



House of Commons  
Foreign Affairs Committee

---

**The FCO's  
Departmental Annual  
Report 2010–11:  
Responses from the  
BBC Trust and the  
British Council to the  
Committee's Eleventh  
Report of Session  
2010–12**

---

**First Special Report of  
Session 2012–13**

*Ordered by the House of Commons  
to be printed 16 July 2012*

**HC 530**  
Published on 20 July 2012  
by authority of the House of Commons  
London: The Stationery Office Limited  
£0.00

## 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.

### Current membership

Richard Ottaway (*Conservative, Croydon South*) (*Chair*)  
Rt Hon Bob Ainsworth (*Labour, Coventry North East*)  
Mr John Baron (*Conservative, Basildon and Billericay*)  
Rt Hon Sir Menzies Campbell (*Liberal Democrat, North East Fife*)  
Rt Hon Ann Clwyd (*Labour, Cynon Valley*)  
Mike Gapes (*Labour/Co-op, Ilford South*)  
Mark Hendrick (*Labour/Co-op, Preston*)  
Andrew Rosindell (*Conservative, Romford*)  
Mr Frank Roy (*Labour, Motherwell and Wishaw*)  
Rt Hon Sir John Stanley (*Conservative, Tonbridge and Malling*)  
Rory Stewart (*Conservative, Penrith and The Border*)

The following Members were also members of the Committee during the parliament:

Emma Reynolds (*Labour, Wolverhampton North East*)  
Mr Dave Watts (*Labour, St Helens North*)

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including news items) are on the internet at [www.parliament.uk/facom](http://www.parliament.uk/facom). A list of Reports of the Committee in the present Parliament is at the front of this volume.

The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume.

### Committee staff

The current staff of the Committee are Mr Kenneth Fox (Clerk), Mr Philip Aylett (Second Clerk), Adèle Brown (Committee Specialist), Dr Brigid Fowler (Committee Specialist), Ms Zoe Oliver-Watts (Committee Specialist), Mr Richard Dawson (Senior Committee Assistant), Jacqueline Cooksey (Committee Assistant), Vanessa Hallinan (Committee Assistant), and Mr Alex Paterson (Media Officer).

### Contacts

All correspondence should be addressed to the Clerk of the Foreign Affairs Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 6394; the Committee's email address is [foraffcom@parliament.uk](mailto:foraffcom@parliament.uk)

## Special Report

---

The Foreign Affairs Committee published its Eleventh Report of Session 2010–12, on the FCO's Departmental Annual Report 2010–11, on 13 April 2012, as House of Commons Paper HC 1618. The Government response to this report was published on 13 June 2012 as a Command Paper (Cm 8360). Responses from the British Council and from the BBC Trust were received on 6 June and 21 June 2012 respectively. These responses are appended below.

### British Council response

---

**(Recommendation 14) In last year's Report we concluded that the SR2010 financial settlement would put the British Council's budget under "great strain" and "may well trigger some fundamental rethinking of the role and work of the Council". One year later, we conclude that this is indeed the case. The planned reductions in the Council's presence in the developed world have been directly attributed to a reduction in the FCO's grant-in-aid and the wider changes announced by the British Council in response to the sharply reduced grant-in particular the much greater emphasis on commercial activity-will lead to the British Council becoming a substantially different organisation by the end of the Spending Review period. (Paragraph 62)**

**(Recommendation 15) We stated last year that SR2010 posed a significant challenge to the British Council and we are pleased to see this challenge tackled and a plan put in place to adapt to a change in financial circumstances. However, we remain concerned that such an emphasis on commercial activity will detract from the British Council's primary purpose to "build engagement and trust for the UK through the exchange of knowledge and ideas between people worldwide". We accept that in many ways commercialisation of the British Council is unavoidable and driven by decisions made by central Government, but nevertheless we remind the British Council that it must place its primary purpose at the core of all its activity, commercial or otherwise, and must not become predominantly an international English language school rather than a promoter of the UK's reputation, culture and influence. (Paragraph 63)**

We appreciate the Committee's consideration of the significant challenges the British Council faces over the spending review period, in particular the implications of the 26% real terms cut in our grant-in-aid funding and our response to the challenge this presents. As the Committee acknowledges we have taken difficult decisions in the light of our spending review settlement. We have implemented detailed plans to address the reduction in Government funding through a combination of efficiency savings and an increased focus on growing our self-generated income. All of the steps we have taken have one purpose – to enable us to maximise the benefits to the UK arising from our work and fulfil our responsibilities as the UK's international cultural relations body.

We remain committed to our core mission as set out in our Royal Charter. However, the days when we could rely on Government funding to provide all of the resources necessary to deliver our mission are long gone. In order to continue to deliver a high level of influence and opportunity for the UK, the British Council has had to become more

entrepreneurial, pursuing business opportunities and partnerships as funding from Government has declined. We have adopted a mixed economy model, similar to many other cultural and educational organisations faced with the same budgetary pressures.

In 2010-11, our FCO grant formed 27% of our turnover - £190 million out of a turnover of £693 million. By 2014-15 our FCO grant will be £154 million out of a planned turnover of £969 million which means it will be less than 16% of our total income.

The Committee has paid particular attention to our English language teaching work. The promotion of English has been a core objective of the British Council since our foundation. English has a key role to play in fostering connections and trust to the UK, as well as supporting opportunities and development in the countries where we work. Recent research by IpsosMori on behalf of the British Council has identified English language skills as being associated with a greater interest among people in visiting, studying in or doing business with the UK.

Demand for English is greater than ever before – the prosperity of emerging economies depend on people having the language skills needed to access global markets. Our offer includes the traditional classroom-based teaching which the Committee will be familiar with from visits to our operations overseas but this is only one plank of our English strategy. The other areas of our work are to provide training and professional development for teachers of English; work with Education Ministries around the globe to support policy development and the improvement in the quality of teaching in public education systems; offer language and intercultural training for business people; support an extensive digital offer to enable widespread opportunities to learn English, including online courses, pod casts, apps for mobile phones and social networking; and produce educational programmes for print and for television and radio broadcast; provide teaching materials.

Our business is growing in response to this demand. Last year, we taught 294,000 learners in our teaching centre classes. By 2015 we aim to be teaching 500,000 learners, generating an income of £240 million of which £30 million will be a surplus that can be invested to support our English language teaching work as well as our other cultural relations programmes in the arts, education and society. Last year we also supported almost 5 million English teachers around the world and reached nearly 100 million students via broadcasts, print or digital English teaching, at no cost to the taxpayer. We delivered 2.5 million UK exams, generating £50m in export earnings for UK exam boards. Our work with Education Ministries is delivering significant benefits, for example the 500,000 teachers we have trained in India.

In addition to income generated from our English and exams work, we also increasingly attract major corporate partners in support of our work. For example, we are working with Microsoft to build 80 digital hubs at schools across Kenya, Tanzania, Uganda, Ethiopia, Ghana and Nigeria. The hubs are used for teaching and learning during the day, and by the wider community for skills training after hours. The project expects to train over 20,000 school leaders and teachers, and provide over 100,000 learners and communities with digital access, while promoting literacy throughout the region. It is because we have a strong track record, presence on the ground and our own resources to invest that we are able to lever funds from partner organisations. The digital hubs project has been made possible by the British Council and Microsoft each investing \$1 million.

Further examples include 12 countries across the Middle East and North Africa, where we are working with HSBC to improve the teaching of reading skills at primary level. HSBC has invested over \$500,000 per annum for the last two years to develop the English language and reading training skills of thousands of school teachers, while expanding the contemporary fiction sections of school libraries – impacting on 25,000 students. We are also working with Tullow Oil in sub-Saharan Africa and South Asia to strengthen the capacity of higher and vocational institutions, while reducing the skills gap in oil and gas and other service industries. The British Council facilitates policy discussions to support sector and community development plans, and administers an academic scholarship scheme worth £9m for 244 scholars over the next two years which Tullow Oil is fully funding. By working in partnership with Tullow Oil we are able to deliver a programme at a scale that meets the aspirations of Ministries of Energy across West Africa, and delivers significant benefit to UK universities.

The cuts in our grant-in-aid funding presented us with the choice of either managing the decline in the scale and reach of our work or growing our self-generated income to maintain and expand the trust we build for the UK. We have chosen the latter course. This will necessitate us changing in many ways. We are adopting new models for the delivery of our programmes to improve our efficiency and provide best value to the UK taxpayer and the users of our services. We are focussing on working with partners both to share costs and risk but also to be more ambitious and creative in our programmes. We are also increasing our work in areas such as English teaching which are self-financing and also generate surpluses to invest in wider cultural relations work. Nevertheless the charitable purposes set out in our Royal Charter - to use the UK's great cultural assets in the arts, English, education and society to promote trust in the UK - is paramount in everything we do. We do not and will not pursue income generation alone. Everything we do must support our core purpose as well as, where possible, generate income to support the rest of our work.

## BBC Trust response

---

**(Recommendation 2) Given the lack of detailed plans available for scrutiny we do not at this time pass further comment on the overall strategy pursued by the Foreign and Commonwealth Office and the BBC World Service in meeting its budget reductions, except to reiterate our earlier conclusion that SR2010 may turn out to have had a very damaging effect on the Department's ability to promote and safeguard UK interests overseas. We would expect information on the how the FCO and the BBC World Service plans to reduce its spending throughout the Spending Review – including information on which services or programmes are to be curtailed – to be made available to us in response to this Report. We further recommend that both bodies continue their current welcome practice of writing to us in advance of major announcements and changes to their respective organisations. (Paragraph 14)**

Following the spending review outcome the BBC developed a plan, now approved by the Executive Board and BBC Trust, to live within the constraints of the funding that is now available. In addition, the BBC Agreement with the UK Government was amended to

allow the BBC to use some funds from the licence fee to contribute towards the restructuring costs associated with reducing the output of the World Service to the new level of available funding.

In January 2011 the BBC announced the reduction of some services to match the available funding, and the committee was fully briefed on the impact of these changes. Further changes will be required towards the end of the grant-in-aid funding period. Whilst we do not expect to have to close any further services or platforms we anticipate the need for a further reduction in short wave distribution and additional savings from the World Service English service; this was foreshadowed in our announcement in January 2011. A further announcement on the impact of these savings is due to be made by the end of the year.

We are, however, confident that the move of the World Service to new Broadcasting House alongside the rest of BBC News will allow additional savings to be delivered through closer collaboration. If these efficiency savings can be realised then we will be in a position to reassess our plans in the outer years of the funding period.

From 2014/15 the funding for the World Service will be determined by the BBC Trust as part of establishing the new World Service Operating Licence.

**(Recommendation 12) In our Report earlier this year, we made a firm recommendation that a formal concordat giving the Foreign Secretary the power to stipulate a minimum level of service provision and strengthening BBC World Service representation at the highest levels of BBC governance was necessary if the World Service was to be protected from financial pressures originating elsewhere in the BBC. We are disappointed that the Government rejected our recommendation. However, we have noted Lord Patten's assurances that the more "informal" governance arrangements to be put in place can provide the level of budgetary protection the World Service needs. This places a large responsibility on the performance of the International Trustee and we seek assurances that the support shown by Lord Patten to the World Service is shared by all members of the BBC Trust. (Paragraph 52)**

The funding of the BBC World Service will become the direct responsibility of the Corporation from the financial year 2014/15.

The BBC and the UK Government have agreed formal governance arrangements for the World Service, which will come into effect once the funding responsibility transfers. These governance arrangements include the requirement for the BBC Trust to set an Operating Licence for the World Service, which will set out the objectives and the budget for the World Service. The Operating Licence will set out publicly the level of service that will be provided from the World Service. The agreement the BBC has with the UK Government requires the BBC Trust to agree certain elements contained within the Operating Licence with the Foreign Secretary.

These formal governance arrangements will be the collective responsibility of the BBC Trust, and will be the mechanism by which the Trust will hold the Director-General and the Executive Board to account for delivering the World Service. As with all of the BBC's governance arrangements, the World Service Operating Licence will be a public document and changes to it will be made transparently.

Prior to setting the Operating Licence the BBC will consult stakeholders on the contents of it, enabling all stakeholders to put their views forward to the BBC Trust.

**(Recommendation 13) We plan for our evidence sessions with the Chairman of the BBC Trust and the International Trustee to become an annual arrangement. The transfer of funding responsibility to the BBC from the FCO will inevitably reduce Parliamentary oversight of the World Service by preventing the tabling of written or oral questions to Government Ministers on the performance of the BBC World Service. In this context, we welcome the assurances from Lords Patten and Williams that the transfer of funding responsibility for the BBC World Service from the FCO should not diminish this Committee's oversight of the operation of the World Service. If from our regular sessions it becomes clear that the governance arrangements are not working adequately, we reserve the right to again recommend that the more formal concordat, as we originally recommended in April 2011, be immediately drawn up and adopted. We further recommend that the Foreign Secretary do not rule out using his influence, as the man who currently holds the purse strings, to insist that Lord Williams' role be amended to give him, *ex officio*, a place on the BBC Executive Board. (Paragraph 53)**

As outlined above, there will be formal governance arrangements for the oversight of the BBC World Service by the BBC Trust. It is a requirement under these governance arrangements, which have been agreed with the UK Government, that some elements have to be agreed between the BBC Trust and the Foreign Secretary.

As stated to the committee by both Lord Patten and Lord Williams, the BBC will be happy to continue to discuss the performance of the World Service with the FAC. Once funding for the World Service transfers to the licence fee, it would seem appropriate that these discussions take place separately from the committee's assessment of the performance of the Foreign and Commonwealth Office.

The role of the members of the BBC Trust is set out in the Corporation's Royal Charter. The Charter requires the Trust and the Executive Board to operate separately (article 8), so it would not be possible for Lord Williams to be an *ex officio* member of the BBC Executive Board.