Twelfth Report
of the

Foreign Affairs Committee

Session 2002–03

Foreign and Commonwealth Office Annual Report 2003

Response of the Secretary of State for
Foreign and Commonwealth Affairs

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Foreign and Commonwealth Affairs
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TWELFTH REPORT FROM THE FOREIGN AFFAIRS COMMITTEE SESSION 2002–03

FOREIGN AND COMMONWEALTH OFFICE ANNUAL REPORT 2003

RESPONSE OF THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

The Secretary of State for Foreign and Commonwealth Affairs welcomes the Twelfth Report from the Foreign Affairs Committee in Session 2002–03 on the 2003 Annual Report of the Foreign & Commonwealth Office (FCO), and is grateful for the Committee's many helpful and positive observations. This Command paper sets out the Government's detailed response to the Report, in particular to the Committee's 26 specific **conclusions and recommendations.**

> **1. We recommend that, in future, the title of the FCO's Departmental Report refer to the period upon which it reports, rather than to the year in which is it published. So next year's report title should clearly state the month and year for the beginning and end of the period covered by the report's contents. (Paragraph 4)**

> **2. We recommend that the FCO continues to present cost-benefit illustrations of its work. These should include not merely examples of where the FCO has secured very substantial benefit in relation to the cost incurred, but also where substantial costs have been incurred for only very limited, and perhaps even negative, benefit. (Paragraph 6)**

> **3. We conclude that, on the whole, the Foreign and Commonwealth Office's Annual Report 2003 is a well-presented and informative account of the year to April 2003 for the department. However, we recommend that future Reports strive to reflect more accurately both those areas where the Office has met, or surpassed, its objectives and those where it had hoped to achieve more. (Paragraph 9)**

> **7. We conclude that the new Global Opportunities Fund offers an excellent opportunity for the Foreign Office to encourage new and innovative projects, and to focus upon its key priorities. However, while the Committee agrees that small sums of money, well-targeted, can produce significant results, we remain concerned that the new Fund has insufficient resources to have the impact across the globe it needs and deserves. We shall monitor its progress with interest. (Paragraph 27)**

> **11. We recommend that a section be included in the next Annual Report setting out how the Foreign Office envisages greater EU co-operation on foreign policy matters working in practice. (Paragraph 43)**

The FCO welcomes these recommendations and will address them in the 2003–4 Departmental Report.

4. We conclude that the Foreign Office is rightly proud of the vast majority of the work done by its staff, as set our in the Annual Report 2003. We place on record our thanks and support to all those who work in the FCO and its agencies for the dedicated service they provide to this country. (Paragraph 10)

The FCO thanks the Committee for their recognition of the valuable contribution of FCO staff.

5. We conclude that the new Public Diplomacy Strategy Board is a welcome development in ensuring a consistency of approach and ambition among all those involved in the promotion of the United Kingdom's interests and image overseas. We look forward to a progress report in the next Annual Report and to scrutinising its work in the future. (Paragraph 17)

The FCO welcomes the Committee's support for the new Public Diplomacy Strategy. We will include a progress report in the next Annual Report.

6. We conclude that the Foreign Office, British Council and BBC World Service are wholly right in seeking to improve perceptions and understanding of the United Kingdom in the Arab and Muslim worlds, especially at this time. We hope to see this important work continuing in the future and new initiatives being undertaken by all those involved. (Paragraph 20)

The FCO welcomes this conclusion. The Public Diplomacy Strategy Board has given its support to an invigorated approach to our public diplomacy effort in the Middle East. We have appointed a Public Diplomacy Co-ordinator to develop strategies which will help improve perceptions of the UK in the Middle East and wider Islamic world. We will report progress on this work in the 2003–4 Annual Report.

8. We recommend that the FCO continues to fund both the BBC World Service and the British Council at a level which will enable both organisations to perform their invaluable roles for the UK with increasing effectiveness and widening coverage across the world. (Paragraph 33)

Grant in Aid to the BBC World Service rose from £201 million in 2002–3 to £220 million in 2003–4. Grant in Aid to the British Council rose from £151m in 2002–3 to £166m in 2003–4. The FCO is keen to see both organisations continuing to increase their effectiveness and maximise their impact. The BBC World Service has significantly enhanced its online and Arab language services over the past two years and continues to seek to expand its FM coverage in major cities worldwide. The British Council's Strategy 2005 is focused on reaching 'younger, wider audiences' by exploiting the potential of new technologies, particularly online services.

9. We conclude that the closure of a number of posts in Central America and West Africa is a deeply regrettable, retrograde step in promoting and protecting British interests overseas. We recommend that such closures be considered as the last resort when considering priorities for UK diplomatic representation overseas, and that all other viable alternatives be explored prior to such action being taken. We further recommend that, failing a decision to keep open a post, creative solutions be sought, including joint initiatives with one or more EU partners or with the EU Commission itself. (Paragraph 38)

Changing strategic priorities and resource constraints inevitably require the FCO to adapt and amend its pattern of representation overseas. The FCO has made adjustments to UK diplomatic representation in West Africa and Central America in order to free resources to support the UK's diplomatic network elsewhere and to ensure that our staff overseas continue to enjoy as safe and secure a working environment as possible. In doing so the FCO used the type of creative alternative solutions which the Committee recommends. In Africa, for example, we closed the Embassy in Bamako on 31 May 2003 and replaced it with a UK office with two locally employed staff. Given the importance the UK attaches to stability and peace in the Mano River region, the FCO upgraded its office in Conakry to an Embassy in September 2003 and a UK diplomat was attached to the US Embassy in Monrovia in January 2004. Whenever post closures are considered, the FCO will look for alternative forms of representation.

10. We conclude that it is wholly unacceptable that there is still no British Embassy in Kyrgyzstan, despite the clear damage this is doing to the United Kingdom's interests in that country and region. We recommend that an Embassy be established in Bishkek as soon as possible. (Paragraph 41)

The FCO agrees that it is desirable to open an Embassy in the Kyrgyz Republic, but regrets that financial constraints currently prevent this. We plan to appoint a locally engaged staff member from our Embassy in Almaty in the DfID office in Bishkek. We have had to contend with competing demands across the former Soviet Union, where we have sought to expand many aspects of our missions' activities; have moved into larger Embassies, for example in Yerevan and Baku; and have funded new Embassies in Chisinau and Dushanbe. This increased activity has stretched our budgets.

12. We conclude that the cancellation of the Focus project and the consequent cost incurred by the Foreign Office was an extremely unfortunate incident. (Paragraph 49) We recommend that, in its response to this Report, the Foreign Office set out:

a) what lessons have been learned from the cancellation of Focus for other, similar, ICT projects.

A review of lessons from all our ICT projects was carried out following the cancellation of Focus. The findings and actions resulting from this review were incorporated in a document circulated widely to Parliament including to the Chairman of the FAC. The lessons have been discussed with FCO Programme Managers and we have established a Programme and Project Management Group (or Centre of Excellence) within the FCO, charged with ensuring that future Programme Managers benefit from the lessons learnt from earlier programmes.

b) what adverse impact is likely to result on the FCO's ICT "strategic target" (i.e. transforming from "a headquarters with outstations into a single online global organisation").

With the completion of the roll-out of Confidential Firecrest and the FCO Telecommunications Network (FTN) 90 per cent of our missions overseas are now equipped with secure e-mail facilities to link the network together. However, the vision of a shared information database, e.g. through the introduction of a single Global Registry, is still some way off. In implementing the FCO Strategy, launched on 2 December 2003, we aim to move further towards the goal of becoming a single online global organisation, within the limits of the resources available.

c) how the services that the Focus programme was to have provided will now be delivered.

Since the cancellation of the Focus programme, we have attempted to break it into more manageable and affordable components. The FCO Directory and on-line Discussion Groups are well used within the FCO. We plan to make the Directory available to other Government Departments via the Government Secure Intranet in the first half of 2004. In addition a new FCO Intranet, FCONet, is expected to go live this spring. This will be a big improvement on the current system. A globally accessible database is in the early stages of the approval process. If it is approved, it is unlikely to be ready for deployment before the end of the 2005–6 Financial Year.

13. The Committee concludes that it is unacceptable for a loss of approximately £7 million of taxpayers' money to be disguised in a departmental annual report. We recommend that any such losses in future must be reported fully and candidly. (Paragraph 50)

It was not the FCO's intention to disguise this loss. As the FAC report on the Departmental Report indicates at paragraphs 45 to 48, the FCO has been open with Parliament and the public about the losses and about the position on the Focus Programme from an early stage. We continue to extract value from the products we did acquire for the expenditure (Directory, on-line Discussion Groups), though clearly far less than we had hoped. We will ensure that such material is presented as clearly as possible in the 2003–4 Annual Report and all subsequent Reports.

14. We recommend that, in its response to this Report, the Foreign Office explain why it failed to identify the risk of Global Crossing's parent company facing bankruptcy, and the consequent impact on the delivery of the FTN programme, during the negotiation of the contract, whether private sector firms undertook due diligence work on behalf of the FCO before the contract was entered into, and, if so, whether the FCO considers it has grounds for initiating proceedings against any of the firms in question. (Paragraph 52)

In 2000, when Racal was bought by Global Crossing, the FCO was already negotiating with Racal what subsequently became the FTN contract. At this time, Global Crossing was not in financial difficulty and had a Standard and Poors credit rating of BB+, better than many groups with which the Government has signed PFI contracts. Nevetherless, the possibility of commercial failure was considered by the FCO and its advisers on the contract, and steps were taken within the contract to protect the FCO's position. The FCO has no basis on which to complain about the professional advice it received at that time.

Global Crossing subsequently experienced commercial problems common to a number of companies in the global telecommunications carrier business and sought Chapter 11 protection in January 2002. As we have separately informed the Committee, on 9 December 2003, Singapore Technologies Telemedia (STT) and Global Crossing (the US parent of Global Crossing UK) announced that they had consummated their purchase agreement. This allowed Global Crossing to emerge from Chapter 11 proceedings the same day.

Throughout the period that Global Crossing was in Chapter 11, the FCO actively managed the risks associated with this situation. Plans were in place to ensure that the FCO could retain control of the network in the case of a commercial failure, and the costs of this were met by Global Crossing. We had alternative plans at each stage, and we worked hard and successfully to achieve the best outcome. There has been no adverse effect on the service we have obtained under FTN due to Global Crossing's financial trouble. Indeed support from Global Crossing has been of significant value in supporting the FCO's ability to provide facilities in adverse conditions at short notice. This has included, for example, adding Baghdad and Basra to the FTN network.

> **15. We conclude that the Foreign Office has undertaken a number of sound initiatives to respond to the unprecedented rise in visa applications in recent years. We record our thanks to those members of staff who work in this field, often in difficult and stressful conditions. We recommend that the Office continue to aspire to meet the challenging targets set in this area and to seek innovative solutions to the challenges it faces in dealing with the increasing demands on its operations. (Paragraph 56)**

The FCO welcomes the Committee's recognition of the hard work and commitment of our visa staff. We will report on our continuing work to meet the challenges of rising demand in the 2003–4 Annual Report.

> **16. We conclude that there are very grave concerns about the long-term impact the asset recycling programme is having on the FCO's overseas estate. There is a real danger that, in its attempts to take full advantage of the scheme agreed with HM Treasury, the Foreign Office is selling properties below their real value in order to meet a short-term target. We recommend that every precaution be taken to ensure that the asset recycling scheme takes full account of the overall, long-term value of properties before they are recycled. If necessary, the Office should be prepared to 'bite the bullet' and miss its target for the asset recycling programme in order to preserve the long-term value of its overseas estate and identify alternative sources of funding for future investment.**

We further recommend that, in its response to this Report, the Foreign Office sets out when it envisages that the scheme will cease to be viable, and how ICT and estate modernisation will be funded when that happens. The Committee concludes that as a direct result of the FCO's asset recycling programme irreplaceable UK Government property assets are being lost to the nation for ever for short-term and rapidly depreciating ICT gain. The Committee further concludes that this policy should be abandoned forthwith and that the proceeds of any further property sales should be used to improve and expand Britain's diplomatic estate overseas. (Paragraph 64)

The principle behind asset recycling is sensible – that where an organisation like the FCO has underperforming or unsuitable assets, it is better to sell them and invest the proceeds in other assets which will be better used. With an estate the size of the FCO's, there will always need to be asset sales, as properties become tired or are no longer fit for purpose, and as the FCO continually adjusts its portfolio to correspond with its Strategic Priorities and the needs of modern diplomacy. Half the revenue from asset recycling now goes back into estates and from 1 April 2004 this will rise to 80 per cent. Asset sales have allowed the FCO to undertake important capital estate projects (such as the new Embassies in Berlin and Moscow, and the Old Admiralty Building) as well as ICT.

However, once the most obviously unsuitable assets are sold, it becomes more difficult to identify new sales that are both good value for money and sensible in terms of the Government's overseas profile. Although the FCO believes that there are still properties that meet these criteria, it is increasingly hard to meet asset recycling targets. This poses a stark choice – either to secure additional capital from the Treasury or to cut back radically on future capital plans. This will be an issue for discussion with the Treasury in the next Spending Review.

The FCO does not agree that we have sold properties for less than their real value, or for short-term gain at the expense of long term interest. Properties are not sold without a proper comparison of alternative options. Value-for-money calculations are usually made over 25 years. We always try to maximise the receipts from any sale, but it is not logical to delay unduly, bringing property to market which is already surplus to our requirements. Under government accounting rules no allowance can be made in such value-for-money calculations for any potential increase in value in real terms in the future.

The FCO is aware of the difficulties involved in selling long-term estate assets and buying more short-term ICT assets. But ICT is essential to a modern global diplomatic network. ICT self-evidently depreciates more quickly than buildings, and for this reason, among others, ICT programmes must be evaluated very carefully to make sure that they offer good value for money.

17. We conclude that the sale of the Consul General's Residence in San Francisco is another deeply regrettable result of the Foreign Office's misguided asset recycling programme. FCO managers should not have been placed in a position where they had to sell this key diplomatic asset for short-term financial gain.

The damage done to British interests in San Francisco, and the USA, will undoubtedly be significant and felt long after the lump sum gained for the Office by its sale has been spent. (Paragraph 75)

It is welcome that the Committee concluded (paragraph 71) that the FCO had acted with all propriety throughout the process of selling the Residence in San Francisco. For the reasons already discussed with the Committee, the FCO remains convinced that the sale of the Residence was the right thing to do. It is too early to judge on objective evidence the effect, if any, on perceptions of the UK in Northern California, but in our view, UK interests in the US are far more influenced by factors other than the buildings in which our staff work or live.

The newly arrived Consul General is confident that the new Residence will work well. We are enlarging the office space at the Consulate General to provide a larger meeting room with conference and entertainment facilities. We are confident that the two facilities are fit-for-purpose and complement each other, and that they demonstrate our continued strong commitment to San Francisco and the Pacific North West.

18. We strongly recommend that the current historic, irreplaceable, centrally-located Embassy building in Prague be retained as part of the FCO's estate and not sacrificed to the asset recycling programme. Its loss would inevitably be a serious blow to British prestige and interests in this key European country and partner, which by May of next year will be a full member of the European Union. (Paragraph 78)

Consideration was given to moving the site of the Prague Embassy for operational reasons: in particular a heavy maintenance burden and the wish to unite an out-housed Commercial Section with the rest of the Embassy. There are, however, also counter-arguments, and security concerns which need careful consideration. The financial consequences of various options are still being investigated. No decision has yet been taken, but the FCO notes the Committee's strong concern on this issue. Any decisions on this or other key sales will be taken by the Secretary of State personally, having been considered by the Permanent Under-Secretary and the FCO Board.

19. We recommend that the Foreign Office identify those properties which, like the Prague Embassy, are being considered as possible asset recycling targets and provide a full list, in confidence if necessary, to the Committee. We would expect this list to be updated by regular memoranda to the Committee in the future, say on a six-monthly basis. (Paragraph 79)

The FCO welcomes the Committee's interest in our overseas estate and in ways to ensure that we maximise the return on our investment. There are practical problems in producing the sort of list which the Committee suggests, but we would be happy to brief the Committee orally on a regular basis on the question of asset recycling and on wider estate issues.

20. We conclude that the commitment being shown by the management of the Foreign Office to its locally-engaged staff is very welcome indeed. We recommend that the Office continue to open up new opportunities to these staff and ensure that good management is practised across the entire department. (Paragraph 81)

The FCO welcomes this recommendation. We will continue to look for opportunities to expand the range of duties of local staff. We regularly review opportunities to localise functions previously carried out by UK-based staff and how far local knowledge and expertise can improve our activities. To support this we are providing better access to training for all our staff through a network of six Regional Training Centres around the world. We are also examining ways of increasing professional expertise and specialisation in all our Human Resource activities. Investors in People accreditation, already achieved by the FCO in London and a sample of our posts, will be a worldwide goal in the coming year.

21. We recommend that in its response to this Report, the Foreign Office set out the results of its negotiations with other Government Departments about the remuneration of locally-engaged staff at overseas posts, and whether it has secured their co-operation in not "going it alone" and setting their own pay scales. (Paragraph 83)

It is the view of the FCO that all locally-recruited staff who are formally employed by FCO posts, irrespective of the parent Department for which they were recruited and to which costs are ultimately debited, should be covered by common terms for pay and conditions. We are aiming to incorporate that view in an inter-departmental Service Level Agreement (SLA). Negotiations on the draft are well advanced and we expect it will be completed and signed by the end of March 2004. Under the terms of the SLA, Heads of Mission have discretion to determine pay and conditions within budgets provided by the appropriate directorate in the FCO.

Where another government department has an autonomous presence in a country, it is at liberty to recruit and appoint its own local staff. In doing so, it is constrained by the same Treasury delegated authority as our posts: namely to match pay and conditions to the 'generality' of local practice and otherwise offer the minimum necessary to recruit, retain and motivate. There have been some differences of opinion between the FCO and other departments as to the interpretation of this authority, which we have sought to address through negotiation between officials at a senior level. Notwithstanding much goodwill, it remains evident that other departments, while acknowledging the desirability of a common approach, on occasion regard the employment package offered by our posts as inadequate to recruit the personnel they require, and can afford. They have in consequence offered more attractive terms.

22. We further recommend that the Foreign Office, perhaps using recently retired diplomats and management experts, carry out a general review of the role and terms and conditions of employment of locally engaged staff, including comparative studies of the practice of other countries in this field. (Paragraph 84)

The terms and conditions of local staff have been scrutinised in various ways in recent years to ensure that they meet what is required for the FCO to recruit, retain and motivate staff. There are no plans for a further review. The role of local staff at posts, and the practice of other governments in this respect has never been the subject of a formal review. However, we keep this issue under scrutiny with an eye to opportunities for localisation of jobs undertaken by UK-based staff, and otherwise making greater use of local skills and expertise within political and security constraints.

> **23. We conclude that the European Council's directive on retirement ages presents significant opportunities and challenges to the FCO, as it does to all employers. The benefits of retaining the skills and experience of older employees must be balanced against the need to encourage and develop new staff. We shall monitor the implementation of this directive across the office in the coming years with interest. (Paragraph 88)**

We agree with the Committee that in implementing the European Directive on retirement the FCO will need to strike a balance between retaining the benefits which older employees bring and fostering new talent. We shall develop our approach to the European Council's directive in the context of the overall approach of the Civil Service to implementing the Directive and will keep the Committee informed.

> **24. We conclude that it is highly probable that in the very near future the efficiency savings agreed by the Foreign Office with HM Treasury will result in cuts in the core activities of the FCO. We recommend that in its response to this Report, the Foreign Office sets out how it intends to ensure that the efficiency savings it has been set do not damage its core activities and state whether it will be seeking to re-negotiate these targets prior to the next Spending Review. (Paragraph 92)**

The FCO is conscious of the need to identify and implement efficiency measures to help provide better value for money for the taxpayer and to address budgetary pressures. We aim to meet Treasury targets primarily by the improvement of business processes and the better management of resources. For instance, recent investment in ICT systems has led to reductions in telecommunications costs, while making day-to-day operations more efficient. The use of more sophisticated procurement techniques is expected to produce savings of more than £6 million this Financial Year. The reorganisation of FCO Services (the Business Transformation Programme) is expected to result in substantial savings from 2005–6. These measures have all been implemented without negative impact on the FCO's core activities.

At the same time, the FCO budget does not let us do everything we want to: tight Spending Review settlements on the non-programme part of the FCO's budget, combined with rising input costs and rising demands for foreign policy activity, mean that we face serious resource constraints. That gives an incentive to achieve greater efficiency but also means that tough decisions have to be made about what should be funded and what activities should be scaled down or stopped.

There are no plans to renegotiate our current (2002 Spending Review) efficiency targets prior to the 2004 Spending Review as this will not affect the fungible resources available to the FCO. We are in discussion with the Treasury and the Efficiency Review Team led by Peter Gershon to ensure that any future efficiency targets take account of the particular challenges the FCO faces in carrying out its work and of the measures which are already being taken to improve efficiency.

25. We conclude that the Foreign Office has performed extremely well in coping with the demands presented by the conflict in Iraq. We find it perverse, however, that in organisational terms as a consequence of its success, the FCO should have to cut core activities elsewhere to met the additional burdens it has encountered. We recommend that the Government meet the claim on the contingency fund prepared by the Foreign Office in full. (Paragraph 96)

26. We conclude that the Government must increase its allocation of resources available to the Foreign Office in the near future if it is to avoid doing lasting damage to the good work the FCO is doing in so many fields. Asset recycling, efficiency savings and continuous reprioritisations can only go so far in meeting the increasing demands arising from the new global challenges such as Iraq upon the Foreign Office's already over-stretched budget. (Paragraph 99)

The FCO welcomes the Committee's recognition of the difficult resource climate in which it currently operates. The FCO strives to deliver an active, professional and successful foreign policy that promotes the UK's interests and values. We face a world more volatile than in recent memory and this is making increased demands on our diplomatic service. There is no longer a clear distinction between domestic and foreign policy, and the government has to make its resource decisions in that light. We believe the FCO offers good value for money in the work it does to benefit the people of the UK. The FCO's Strategy, published on 2 December 2003, sets agreed international policy priorities for the government as a whole and shows how we are prioritising our effort to make the most impact with the resources allocated to us. This effort to focus on our priorities and to become more efficient will continue, though the FCO will make a strong case for increased resources during the 2004 Spending Review.

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