

# House of Commons Foreign Affairs Committee

# **Equipping the Government for Brexit**

**Second Report of Session 2016–17** 



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**Second Report of Session 2016–17** 

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 19 July 2016

#### 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 public bodies.

#### **Current membership**

Crispin Blunt MP (Conservative, Reigate) (Chair)

Mr John Baron MP (Conservative, Basildon and Billericay)

Ann Clwyd MP (Labour, Cynon Valley)

Mike Gapes MP (Labour (Co-op), Ilford South)

Stephen Gethins MP (Scottish National Party, North East Fife)

Mr Mark Hendrick MP (Labour (Co-op), Preston)

Adam Holloway MP (Conservative, Gravesham)

Daniel Kawczynski MP (Conservative, Shrewsbury and Atcham)

Yasmin Qureshi MP (Labour, Bolton South East)

Andrew Rosindell MP (Conservative, Romford)

Nadhim Zahawi MP (Conservative, Stratford-on-Avon)

#### **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.

#### **Publication**

Committee reports are published on the Committee's website at www.parliament.uk/facom and in print by Order of the House.

Evidence relating to this report is published on the <u>inquiry page</u> of the Committee's website.

#### Committee staff

The current staff of the Committee are Kenneth Fox (Clerk), Nick Beech (Second Clerk), Dr Ariella Huff (Senior Committee Specialist), Ashlee Godwin (Committee Specialist), Nicholas Wade (Committee Specialist), Clare Genis (Senior Committee Assistant), Rebecca McLoughlin (Committee Assistant), Su Panchanathan (Committee Assistant), and Estelle Currie (Media Officer).

#### Contacts

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### Summary

In October 2015, we published a report in which we urged the Treasury to protect the FCO budget for the period covered by the 2015 Spending Review, and we welcomed the Chancellor's November 2015 announcement that the budget of the FCO would be protected in real terms up to 2019-2020. As we outlined in our April 2016 report on the implications of the referendum on EU membership for the UK's role in the world, however, the decision to leave the EU now requires the Government to boost the FCO's capacity significantly. In particular, the FCO will need to reverse the recent trend of down-sizing its operations in Europe, which it will struggle to do if its funding continues to become ever more dependent on expenditure that can be classed as Official Development Assistance. We therefore recommend that the new Government commits to a substantial increase in the funding available to the FCO commensurate with the enormity of the task it now faces. The FCO should be able to use this additional funding wherever in the world and in whatever capacity it deems necessary.

It is also essential that the Foreign Secretary and the Secretaries of State for Exiting the EU and International Trade form an effective triumvirate as quickly as possible, with close working relations and clear delineation of responsibilities. It is expected that key personnel will be transferred from across Whitehall to support the work of the Department for Exiting the European Union. While it is essential that the Whitehall officials with relevant expertise are identified and put at the centre of managing the exit process, this cannot come at the expense of an already-overstretched FCO or it will threaten other aspects of the UK's bilateral relations with some of its most important partners. The Prime Minister should give the FCO the resources it needs to fill any gaps in its capacity left by the departure of officials to other Departments. When the exit process comes to an end, moreover, those officials should be able to return to the FCO or the Department for International Trade, as their expertise and institutional knowledge will be critical in shaping and managing relations with our European partners far beyond the conclusion of the exit negotiations.

Finally, in our April 2016 report on the implications of the referendum on EU membership for the UK's role in the world, we described the FCO's apparent lack of any contingency planning for a vote to leave the EU as "regrettable". Since the referendum, the extent of the Government's lack of preparation for a potential "leave" vote has become more evident. In the light of the appointment of the new Prime Minister on 13 July, the previous Government's confidence that basic planning for the practicalities of implementing Brexit could be undertaken at a leisurely pace after the vote now appears at best naïve and at worst negligent. The previous Government's considered view not to instruct key Departments including the FCO to plan for the possibility that the electorate would vote to leave the EU amounted to gross negligence. It has exacerbated post-referendum uncertainty both within the UK and amongst key international partners, and made the task now facing the new Government substantially more difficult.

The lack of contingency planning inevitably means that the Government's plans are tentative and just emerging. We intend to examine these at the earliest available opportunity, including how the Government plans to consult other interested parties in the UK.

## 1 Funding the FCO after Brexit

#### FCO budget and capacity

- 1. In October 2015, we published a report in which we noted that, in an increasingly unstable world, the Government relies on the Foreign and Commonwealth Office (FCO) "to have the necessary infrastructure in place so that it can make critical decisions at a moment's notice." Concerned about the potential impact of any spending cuts on an already under-funded FCO, we urged the Treasury "to protect the FCO budget for the period covered by the 2015 Spending Review, with a view to increasing rather than cutting the funds available to support the diplomatic work on which the country's security and prosperity depend." We therefore welcomed the Chancellor's November 2015 announcement that the budget of the FCO would be protected in real terms up to 2019-2020.<sup>3</sup>
- 2. In our unanimously-agreed April 2016 report on the implications of the referendum on EU membership for the UK's role in the world, however, we considered that a decision to leave the EU would require the Government to boost the FCO's capacity significantly. In addition to the practical need to hire teams of skilled negotiators to manage the EU withdrawal process and pursue new international agreements, we judged that a major injection of resources into the FCO would "send a strong signal of the UK's commitment to an outward-looking, globally engaged foreign policy, thereby helping to reassure our allies and to mitigate the reputational risk associated with EU withdrawal." We also considered that leaving the EU and its institutions would require the FCO to reverse the recent trend of down-sizing its European network as bilateral relations with EU Member States take on a new importance in the short, medium and long term. <sup>5</sup>
- 3. In oral evidence to the Committee immediately after the referendum, former FCO Permanent Under-Secretary Sir Simon Fraser agreed that the decision to leave the EU would require "a major diplomatic set of initiatives" to build relationships with both traditional and new partners around the world. He said:

I agree with the view that the budget of the British diplomatic service has been reduced very dramatically in recent years. When I was permanent secretary, we cut the operating budget by 25% while expanding the diplomatic network. That means that the embassies were very thinly stretched, which obviously affected their operational capability. So I do think we have got to thicken it out. We have got to build up the capacity within our embassies. [...]

I would not put a precise figure on what the figure would be for that budgetary increase. Obviously, you need to spend the money as you can spend it. You

<sup>1</sup> Foreign Affairs Committee, First Report of Session 2015-16, <u>The FCO and the 2015 Spending Review</u>, HC 467, para 38

<sup>2</sup> Foreign Affairs Committee, First Report of Session 2015-16, The FCO and the 2015 Spending Review, HC 467, para 39

<sup>3 &</sup>quot;Comment on FCO and 2015 Spending Review", Foreign Affairs Committee press release, 26 November 2016

<sup>4</sup> Foreign Affairs Committee, Fifth Report of Session 2015-16, <u>The Implications of the Referendum on EU Membership</u> for the UK's Role in the World, HC 545, para 33

<sup>5</sup> Foreign Affairs Committee, Fifth Report of Session 2015-16, <u>The Implications of the Referendum on EU Membership</u> for the UK's Role in the World, HC 545, para 33

have got to get the right people with the right training into the jobs. You can't just do it overnight. But a very considerable uplift in the Foreign Office budget would be appropriate.<sup>6</sup>

Sir Christopher Meyer, former Ambassador to the USA, agreed with Sir Simon and said he would "welcome" a serious increase in FCO resources. Sir Simon cautioned, however, that it was important to be "realistic" about the potential future level of Government spending, since he believed the economy was likely to be weakened in the short-term by the decision to leave the EU.

#### The Foreign Secretary's view

4. We put these arguments to the Rt Hon Philip Hammond MP, the then Foreign Secretary, on 7 July. He said that the UK will now "have to pedal a bit faster in order to make sure that our voice is heard and that our influence still counts in the world." He agreed with us that the FCO will now need to re-examine its allocation of resources with respect to the European Union and its Member States, but implied that this would be financed using efficiencies identified in preparation for the 2015 Spending Review, rather than by a new injection of funding. He said:

I think we will need to look again at the way we have configured our lay-down in the European Union, and fortunately, as the Committee is aware, we are in the process of seeking to harvest at least some of the savings that we identified during the spending review process last year but were ultimately not required to deliver to the Treasury, with a view to reinvesting them in the frontline. If you had asked me the question a month ago, I would have envisaged that they would have been invested in a variety of ways, probably not including reinforcement of our platforms across the European Union capitals, but I suspect that we will now want to look again at the level of resource that goes into those European Union posts.<sup>10</sup>

5. Asked whether he was bidding for extra resources and for his sense of the scale to which the FCO will need to be reinforced, however, the Foreign Secretary was unwilling to commit to advocating a substantial increase in the FCO budget. He asserted that Government resources are likely to come under further pressure as a result of the decision to leave the EU, contending therefore that doubling or trebling the FCO budget—as we recommended in our April 2016 report—is "a wildly unrealistic aspiration". Instead, he emphasised the flat real-terms settlement that the FCO received in the 2015 Spending Review and conceded only that the FCO "may indeed need to bid for additional resource to deal with specific pressures that arise." We were disappointed with the Foreign Secretary's attitude, given the scale of the challenge that leaving the EU will pose to the UK's international role and diplomatic network.

<sup>6</sup> Q4

<sup>7</sup> Qq3-4

<sup>8 &</sup>lt;u>Q7</u>

<sup>9</sup> Oral evidence taken on 7 July 2016, HC (2016-17) 552, Q51 [Mr Baron]

<sup>10</sup> Oral evidence taken on 7 July 2016, HC (2016-17) 552, Q13 [Chair]

<sup>11</sup> Oral evidence taken on 7 July 2016, HC (2016-17) 552, Q17 [Chair]

<sup>12</sup> Oral evidence taken on 7 July 2016, HC (2016-17) 552, Q16 [Chair]

#### Over-reliance on Official Development Assistance

6. We also note that the flat real-terms settlement the FCO received in 2015 was made possible by a large increase in the proportion of FCO spending classifiable as Official Development Assistance, and a concomitant 10% decrease in non-ODA core spending.<sup>13</sup> Professor Malcolm Chalmers of the Royal United Services Institute told us that at present about 50% of FCO spending is ODA-able, and that the Spending Review projects that this proportion will rise to about 73% by 2020.<sup>14</sup> As ODA cannot be spent in any of the European Union's Member States, it is unclear how the Foreign Secretary plans to upgrade FCO diplomatic capacity in Europe without serious re-consideration of the current imbalance between ODA and non-ODA funding in the Department.

## Conclusions: towards a fully-equipped Foreign and Commonwealth Office

- 7. The FCO is already one of Whitehall's smallest Departments in terms of funding. As Sir Simon Fraser told us, the entire annual FCO budget is only twice the sum spent every year on aid to Ethiopia alone. The decision to leave the EU provides both an opportunity and an obligation to re-consider the Government's spending on the FCO and related activities.
- 8. We were deeply disappointed by the Government's apparent unwillingness to recognise the urgency and importance of equipping the FCO to manage the most significant re-adjustment of British foreign policy in over 50 years, including a period of intensive diplomacy. We recommend that the new Government commits to a substantial increase in the funding available to the FCO commensurate with the enormity of the task it now faces. The FCO should be able to use this additional funding wherever in the world it deems necessary, on the programmes or personnel it considers essential to support the country's reputation, security, values and prosperity through this period of transition.

## 2 Changes to machinery of Government

#### New Departments to manage the exit process

- 9. On 13 July, Prime Minister Theresa May announced the creation of two new Government Departments to manage aspects of the Brexit process: a Department for Exiting the European Union, led by the Rt Hon David Davis MP, and a Department for International Trade, led by the Rt Hon Dr Liam Fox MP. The official responsibilities of the Department for Exiting the European Union are:
- the policy work to support the UK's negotiations to leave the European Union and to establish the future relationship between the EU and the UK;
- working very closely with the UK's devolved administrations, Parliament, and a wide range of other interested parties on what the approach to those negotiations should be;
- conducting the negotiations in support of the Prime Minister including supporting bilateral discussions on EU exit with other European countries; and
- leading and co-ordinating cross-government work to seize the opportunities and ensure a smooth process of exit on the best possible terms. 16
- 10. Much of the new Department's work will overlap with the existing work of the FCO, particularly with respect to supporting the UK's bilateral relationships with the EU and with its Member States. Along with the Secretary of State for International Trade, the leaders of all three Departments will represent the UK abroad in different and at times overlapping capacities. The extent of this potential overlap has been underscored by the Prime Minister's decision to share the Foreign Secretary's official residence, Chevening, between the three Secretaries of State because, according to her spokeswoman, all three will "be needing an opportunity to host foreign visitors and leaders". It is therefore essential that the three form an effective triumvirate as quickly as possible, with close working relations and clear delineation of responsibilities.
- 11. It is also expected that key personnel will be transferred from across Whitehall to support the work of the Department for Exiting the European Union. This is likely to include a particularly large proportion of officials from the FCO, including from its Europe directorate and from UKRep in Brussels. Yet as the former Foreign Secretary told us last year, the FCO is already "pretty close to the irreducible minimum of UK-based staff on the network." While it is essential that the Whitehall officials with relevant expertise are identified and put at the centre of managing the exit process, this cannot come at the expense of an already-overstretched FCO or it will threaten other aspects of the UK's bilateral relations with some of its most important partners. The FCO should be given the resources needed to back-fill those positions left vacant by officials sent to other Departments.

<sup>16</sup> Department for Exiting the European Union, 'About Us', accessed 18 July 2016

<sup>17</sup> Rowena Mason and Andrew Sparrow, "Boris Johnson forced to share mansion with Liam Fox and David Davis", The Guardian, 18 July 2016

<sup>18</sup> James Blitz and Sarah Neville, "Task of delivering Brexit causes turf wars in Whitehall", Financial Times, 18 July 2016 19 Oral evidence taken on 9 September 2015, HC (2015-16) 381, Q74 [Mr Gapes]

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12. It should also be noted that the process of exiting the EU is currently anticipated to be finite and time-limited. When that process comes to an end and the machinery of Government is again re-organised, those FCO officials sent to other Departments should be able to return to the FCO or the Department for International Trade, with a view to increasing the country's overall representational capacity over the long term. The expertise and institutional knowledge of those individuals will be critical to the FCO in shaping and managing relations with our European partners far beyond the conclusion of the exit negotiations.

#### **Conclusions**

13. The Prime Minister should give the FCO the resources it needs to fill any gaps in its capacity left by the departure of officials to other Departments as part of Whitehall's management of the EU exit process. The Government should also ensure that those officials can be re-integrated into the FCO or the Department for International Trade when the exit process is complete, to add their expertise and experience to the country's overall representational capacity in the long term.

## 3 Absence of contingency planning

#### **Government decision not to plan for Brexit**

14. In our April 2016 report on the implications of the referendum on EU membership for the UK's role in the world, we described the FCO's apparent lack of any contingency planning for a vote to leave the EU as "regrettable". Since the referendum, the extent of the Government's lack of preparation for a potential "leave" vote has become more evident. Asked to explain the FCO's failure to establish the main challenges facing the UK after Brexit and to outline how the Department would address them, the Foreign Secretary said he did not "see the need" for such planning, even though it would typically plan for all possible eventualities before a general election. He told us:

I assure you it was not an oversight. Of course we discussed this question before the referendum campaign began—whether there should be contingency planning or not—and we concluded that it was not appropriate to carry out contingency planning, other than planning that was focused on the very immediate pressures that might come on the financial markets.<sup>22</sup>

15. The Rt Hon Oliver Letwin MP, who was appointed by former Prime Minister David Cameron MP after the vote to lead a new Cabinet Office unit in charge of managing the Brexit negotiations (though he now no longer holds this post), defended the lack of pre-referendum planning by stating that no decisions could be made until a new Prime Minister was in place.<sup>23</sup> He told us that the gap between the referendum and the appointment of a new Prime Minister would provide ample time for his unit to do the preparatory work necessary to facilitate the twin-track processes of leaving the EU and negotiating a new EU-UK relationship, including identifying gaps in civil service capacity, establishing a basis of key facts and outlining options for negotiations.<sup>24</sup> Put to him that much of this work could have been done before the referendum, he said:

We are actually going to have a new Prime Minister and a new Cabinet on 9 September. If you are asking the practical question, "Would it have been possible to pre-design the strategy for negotiation?" the answer is that as things have turned out it would not have been possible. I believe it is actually possible to do the work and preparation we are doing in the period between now and 9 September. It is hard work, but I think we can do it.<sup>25</sup>

16. It remains unclear how much of this work has been done to date. Mr Letwin MP could only tell us that "a good deal of work is already under way and has been for some time", and acknowledged his inability to be more specific by offering to appear before the Committee at a later date when he would have more information. <sup>26</sup> Similarly, asked on 12 July to outline the FCO's specific plans for recruiting more trade specialists as a result of the outcome of the EU referendum, the Foreign Secretary could only state that the

<sup>20</sup> Foreign Affairs Committee, Fifth Report of Session 2015-16, <u>The Implications of the Referendum on EU Membership</u> for the UK's Role in the World, HC 545, para 33

<sup>21</sup> Oral evidence taken on 7 July 2016, HC (2016-17) 552, Q3 [Chair]

<sup>22</sup> Oral evidence taken on 7 July 2016, HC (2016-17) 552, Q6 [Chair]

<sup>23</sup> Q64

<sup>24</sup> Q58

<sup>25</sup> Q65

<sup>26</sup> Qq78, 145

Government "are actively seeking to recruit trade specialists", including "the brightest and best from Whitehall and the private sector". He was unable to elaborate on how much this recruitment drive might cost or how quickly it might be implemented.<sup>27</sup>

17. In the light of the appointment of the new Prime Minister on 13 July, the previous Government's confidence that basic planning for the practicalities of implementing Brexit could be undertaken at a leisurely pace after the vote now appears at best naïve and at worst negligent. However she chooses to organise the timing of the negotiations, the new Prime Minister and the various Government Departments that will be involved in the exit process need immediate access to a comprehensive base of information and a fully-equipped, well-prepared civil service team (or, at a minimum, an accurate assessment of how many experts will need to be recruited, in what fields and at what cost). The absence of any planning both for the key challenges and opportunities that the UK will now face and for the structures that will need to be put in place to manage them constitutes a major setback for the new Government in undertaking the complex and difficult task ahead. As journalist and lawyer David Allen Green recently wrote, referring to our session with Mr Letwin MP, "it is not so much that the UK Government does not have a plan for Brexit—it does not even know what is to go into a plan." The new administration has been left to play catch-up.

#### **Conclusions**

- 18. We agree with the recent report of the Joint Committee on the National Security Strategy which concluded that the Government's failure to engage in comprehensive planning for a potential Brexit before the referendum "indicated the prioritisation of political interests above national security." It is highly regrettable that we appear to have been more pro-active than the Government in identifying the most urgent challenges facing UK foreign policy in the immediate aftermath of the decision, as outlined in our April 2016 report. Indeed, the former Prime Minister's glib response to a question in the Chamber referring to our report suggested that he had either not read it or not absorbed its key elements. 30
- 19. The previous Government's considered view not to instruct key Departments including the FCO to plan for the possibility that the electorate would vote to leave the EU amounted to gross negligence. It has exacerbated post-referendum uncertainty both within the UK and amongst key international partners, and made the task now facing the new Government substantially more difficult.
- 20. The lack of contingency planning inevitably means that the Government's plans are tentative and just emerging. We intend to examine these at the earliest available opportunity, including how the Government plans to consult other interested parties in the UK.

### Conclusions and recommendations

#### Funding the FCO after Brexit

1. We recommend that the new Government commits to a substantial increase in the funding available to the FCO commensurate with the enormity of the task it now faces. The FCO should be able to use this additional funding wherever in the world it deems necessary, on the programmes or personnel it considers essential to support the country's reputation, security, values and prosperity through this period of transition. (Paragraph 8)

#### Changes to machinery of Government

2. The Prime Minister should give the FCO the resources it needs to fill any gaps in its capacity left by the departure of officials to other Departments as part of Whitehall's management of the EU exit process. The Government should also ensure that those officials can be re-integrated into the FCO or the Department for International Trade when the exit process is complete, to add their expertise and experience to the country's overall representational capacity in the long term. (Paragraph 13)

#### Absence of contingency planning

- 3. The previous Government's considered view not to instruct key Departments including the FCO to plan for the possibility that the electorate would vote to leave the EU amounted to gross negligence. It has exacerbated post-referendum uncertainty both within the UK and amongst key international partners, and made the task now facing the new Government substantially more difficult. (Paragraph 19)
- 4. The lack of contingency planning inevitably means that the Government's plans are tentative and just emerging. We intend to examine these at the earliest available opportunity, including how the Government plans to consult other interested parties in the UK. (Paragraph 20)

## **Formal Minutes**

#### Tuesday 19 July 2016

Members present:

Crispin Blunt, in the Chair

Ann Clwyd Adam Holloway
Mike Gapes Yasmin Qureshi
Stephen Gethins Andrew Rosindell
Mark Hendrick Nadhim Zahawi

Draft Report (*Equipping the Government for Brexit*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 18 read and agreed to.

Paragraph 19 read.

Amendment proposed, after "amounted to", to leave out the word "gross".—(*Mark Hendrick*.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1 Noes, 5

Mark Hendrick Ann Clwyd

Mike Gapes

Stephen Gethins Adam Holloway Andrew Rosindell

Question accordingly negatived.

Paragraph 19 agreed to.

Paragraph 20 read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report be the Second Report of the Committee to the House.

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

### Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the  $\underline{inquiry\ publications}$  page of the Committee's website.

#### Tuesday 28 June 2016

Question number

**Professor Malcolm Chalmers,** Deputy Director-General, Royal United Services Institute, **Sir Simon Fraser GCMG,** and **Sir Christopher Meyer KCMG** 

Q1-57

#### Tuesday 5 July 2016

Rt Hon Oliver Letwin MP, Chancellor of the Duchy of Lancaster

Q58-145

## List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the <u>publications page</u> of the Committee's website.

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

#### Session 2015-16

First Report	The FCO and the 2015 Spending Review	HC 467 (HC 816)
Second Report	The extension of offensive British military operations to Syria	HC 457
Third Report	The UK's role in the war against ISIL following the Cessation of Hostilities in Syria in February 2016	HC 683
Fourth Report	The FCO's administration and funding of its human rights work overseas	HC 860
Fifth Report	Implications of the referendum on EU membership for the UK's role in the world	HC 545
First Special Report	The FCO and the 2015 Spending Review: Government response to the Committee's First Report of Session 2015–16	HC 816

#### Session 2016-17

First Report	The UK's role in the economic war against ISIL	HC 121
First Special Report	The UK's role in the war against ISIL following the Cessation of Hostilities in Syria in February 2016: Government Response to the Committee's Third Report of Session 2015–16	HC 209
Second Special Report	The FCO's administration and funding of its human rights work overseas: Government Response to the Committee's Fourth Report of Session 2015–16	HC 545