently challenged this in the Pakistani courts, and the situation was further complicated when the state of emergency was declared. FM news broadcasts were back on air in May 2009 with 34 stations delivering BBC Urdu bulletins. However, March 2010 saw more difficulties with PEMRA which resulted in stations being allowed to carry a maximum of three ten minute bulletins daily, now provided by the BBC to 37 stations.

Russia

BBC World Service has continued to face a number of challenges around its availability as a radio service. BBC Russian is available online, on short wave and on medium wave frequencies in Moscow, St Petersburg and Ekaterinburg but audiences are falling (we estimate that only around 0.5% of the Russian population listens to these services). Despite extensive efforts, BBC Russian continues not to be available on FM.

In response, BBC World Service has continued successfully to increase its audience via online platforms. Digital partnerships established with MSN Russian, GZT and Newstube in 2009/2010 have driven traffic to the BBC Russian website and contributed to a substantial increase in weekly unique users online from circa 337,000 in October 2009 to approximately 540,000 in September 2010.

Somalia

BBC World Service has faced considerable difficulties from al-Shabaab's activities. In April 2010, al-Shabaab confiscated BBC transmission equipment at all relay sites in southern Somalia and ordered all local FM stations to stop broadcasting BBC programmes, leading to a reliance on short wave. Al-Shabaab said it was taking this decision after observing "the impact of the BBC news which is far from reality and it exaggerates the views of the West which is geared to confuse the Muslims".

The BBC has been able to re-establish its FM presence through launching a new FM relay in Galkaacyo and though our Somali partner in Kenya, Star FM, having launched a repeater station in Mogadishu at the beginning of August 2010. In addition BBC World Service has signed a deal with Radio Shabelle, the most listened-to radio station in Mogadishu which now broadcasts all BBC Somali programmes.

Sudan

The BBC has faced difficulties in the North following the successful establishment of an FM relay in Southern Sudan with a mixed schedule of BBC Arabic and World Service English in July 2010. In August, the authorities in Northern Sudan shut down four relays—terminating the BBC's presence in the North on FM. The BBC is working with the FCO on this, and hopes for a resolution soon.

UAE

FM broadcasts in Dubai have ended this year due to unacceptably higher license costs relative to priorities. BBC World Service continues to broadcast in Abu Dhabi.

Editorial Highlights

Haiti's Earthquake—January 2010

BBC World Service launched a lifeline service within four days of the earthquake, initially in French, Spanish and English, then in Creole, to provide information about the rescue and reconstruction efforts as a key source of information to Haitians, including rescue and aid teams on the ground. It relayed updates, such as the location of a temporary hospital, water supplies and food drops. It also relied on interaction with the audience on a daily basis via emails and text messages.

Koneksyon Ayiti (Connexion Haiti) was available on satellite, online and via social media, as well as being transmitted on FM through Radio France. The earthquake had a major impact on traditional forms of communication, meaning that new and emerging media filled a crucial gap, breaking news direct from devastated areas. Much information available came via Skype and Twitter, and BBC World Service used the same tools to inform people about its lifeline programming.

Superpower—March 2010

The *Superpower* season focused on the power of the web to change the world and pushed the boundaries of experimental content with a range of collaborative content and programmes. *SuperPower Nation Day* was a remarkable multilingual, multi-platform experiment using Google translate technology. Arabic, Chinese, English, Indonesian, Persian, Portuguese and Spanish audiences communicated directly through a unique website that converted messages instantaneously into the other languages. With over twelve thousand messages in six hours, people from all over the world were brought together in a global conversation.

Metro attacks in Moscow—March 2010

When the attacks on the Moscow Metro happened in March 2010, killing at least 40 people, a coordinated response by all parts of BBC Global News gave an edge to the coverage. The BBC Russian service reacted rapidly and provided comprehensive coverage of the incident and its aftermath with the latest news, analysis and context by its journalists on location, as well as tightly integrating UGC and social media into the output. Online traffic to BBCRussian.com surged five-fold on the day of the attacks, with 393,000 unique users accessing the site and content on partner websites for its analysis and insight.

The UK's General Election—April/May 2010

The challenge for BBC Global News was presenting that election in a way that encouraged dialogue and engaged with our audiences, explaining the processes and events taking place in the UK. The language services met this challenge with a creativity and dynamism. This was partly achieved through comparative analysis, for example BBC Hindi ran a video link between London and Delhi with a British MP of Indian origin, and senior Indian politicians on the similarities and differences between the two countries elections, whilst BBC Chinese organised an online forum for a question and answer of the UK's ethnic Chinese candidates. The diasporas also formed a key link with BBC Urdu going to Bradford to look at immigration and multiculturalism, and the influence of clan politics, whilst BBC Bangla produced a video special from Bethnal Green and Bow, where the main candidates were all of Bangladeshi origin.

The UK election was BBC Global News' most read story for many days online, with over 85% in our Global Minds survey agreeing that BBC Global News coverage improved their understanding of the key issues of the UK general election and 60% of respondents agreeing they wanted to find out more about UK politics and parties as a result of the coverage.

Fifa World Cup—June/July 2010

Securing the rights for the coverage was a fantastic opportunity to explore Africa and connect with audiences there. Ten Global News language services took part in the launch of our second Google translate experiment—*World Cup Team Talk*—while a special daily multimedia show, *World Cup Have Your Say,* allowed fans to exchange views via phone calls, emails, texts and tweets. Coverage during the tournament was creative and exploratory with a range of analytical features such as *Africa Kicks*—a journey that explored West Africa's "football factory"—the region in West Africa that produces the highest number of international players, looking at the political, economic and football hopes, dreams and challenges of this region in a series of multimedia reports. This followed extensive coverage earlier in the year of the Africa Cup of Nations.

Pakistan Floods—July 2010

As the worst floods in the region's history submerged one-fifth of the country, BBC Urdu collaborated with the BBC World Service Trust to start broadcasts three times a day to provide vital information to flood victims. In many instances, officials came to know about the gravity of the situation in particular areas from our broadcasts. These *Lifeline Pakistan* broadcasts proved so popular that when we planned to end them after one month, several government officials, ministers and aid agencies requested us to continue them as a result of which we are still on air.

Chilean Miners—October 2010

The Chilean miners' rescue was a recent demonstration of how local audiences turn to the World Service as a point of reference whilst powerful events unfold—BBC Mundo's audiences on radio and mobile nearly doubled, with editorial leadership demonstrated by use of content in the main Spanish speaking media including the main newspaper in Chile using BBC Mundo's live text of the rescue.

Finance

Operating performance 2009–10

BBC World Service continued its work in delivering cost savings in order to meet its targets and cover rising costs. The organisation delivered over £6 million of operating savings in the last financial year, and consequently £6 million of restructuring charges were incurred, partly due to the restructuring of the senior management team which will deliver benefits commencing in 2010–11. These savings also helped the World Service to cope with the impact of the economic downturn.

The weaker pound increased costs both for international offices and on several international support contracts. However, the cost increase was partly mitigated by lower inflation in the UK which enabled savings to be made on staff costs and on contracts linked to RPI in the UK.

Capital

Capital expenditure was spread across a range of projects, the largest being the project to move BBC World Service to the W1 development in central London as part of the BBC's new journalism centre. The move is planned for 2012 and the substantial capital commitment involved will continue to dominate capital expenditure up to that date.

The project to re-engineer the transmitter station and power facilities on Ascension Island is making good progress and will secure transmissions to West Africa over the years ahead.

Independent Auditors, KPMG, reported to the BBC Executive Board that BBC World Service financial statements for the financial year ended on 31 March 2010 gave a true and fair view of its affairs.

Reduction in baseline figure

Under the 2007 CSR settlement with the Government, funding for 2009–10 was set at £272 (£241 million operating and £31 million capital). The baseline figure was subsequently reduced by £3.3 million as a result of the 2009 Budget, and reduced again by a further £7.6 million as a result of savings announced by the new Government earlier this year (although this was partly mitigated by provision of £5.2 million one-off funding for the current year). This means that the BBC World Service baseline has been cut by £10.9 million since the original settlement agreed in 2007, prior to the HMG's CSR announcement on 20 October this year. The 2009 cuts led to the cancellation and deferment of some projects, but this did not have a material adverse impact on existing operations.

For the current financial year 2010–11, funding has been reduced to £266 million (£235 million operating and £31 million capital). The World Service is managing this reduction through the acceleration of savings plans and the deferral of projects. This has included a number of changes to the English schedule, announced in September 2010, which will result in the ending of regular drama output, and a reduction in music and sport output.

Unprecedented pressure on public spending, uncertainty over pension costs and exchange rates continue to make for a challenging environment, and will require careful planning over the coming months, throughout which delivering value to audiences and value for money to UK taxpayers will be at the forefront. Details of the CSR 2010 settlement and possible repercussions are set out below in Part 2.

Part 2: CSR 2010 Settlement

Funding for BBC World Service and BBC Monitoring was set out as part of the Government's Comprehensive Spending Review (2011–12 to 2014–15) announcement on 20 October.

In addition, the Government announced that BBC World Service and BBC Monitoring would be financed from the UK Television Licence Fee, rather than directly by Government, from 2014–15 for BBC World Service, and from 2013–14 for BBC Monitoring. Until very recently, the BBC was working on the basis that the CSR settlement would affect funding for BBC World Service and BBC Monitoring only, but it is now clear that this is a fundamental change for the BBC as a whole.

As part of the agreement the Licence Fee period was extended to the end of the Royal Charter in six years time—December 2016. This agreement gives the BBC financial and political stability—with no further debate about the future of the Licence Fee in that period.

BBC World Service funding settlement and its implications

BBC World Service has received formal notification from the Foreign Office confirming an overall 16% real terms reduction in funding over the four years of the settlement. Although this settlement compares well to similar publicly-funded organisations, the World Service faces other financial pressures such as the extra costs of the BBC's pension deficit, so the impact will be greater, and there will be some difficult choices ahead.

The World Service Board will now spend time looking carefully at the detail of the World Service funding settlement. Existing plans will need to be revised, including those for investments in new services for Pakistan and Afghanistan, and the necessary approvals to make changes will need to be obtained. However, the intention is to make an announcement about World Service savings for the next financial year by the end of November 2010.

The figures are as follows:

Year	*GiA Operating £m*	*GiA Capital £m*
2010–11 (current period)	235	31
CSR 2011–12 to 2014–15		
2011–12	231	22
2012–13	226	16
2013–14	222	16
2014–15 (transfer to Licence Fee)	212	15

Over and above the 16% real terms cut, BBC World Service has to deal with a number of other exceptional cost pressures. The biggest of these by far is the cost of employer contributions to the BBC pension deficit. While the recently announced changes to the BBC pension scheme will reduce the size of the deficit and the cost of ongoing contributions significantly, the World Service's share of the anticipated rise in pension costs is still expected to be somewhere in the range of £11 million to £18 million per annum (possibly £15 million).

During financial year 2011–12, largely as a result of the extra pension contribution, our current model suggests that BBC World Service must deliver savings of approximately £24 million. The following year we expect to need to find £13 million savings, the year after £12 million, and in the last year £18 million—**giving a total of approximately £67 million savings over the four years**—although this figure may be lower, or higher, when the outcome of the pension valuation and other cost pressures are clarified. This means that we expect to need to save more than 25% of current costs.

Every part of the World Service will make a significant contribution, but it is not possible to save this amount of money just by "salami slicing". An exercise involving staff in shaping strategy called *World Service Choices* took place last year, and BBC World Service will be drawing on some of these ideas in its planning.

Some of the proposals under consideration include: cutting further programmes from the English schedule, reducing short wave distribution significantly and cutting the radio output of some services where audiences are too low to justify continued production at current levels. It is possible that we will also need to close some language services, although it is not possible at the time of writing to say how many services will close or which ones they will be. These changes need to be approved by the BBC Trust and language service closures specifically need approval from the Foreign Secretary.

However, this alone will not be enough to allow BBC World Service to reach its savings target of £67m. Further steps towards multimedia and multilingual journalism will need to be taken, emphasising the vital importance of collaboration, and the need to consider all audiences all of the time. We will reinforce our networks of journalism—inside the BBC and outside with our partners. Huge steps have already been taken towards further integration within Global News and as part of the BBC's journalism community.

The move in 2012 to W1—the BBC's multimedia news centre at Broadcasting House—will help maximise the impact and cost-effectiveness of our news operation. By tapping into joint resources, we can exploit that opportunity, organising ourselves efficiently and flexibly. There will be opportunities to invent new ways of working that will deliver enormous efficiencies as well as creative benefits.

A recent example of the benefits of the greater levels of collaboration we have been encouraging was when in September, President Obama chose to give an interview to BBC Persian because of its impact. Persian TV could not have done it without close collaboration with BBC Newsgathering. BBC World Service was, in turn, able to share an exclusive interview with the rest of the BBC, for UK and international audiences alike. This kind of editorial collaboration and reliance on shared content production to serve our audiences helps deliver efficiency.

Training and development programmes will focus on equipping members of new multimedia, multilingual teams to work in new ways. Further details of these new joint units will be announced later in November.

BBC World Service's key advantage for its audiences is its uniquely global perspective. We will work to improve on how we deliver that—with the stories our audiences most want in the key genres—business, health, sport, technology and more.

BBC Monitoring funding settlement

BBC Monitoring's funding will decrease by 6.5% in cash terms for each of the two years before BBCM transfers into the Licence Fee in 2013–14—a total cut of 18% in real terms. This means that the contribution from the Cabinet Office will fall from £23.2 million this year to £20.2 million in 2012–13. However, BBCM faces additional employers' pension costs (as does the wider organisation)—to fund its share of the deficit—

of around £2.5 million to £4 million a year. So, in the worse case scenario, BBCM would need to make cuts of nearly £7 million a year.

Given the scale of this, the potential impact on BBCM's capabilities and the costs of restructuring, BBCM's Executive Direction Team, will be working through the implications with BBCM's government stakeholders and other organisations, including the BBC.

This presents some extremely tough challenges, but we will be working hard to reach a conclusion recognising the role BBCM has, both as part of the BBC's journalism family, and as a valued provider of open source information to governments and other organisations around the world.

Licence Fee funding

The BBC-wide settlement with the Government gives the whole organisation clarity and stability in its funding for the next six years. This financial stability is hugely important, especially having clarity for six years.

In addition, the move away from direct government funding will reinforce further BBC World Service's reputation for independence. While the BBC has always had editorial control of the World Service, there is now an increased clarity about the World Service's independence from Government agendas. Overseas audiences will know that the services provided are funded directly by the British public, fully independent of commercial or political agendas.

The BBC Trust Chairman has said that "the new arrangements will ensure that the World Service remains a vibrant, independent service that brings impartial news to people around the world, while strengthening the BBC's ability to bring international news to UK Licence Fee payers".

The BBC and the Foreign Office will continue to work together to ensure appropriate governance arrangements are in place once the transfer to Licence Fee funding has taken place.

The following commitments concerning BBC World Service form the basis of the Government's new Agreement with the BBC Trust:

- The Government will continue to fund World Service at CSR-agreed levels for 2011–12, 2012–13 and 2013–14. The BBC will be allowed to fund any World Service restructuring costs, at its discretion, during this period. The World Service will become part of the licence fee funded BBC from 2014–15.
- The BBC Trust sets the overall strategic direction of the BBC including the World Service.
- The BBC is independent in all matters concerning the content of World Service output, the times and manner in which this is supplied and in the management of its affairs. The BBC's Editorial Guidelines, Values and Standards are set by the BBC Trust and apply to the BBC World Service.
- The BBC will continue as now to set the objectives, priorities and targets for the BBC World Service with the Foreign Secretary and to obtain the written approval of the Foreign Secretary for the opening or closure of any language service.
- After extracting an efficiency dividend, the BBC will commit to providing sufficient investment in World Service to support its current plans for the period.

BBC World Service will be strengthened by its ability to draw on the full resources of the BBC, one of the world's leading news operations, without being constrained by the barriers that have been required by separate funding sources. The BBC has committed to providing sufficient investment in the World Service to support its current plans, while also ensuring that efficiencies from the new funding model are fully extracted. The principle that the BBC is independent in all matters concerning the output of the World Service and the management of its affairs is enshrined in the agreement with Government.

The BBC's fifth public purpose is "to bring the UK to the world and the world to the UK" and the provision of impartial, independent news of high quality is at the heart of this global mission. Through this the BBC can strengthen the UK's global reputation, enhance the UK's relevance in the world's most rapidly developing markets and bring unbiased information where it is needed most. BBC World Service already operates as an integral part of the BBC's worldwide newsgathering and production operation. While the BBC has not always funded the World Service, it has always been obliged to offer global news.

Licence Fee payers can already access and benefit from a number of the services provided by World Service in the UK. For example the English radio service is available on DAB, digital, satellite and cable TV and online and all the foreign language websites are available in the UK, which also provide access to all language radio programmes live, with many on demand. Through these means Licence Fee payers are able to access a deeper range of international news.

The identity and heritage of BBC World Service and its commitment to international audiences will remain intact, but its passion for its audiences, its programmes and its values—will play on the widest possible stage—for the UK and for the whole world.

27 October 2010

Supplementary written evidence from Peter Horrocks, Director, BBC World Service

During my recent appearance at the FAC to offer evidence on behalf of BBC World Service, a member of the Committee asked me about details of the Spending Review settlement with respect to a letter that had been received by the Committee from the Foreign Secretary. I had not seen that letter, and so wish to clarify my response in the light of this new information.

The FCO's Overall Settlement

In his Spending Review announcement to Parliament, the Chancellor of the Exchequer made the following announcement with respect to the FCO:

> "Our international influence and commitment to the world are not determined only by our military capabilities; our diplomacy and development policy matter too. Savings of 24% in the Foreign and Commonwealth Office budget will be achieved over the review period by a sharp reduction in the number of Whitehall-based diplomats and back-office functions."

The Foreign Secretary's letter to you states that "Taking account of the transfer of BBC World Service funding to the BBC in 2014–15, our baseline falls by 24% overall". His letter also says that there is a 10% real reduction in funding for the FCO "family" by 2014–15. It is not immediately clear from these statements and the figures that have been published what the impact of the transfer of World Service to the licence fee from 2014–15 will be on the FCO's own budget. However the Treasury press notices on the Spending Review state that "once the additional resources from the BBC are taken into account the rest of the FCO budget will only fall by 10% over the period." (http://cdn.hm-treasury.gov.uk/sr2010_pressnotices.pdf)

BBC World Service's Own Settlement

World Service has been allocated a 16% real terms reduction in its funding in the Spending Review settlement. However, as I explained in my evidence, World Service faces a number of unavoidable, identified cost pressures which will have a significantly greater impact than this headline reduction suggests.

Sir John Stanley asked me in my evidence whether or not these costs, and specifically the extra costs associated with the BBC's pensions deficit, were provided for in the settlement. As I said, the settlement does acknowledge the impact of the BBC-wide pensions deficit on World Service. However our increased pensions contributions, and any other cost increases, must be funded within the published budget, which is scheduled to fall by 16% over four years. There is no additional funding for any costs outside that settlement. When unavoidable cost increases are taken into account the like-for-like savings which need to be made in our existing and ongoing services is more than 25% by 2014–15. We should also remember that these percentage reductions are calculated on a baseline which is £7.6 million lower than World Service's budgeted spend for 2010–11, because of the post-election cuts to our budget requested by the new government. It is on this basis that I said we cannot continue to do everything, and why there will be reductions in services and substantial job losses.

Because of the high proportion of staff costs in our cost base, achieving these savings will have significant restructuring and redundancy costs. These must also be met within the settlement.

In the new BBC Licence Fee agreement, struck at the same time as the Comprehensive Spending Review announcements, the DCMS-BBC Trust exchange of letters states that "The Government will continue to fund the World Service at CSR agreed levels for 2011–12, 2012–13 and 2013–14. The BBC will be allowed to fund any World Service restructuring costs, at its discretion, during this period. The World Service will become part of the Licence Fee funded BBC from 2014–15".

I hope this clarifies the issues for the Committee.

Conclusion

The respective impacts on the various parts of the FCO family are important considerations in assessing the ability of the various organisations to sustain Britain's global presence. The BBC welcomes the Committee's investigations and deliberation in this matter.

If you require any further explanation or clarification, please do not hesitate to ask.

22 November 2010

Further supplementary evidence from BBC World Service

FURTHER INFORMATION ON BBC URDU DISTRIBUTION PROBLEMS IN PAKISTAN

From May 2009 BBC Urdu was providing five minute news bulletins throughout the day to 34 FM stations around the country, and latterly it also provided the well known and influential BBC Urdu programme, *Sairbeen*, which went out for half hour in the evening. Not long after the addition of *Sairbeen* to some of our partners' airwaves, they were asked to remove all BBC programming, as they were running it "without permission".

Apart from the necessity of gaining such permission being questionable in itself, these radio stations had been running BBC news without interference for several months after the verdict of the Sindh High Court and the public verbal endorsement of the then Minister of Information (Sherry Rehman), which enabled BBC Urdu to go back on air following earlier disruption to the service in 2008.

Various BBC journalists and executives then sought and had innumerable conversations with PEMRA (the regulator), the Ministry of Information, including the Minister himself, and other influential figures in Pakistan, who each professed to have no problem with the BBC. However, for some months no "permission" was issued by PEMRA for stations to run BBC. So whilst permission was not denied, it was witheld. Finally all partners were given permission by PEMRA to run only three bulletins (as opposed to bulletins throughout the day). Again the BBC has questioned the basis for allowing only three bulletins, but no answer has been forthcoming. Currently the BBC is providing 3 x 10 min news programmes to 37 stations with about six more in the pipeline.

22 November 2010

Letter to the Chair of the Committee from Martin Davidson, Chief Executive, British Council

The spending review settlement announced today will secure the British Council's global network and our cultural relations impact throughout the spending review period.

The outcome of the spending review has confirmed the value of the British Council's cultural relations work as a major contributor to the UK's international relations. Throughout the spending review we have been clear that we would play our part in helping to reduce the UK's public spending deficit. I believe that today's announcement that our grant will reduce from £180.9 million to £149 million by 2014 is a reasonable settlement. This ring fenced funding represents a cut of 17%, which (with inflation) amounts to a real cut in the region of 25%. Our core grant funding is assured for the next four years.

The FCO has informed us that our grant is as follows:

Financial year	*Grant funding*
2010–11 baseline	£180.9
2011–12	£173m
2012–13	£165m
2013–14	£157m
2014–15	£149m

In addition, the Foreign Secretary has made it clear that we will remain a Non-Departmental Public Body sponsored by the FCO.

We will have to make some difficult choices as we decide on our plans for the next four years but we intend to build a robust future for the British Council using the best of the UK's cultural and educational resources to build opportunity and trust for the UK worldwide. Out of this will come ambitious plans to focus on our work in English, the arts and education, including developing and growing alternative sources of income.

I am confident that our work in the emerging markets, such as India and China, and in countries where the UK is less trusted, will continue to strengthen the prosperity and security of the UK and the countries where we work.

20 October 2010

Written evidence from the British Council

The past year saw the British Council work directly with over 18 million people, using the UK's most attractive assets—English, education and the arts—to create connections for Britain. In doing so, we continued to increase our global impact and our value to the UK taxpayer.

Highlights for 2009–10 include:

- attracting 230,000 visitors to the Turner from the Tate exhibition in China and 5 million visits to the exhibition website;
- connecting 2.2 million young people through our school-linking programmes;
- improving physical education for six million young people in 15 countries through International Inspiration—the International Legacy programme for the 2012 Games;
- teaching English to almost 300,000 students and delivering UK examinations to 1.5 million people—earning income of £306 million (up 16% from 2008–09) and generating £45 million in exports for UK exam boards;
- developing new free and low-cost English-teaching programmes in India including training programmes for over 2,000 master trainers and 500,000 teachers in Andra Pradesh, Delhi, Karnataka, Kerala, Madras, Tamil Nadu, West Bengal and Sri Lanka; and
- leveraging £2.50 from customers and partners for every £1 of Government grant (up 13% from 2008–09).

As we've done this we've initiated the largest staff restructure in our organisation's history, reducing our UK staff by more than 30%.

1. Working with the UK's Most Attractive Assets—In the Markets that Matter

Our programmes and projects use the country's most attractive assets—its culture, education and language—to create competitive advantage for the UK in the markets that matter.

English

- We taught **English** to nearly **300,000 learners** in **48 countries**, and delivered **2 million** exams to 1.5 million individuals worldwide.
- We successfully launched low-cost teaching centres in **Chennai**, **Kolkata** and **Hyderabad** reaching 4,500 learners.
- We launched seven new mobile phone applications, downloaded by **135,000 learners**. **10.3 million** unique visitors accessed our free global learner websites (including Arabic and Chinese language versions) and **3.1 million** visitors accessed our global teacher websites, downloading material that will reach **21 million students**.
- We manage **Accreditation UK**, the quality assurance scheme for UK-based English-language teaching covering over 500 institutions.

Education

- **Connecting Classrooms**, our school-linking programme, supported 4,800 schools partnership and directly involved **870,000 young people** in **Africa**, **Asia**, Latin **America** and the **Middle East**.
- **Skills for Employability,** a global programme that uses UK expertise in vocational training to improve skills programmes around the world, worked in **45 countries**—including Bangladesh, China, India, Indonesia, Pakistan, Turkey and Yemen.
- In **Higher Education**, we support the Government's strategy to increase international opportunities for UK Higher Education institutions. Through this work, we helped attract more than 400,000 international students to the UK who contribute more than £8 billion to the UK economy.

The Arts

- The British Council created the cultural programme for the hugely successful **British Pavilion** at the **Shanghai World Expo**. Over **seven million people** visited the UK Pavilion. Its innovative design, by Thomas Heatherwick, showcased the UK's creativity and received critical acclaim.
- **Connections through Culture India** supports performances by artists and arts organisations in the UK and India including: an Indian tour by UK theatre company Complicite (covered on prime-time nationwide television); a new partnership to bring the Hay Festival to Kerala; and, from November 2010, Anish Kapoor's first exhibition in India.
- **International Inspiration**, the London 2012 international sporting legacy programme, uses the power and appeal of UK sport to enrich the lives of children worldwide. International Inspiration led the Brazilian Government to create a national scheme for extra-curricular sport and educational activity drawing on UK experience. The Brazilian programme, called Segundo Tempo, brings high-quality physical education to millions of children from Brazil's most disadvantaged communities.

2. British Council Around the World—Building Understanding and Trust for the UK

Our network builds connections for Britain in countries where the UK divides opinion and where there are opportunities for UK culture, education and English language to provide Official Development Assistance.

English

- In **Afghanistan** we broadcast a series of radio and TV programes for teachers of English who live in remote areas. Using mobile phone networks, in addition to traditional radio/TV broadcasts, we expect to provide all 48,000 teachers of English in Afghanistan with British Council materials by the end of 2010–11.
- In **Iran** we have developed a series of English-language television programmes for young adults which will be broadcast on BBC Persian later this year and give them an insight into life in the UK.
- In **Rwanda** we are supporting the Government's decision to adopt English as the language of instruction. To date we have trained over 44,000 teachers. To support this work, and in recognition of Rwanda's Commonwealth membership, we opened premises in Kigali.

Education

- In **Iraq** we are working with UNICEF and the Ministry of Education to improve teaching. Through a project covering standard-setting, skills development, leadership and management we will support almost 3,000 teachers and reach over 150,000 children by 2011–12.
- In **Burma**, in partnership with the FCO and the Open University, we delivered Open University courses in social studies to 40 civil society activists helping them move to become effective catalysts for positive social change. In addition we offer uncensored access to the internet and attracted 230,000 people to our libraries last year.
- In **Zimbabwe**, 76,000 people visited British Council libraries in Harare and Bulawayo. These are vital sources of information and study materials for young professionals. We supported Zimbabwe's universities using funds provided by the Department for International Development to establish six capacity-building links with UK counterparts. More are planned for the current year.

The Arts

- In **Iraq**, we supported the development of the country's first **National Youth Orchestra**. In 2009, its first summer school included 33 Iraqi musicians from across the country.
- In **Pakistan**, we helped establish the **Karachi Literature Festival**, in partnership with Oxford University Press, bringing British writers to Pakistan and providing a platform for contemporary writers in Pakistan.

3. Looking Ahead

The UK Government announced its four-year Spending Review in October. The British Council received a 17% cash cut, or a 26% real terms cut, over the four-year period, reducing our Grant-in-Aid funding to £149 million by 2014–15. While the reduction presents challenges for us we understand the need to play our part in helping to reduce the UK's public spending deficit.

We initiated a voluntary redundancy programme in 2009–10. This will see a reduction in UK posts by 500, equivalent to a third of the UK workforce, delivering annual savings of £12 million. Total planned changes to our corporate support services and UK operations will deliver savings—in the UK alone—of £85 million by the end of 2013–14.

The Spending Review settlement ring-fences our core grant funding for the next four years. It allows us to maintain substantially our global network and global cultural relations impact for the UK. In addition, the Foreign Secretary made clear that we will remain a Non-Departmental Public Body sponsored by the FCO.

We will have to make some difficult choices as we decide our plans for the next four years, but we intend to build a robust future for the British Council using the best of the UK's cultural and educational resources to build opportunity and trust for the UK worldwide.

27 October 2010

Supplementary written evidence from the British Council

Our records showed that 825 people were employed in the UK on permanent contracts. This figure was based on a snap-shot of staff in all UK locations, as at September 2010, details as follows:

Location	*Total*
London (Spring Gardens):	452
Manchester (Bridgewater House):	263
Scotland (Edinburgh):	44
Northern Ireland (Belfast):	33
Wales (Cardiff):	31
London (Visual Arts Workshop—Telford Way):	2
Grand Total:	**825**

*Temporary staff were not included in this figure. A number of staff left the British Council at the end of October, under our voluntary early retirement and early severance scheme.

8 November 2010

Written evidence from Dr Chris Westcott, Director BBC Monitoring

BBC Monitoring: Announcement of Spending Cuts in Response to the Outcome of the October 2010 Comprehensive Spending Review

I am writing to let you know that BBC Monitoring is today announcing spending cuts and proposed post closures in response to the decision by the Cabinet Office, following last October's HM Government Comprehensive Spending Review, to cut £3 million per annum (18%) over two years from BBC Monitoring's grant of £23.2 million per annum. This follows a cut of £1.4 million by the Cabinet Office in April 2010.

In announcing the cuts to staff today, I will be saying that regrettably service cuts and post closures are inevitable given the scale of the cut in funding from the Cabinet Office and that we are now beginning a period of consultation with staff on our proposals.

BBC Monitoring proposes to cut £3 million per annum from its costs by closing 72 posts—about 16%. 18 new posts would be created.

BBC MONITORING FUNDING FROM THE CABINET OFFICE

FY 09/10	*FY 10/11*	*FY 11/12*	*FY 12/13*
£24.6 million	£23.2 million	£21.7 million	£20.2 million

* Under the terms of the new BBC Licence Fee Agreement, BBC Monitoring will be funded by the licence fee from FY 13/14. Until then, the Agreement states that "The Government will continue to fund BBC Monitoring at CSR-agreed levels for 2011–12 and 2012–13"

BBC Monitoring: Role and Value

BBC Monitoring supplies news, information, and comment gathered from open mass media sources around the world. It operates around the clock to monitor more than 3,000 radio, TV, press, internet and news agency sources. It then selects vital information; translating it into English from up to 100 languages from 150 countries, and delivering it online for immediacy and ease of access.

This extensive and growing range of sources enables BBC Monitoring to provide distinctive, authoritative and reliable information and analysis to its Stakeholders (the Cabinet Office, the Ministry of Defence, SIS, GCHQ, Security Service, Foreign and Commonwealth Office and BBC World Service) and customers including media organisations, universities, governments, embassies, multinational companies and charities around the world.

BBC Monitoring: Impact of the Spending Cuts

The cuts to editorial output have been designed to protect coverage of BBC Monitoring's top geographical and thematic priorities, such as Afghanistan, Iran, Russia, the Arab world, counter-terrorism and proliferation. However, there will undeniably be a significant impact on editorial output on lower priority countriesand themes, and the resilience, adaptability and responsiveness of BBC Monitoring's editorial operations.

The biggest impacts will be on coverage of Asia-Pacific, Western Europe and the Balkans, where BBC Monitoring's entire UK-based capability would be lost, to be partially replaced by a reduced international resource. BBC Monitoring will close its Belgrade office and reduce the number of staff in Nairobi. It will also be reducing staffing dedicated to reporting on international media developments, lower priority themes and media reaction to major news events.

BBC Monitoring is clear that it needs to continue to deliver quality services to all our Stakeholders and customers. Our aim is to maintain BBC Monitoring as a going concern; maintain its global capability; minimise the impact on our priority services; and continue to invest for the future.

Parliamentarians and their researchers have access to BBC Monitoring's products and services through the Library pages on the Parliamentary Intranet.

17January 2011

Email from Nick Raviden, PCS Negotiations Officer to Mike Gapes MP

I wrote to you previously when you were chair of the Foreign Affairs Select Committee to outline the concerns PCS had on behalf of our members working in the FCO, in particular the impact of the localisation of jobs currently performed by UK diplomats around the world, and also the relatively high levels of harassment and bullying reported by staff, particularly those from an ethnic minority background.

I note that the select committee is holding an Oral Evidence Session on Wednesday 24 November.

While PCS has not made any further formal submissions to the committee since our previous correspondence, I thought that ahead of the evidence session this week, you might appreciate an update on the issues we previously highlighted to the committee.

Localisation of Posts

The committee's report published earlier this year highlighted concerns that the continuing localisation of jobs may restrict the opportunities for UK based staff to serve overseas and that this could damage the FCO's policy knowledge and capability. At the time the report was published the FCO had just announced plans to localise over 100 management officer posts around the world.

Since then, this Summer the FCO announced another 30 posts to be localised. These posts were mainly admin jobs, often Personal Secretaries and PA's to ambassadors and Heads of Mission.

After the recent spending review announcement the FCO has made it clear that intends to localise even more jobs in order to make further savings.

PCS is very concerned there is going to be even more localisation of posts without a proper assessment of the impact of the most recent localisation programme. Many of those posts have yet to be localised so the impact of the change is not known.

We do know that there are now fewer and fewer posts overseas for UK based staff. This is causing morale problems for staff, who joined the Diplomatic Service on the basis that they would spend the majority of their career overseas.

We also have a situation now where more junior posts overseas are fast disappearing. Traditionally this was a good method to allow younger recruits to get some experience of living and working overseas before going onto more senior postings. Increasingly the first posting for staff is now at a more senior level without having first gained the valuable experience of an overseas posting at a more junior level.

Another problem of having fewer and fewer UK based staff overseas, is that those that remain are having to take on a much bigger workload. This is because there are many tasks at post that only UK staff can perform for security reasons. Many of those tasks were carried out by Management Officers. These jobs are now falling onto Deputy or even Heads of Mission at some posts, who should be concentrating on more high level diplomatic issues. This is undermining the resilience of overseas posts.

We continue to have security concerns over the localising of posts in some parts of the world. This has been highlighted by the recent difficulties of locally engaged staff in Tehran. In the most recent round of posts to be localised it is proposed that PA's to the ambassador's in and should be localised. These are countries with a high risk of espionage, and we are concerned that sufficient weight is not being given to security considerations when decisions are made on where to localise staff.

The main driver behind localisation is clearly costs. While we believe the damage this causes to the capability of the UK Diplomatic Service far outweighs any cost savings, we are not even sure localisation saves as much money as the FCO claim. Two years ago they said it would save £14 million a year, last tear that was down to £12.5 million a year and the figure now quoted is around £10 million. This suggests the savings are not as big as first thought.

I hope you might find this information useful ahead of the evidence session on Wednesday, and if you wish I would happy to meet up and discuss at a later date in more detail the concerns of our members in the FCO.

22 November 2010

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