FOREIGN AND COMMONWEALTH OFFICE

DEPARTMENTAL INVESTMENT STRATEGY

2005

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FCO Departmental Investment Strategy

1. Introduction

1. The FCO's aim is to work for UK interests in a safe, just and prosperous world. To this end, in December 2003 we published our first strategy document. The Strategy set out eight foreign policy objectives (web link), which together with delivering effective and efficient consular and entry clearance services cover our strategic priorities for the next decade. The relationship of our new PSA targets for 2005-06 to 2007-08, as agreed with HM Treasury, with those for 2003-04 to 2004-06 are at Annex I. Through grant-in-aid funding, we also sponsor the British Council and the BBC World Service to help achieve our objectives.

2. We are currently adapting our structures and working practices to reflect our priorities, focusing on key principles including greater flexibility and speed of response, a greater emphasis on customer service, and the need to align our resources to our priorities. We also face increasing threats of terrorism, crime and sustained efforts by hackers to corrupt our IT systems. Our asset management and investment programme will address these issues, and is designed to ensure our staff and assets are safe, while allowing us to continue to deliver our services to the public and HMG.

2. Asset Strategy

3. Our asset strategy is designed to support our strategic priorities. The alignment of PSA targets and strategic priorities is at Annex II. We will review the nature and scale of our overseas representation as appropriate to ensure it is fit for purpose in delivering best value for money to the public. For the medium term, our objectives will continue to be best achieved by modern communications supporting a flexible, safe global network.

4. The Departmental Investment Strategy Group (DISG), now the Investment Committee, recently approved an estate strategy for the SR2004 period (Annex III). Key features include confirmation of the principle of active management as underlying all FCO estate transactions, and creation of a global estate project prioritisation model. As part of the strategy and in response to the Lyons' review, the FCO is committed to transferring jobs from London to Hanslope Park (Milton Keynes) by 2009-10. At the same time, we will rationalise our London estate, vacating premises in Vauxhall and Croydon.

3. Asset Base

5. As at the end of March 2004, the FCO and its NDPBs held £1.48bn of assets at home and overseas (Table 1).

Table 1: **Asset Net book values, March 2004**
(£ million)

FCO assets	
Land and buildings:	
UK	87
Overseas	900
Total - Land and buildings	987
Furniture, fittings and equipment	61
ICT	55
Vehicles	25
Assets in the course of construction	42
Other assets	35
FCO Total	**1,235**
BBC World Service	
Broadcasting	125
Monitoring	19
	144
British Council	104
Total	**1,483**

The Estate

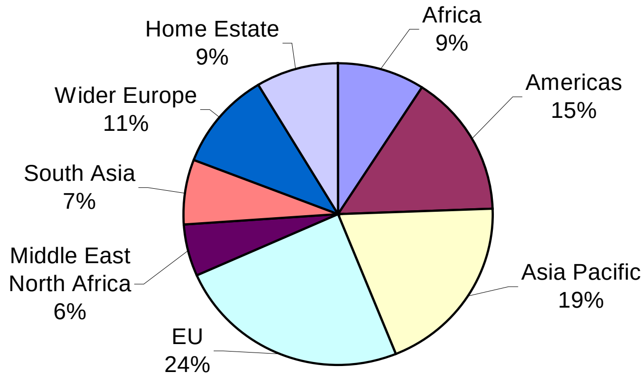
6. The present home estate includes buildings in London, Croydon and Milton Keynes. We currently house approximately 2,400 staff in two buildings at King Charles Street and the Old Admiralty Building (OAB). 120 UKVisas staff, some of whom are from the Home Office, are located at 89 Albert Embankment, and 15 FCO staff are based in Croydon. We have 1,100 staff at Hanslope Park near Milton Keynes.

7. The current overseas estate consists of some 4,300 properties, ranging from Embassy buildings to staff accommodation and other facilities. The overseas estate accommodates not only FCO staff, but also personnel from DFID, the MOD, the Home Office, HMC&E, DTI, DEFRA, the DWP and the British Council.

8. Wherever appropriate, we co-locate with EU partners and others; for example, we share buildings with EU partners in a number of locations. On a lesser scale, we maintain a UK presence in Liberia by co-locating a UK-based officer in the US Embassy in Monrovia

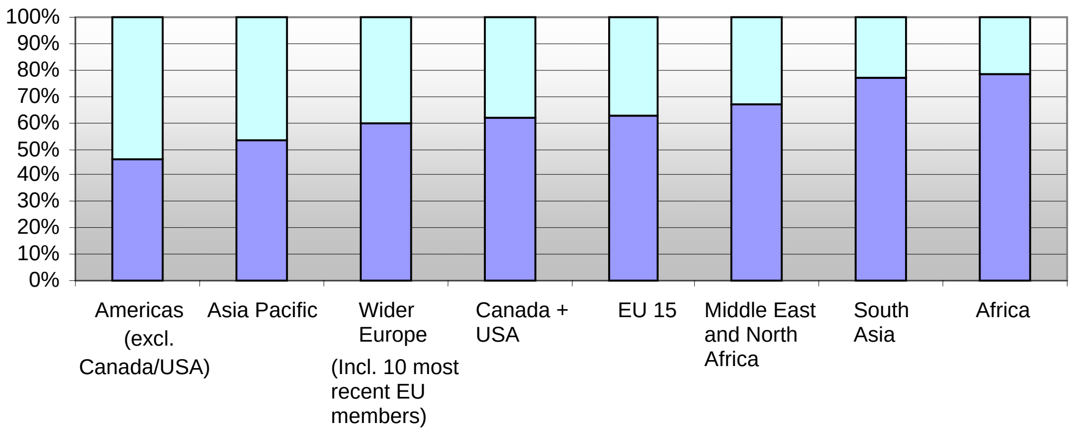
9. We use Key Performance Indicators (KPIs) to inform our decisions on the composition of the estate and the balance between leased or owned properties. We assess a property's worth to us in terms of value for money criteria, fitness for purpose, physical condition and size relative to our needs. The portfolio mix of properties is therefore not static: the estate mix responds to operational needs as well as the performance of properties. In terms of capital value, an estimated 60% of our overseas estate is owned and 40% leased.

Figure 1: **Geographical distribution of FCO Estate by Existing Use Value**



10. Figure 2 below shows the proportion of owned assets (by value) for each directorate, with Americas directorate divided into North America (Canada and the USA) and Central/South America (Americas ex CAN/USA). The proportion of owned assets increases as one moves from left to right along the chart, with Africa having the highest ownership factor on this basis.

Figure 2 - **Comparison of Estimated Capital Value of Owned Assets vs. Rented Assets**



11. The FCO's estate is regularly re-valued on an 'Existing Use' basis in accordance with Government accounting conventions. The benchmarks for these valuations are mainly government buildings and commercial offices near to the FCO's properties. As benchmarks, such buildings are not ideal, especially abroad; owners of such buildings often do not require comparable levels of safety and security to those required of a diplomatic mission. Furthermore, given its international portfolio, the FCO is uniquely vulnerable (compared with other Government Departments) to volatile overseas property markets and exchange rate movements. These factors can result in an 'impairment' caused by the revaluation of assets.

12. In recognition of these risks, the Treasury has provided the FCO an 'impairments reserve' to absorb the negative effects of unavoidable risks, thus reducing the likelihood of adverse impacts on the FCO's operations (Table 2). Given the greater investment in the estate planned for the future, Treasury have increased this reserve to £35m and £50m respectively for years 2006-07 and 2007-08.

Table 2: **Impairment Reserve**
(£ million)

Year	Impairments
1999-00	0.7
2000-01	198.2
2001-02	38.3
2002-03	59.5
2003-04	39.5
2004-05	20.0
2005-06	20.0
2006-07	35.0
2007-08	50.0

Information and Communications Technology (ICT)

13. The FCO has signed a contract with Hewlett Packard (HP) for the management, support and development of its global ICT desktop infrastructure, 'Future Firecrest'. Under the 7-year contract, the private sector partner will have overall responsibility for the end to end delivery of the desktop services to a pre-agreed level of performance. In delivering this they will work with an in-house FCO team. Responsibility for maintaining the assets rests with HP. This is in line with the existing arrangements for the delivery of our FCO telecommunications network (FTN) services, under the PFI arrangement with Global Crossing. For ICT, therefore, KPI measures have been incorporated into the agreed service levels in the service contracts.

Other assets

14. Small scale ICT, office equipment, furniture and vehicles are a relatively small proportion of the FCO’s total assets and it would not be economic to monitor them in the same way as the estate or the main ICT infrastructure. Instead, eligibility, care and maintenance requirements and disposal policy are regulated by formally established FCO-wide operating procedures.

15. In addition to the recognised asset base, the ‘Selling into Wider Markets’ initiative enables the FCO to make better use of its assets (including its assets in human resources terms), exploiting any spare capacity to earn revenues by selling services to other Government Departments, other Governments or to the private sector. Sales in 2003-04 were unexpectedly strong at £10.1 million against a target of £7.0 million. The major contributors were ICT Project Management (£3.0 million), Logistical Services (£2.1m), Conference & Visits (£1.2m), Estates & Security Services (£1.8m) and use of FCO facilities for translation, interpreting and language training (£0.4 million).

4. Investment Strategy

Managing the Strategy

16. The FCO has major investment programmes in the Estate, ICT and security fields. A Strategy Unit manages each programme. The Strategy Units work together under the

guidance of the Investment Committee to ensure that the FCO's overall strategy is delivered.

The Investment Committee - The FCO Board is responsible to Ministers for the strategic overview of investment. The FCO Board has delegated authority for investment decisions to the Investment Committee. The control mechanisms remain essentially unchanged from those described in the Departmental Investment Strategy 2002. The threshold for delegation of authority from the Investment Committee to Directorates and Strategy Units for ICT projects was raised to £2 million in 2002, the same as that for estate projects. For consistency, delegations to the British Council and BBC World Service have been raised to the same level.

Portfolio Management - To support the management of FCO's investment programmes we are piloting a new IT enabled portfolio management system. The pilot will bring together key data on resources, benefits, risks and dependencies to help plan and monitor of projects. Initially covering the ICT portfolio, the pilot will run throughout 2005 and, if successful, will be extended to cover the entire investment projects portfolio.

Investment Committee support - Specialists provide an independent certification of all major investment decisions (in excess of £2m) ensuring that all business cases seen by the Committee comply with good practice (e.g. full compliance with the HMT Green Book, Accounting guidelines and OGC guidance), (Annex IV). This process is co-ordinated by the Programme and Project Management Group (PPMG); a Centre of Excellence established in March 2003 and described in DIS 2002. PPMG has now become part of Finance Directorate's Business Systems Team (BST), which acts as the Investment Committee secretariat.

Gateway reviews. The OGC Gateway Review process underpins major investment decisions. For high-risk projects Gateway review teams are drawn exclusively from other Government Departments. For a medium risk project, the team would include one member from another government department. For a low risk project, the team would be drawn from within the FCO and carry out a 'peer review'. The Gateway process is also managed by the Business Systems Team

Risk assessment. A project's risk is assessed during the initial stage of the Gateway process using the OGC's Risk Potential Assessment (RPA). Risk is assessed against a number of criteria, including cost, the number of staff involved, geographical location and the nature of the project.

Estate Investment

17. Investment in the estate is intended to ensure that the estate as a whole provides a safe and secure platform, suitable for the delivery of all FCO's objectives and PSAs. All properties should therefore be fit for purpose, efficiently employed, and provide value for money. The Estate Strategy Unit (ESU) pursues these objectives through a continuous process of evaluation and prioritisation of investment.

18. Other key aspects of the estate strategy include - pursuing asset recycling where it represents value for money, ensuring an optimal mix of owned and leased property assets and adopting flexible working practices such as home working where practical.

Estate progress report

19. The key elements of the FCO's overseas investment strategy for 2003-06 have either been completed or are underway. They include the recent completion of new offices in Tunis and Casablanca and refurbishment of the Consulate-General in Istanbul following a major fire and the November 2003 suicide bombing. We have also during 2004/05, and with the assistance of the Treasury and others, built new offices in Baghdad and Basra in support of UK policy in Iraq. Looking forward, other projects now under way or in preparation include new offices in Kampala, Rabat, Sana'a, Doha, Algiers and Jakarta.

20. In accordance with the principle of active management and in response to the reshaping of the FCO overseas network announced in Parliament by the Foreign Secretary in December 2004, we will in the coming months dispose of a number of offices and houses.

21. Revenue from property sales equalled some £26 million in 2003/04. We expect sales revenues of the order of £10 million in 2004/05. In general, our sales programme has shifted into a lower gear. There are fewer under-performing properties to sell, and the reduction in the HM Treasury mandatory Test Discount Rate (TDR) from 6 per cent to 3.5 per cent has shifted the value for money balance in favour of owning property.

22. We have recently completed a master plan to guide future development of the FCO estate at Hanslope Park. As part of this, we shall be housing the new Future Firecrest IT system and moving some 300 staff, some currently housed in temporary facilities at Hanslope Park and some currently based in London, into permanent accommodation. We expect to complete the new IT building by the beginning of 2007, and the re-housing by the end of that year. The Hanslope Park strategy takes into consideration the FCO's commitment under the Lyons review.

23. During 2003-04 the FCO invested £47.7m in estate projects, £45m of which was spent overseas. In 2004-05 the FCO plans to spend £66.5m on the estate, £64.8m overseas.

ICT Investment

24. The FCO's ICT investment strategy aims to provide a common global infrastructure and a suite of applications that will enable the FCO to make best use of information and expertise, and to modernise working practices. There are five major ICT investment programmes to achieve this:

> Infrastructure – Programme objectives include the establishment of a common global desktop ICT system (Firecrest), and telecommunications network (FCO Telecommunications Network – FTN), with links to the government secure intranet, a separate system for handling highly classified information, and suitable technology to enable mobile and remote working;
>
> Knowledge Management – Programme objectives include the implementation of an improved secure FCO Intranet with global access, new records management facilities, and new ways of working to share experience, expertise, and to take full advantage of these facilities. Affordability constraints mean that we will only fully achieve this goal in the longer term.
>
> Management information and resource management (PRISM) – this new, integrated system will improve the financial, personnel and procurement

information available to FCO decision-makers, enabling them to improve resource and personnel management and achieve procurement savings

I-Con – This programme aims to improve the operation and efficiency of consular services through ICT and includes the implementation of biometric passports.

I-Visas - This programme aims to improve entry clearance services.

25. The investment in ICT will generate efficiencies. Some of the funds released will be re-invested in ICT to further improve service provision and on-going maintenance of the systems, enhancing staff capability in delivering our services overseas. The remaining efficiency gains will be reallocated to our priorities in accordance with our efficiency plans, submitted as part of the Gershon Review.

ICT progress report

26. We have successfully put in place a global infrastructure, in Firecrest, our desktop IT system, and the FCO Telecommunications Network (FTN). To reflect our need for more flexible methods of working we are developing the infrastructure to provide remote and mobile working capabilities. In mid 2003 we launched a procurement process to identify a private sector partner to work with FCO Services to deliver the next generation of the Firecrest desktop system. A Strategic Partner, Hewlett Packard was appointed in February 2005, and the upgrade to Firecrest should begin next year.

27. Global Crossing, the parent company of our private finance initiative supplier for FTN services, left Chapter 11 bankruptcy protection in the USA in December 2003. Following US regulatory approval for the acquisition of the Company by Singapore Technologies Telemedia (STT), we immediately began a value for money (vfm) review with the company, which completed with significant savings in February 2004. These vfm reviews will now be annual. Global Crossing is continuing its efforts to return to profitability, but in the meantime continues to provide the FCO with a high quality and good value service. We keep in close touch with both Global Crossing and STT to monitor progress of the business. This is done in partnership with the OGC, who manage the MTS Government telephony contract, which is also with Global Crossing. Contingency arrangements remain in place to ensure continuity of service in all circumstances.

28. In January 2002, the FCO signed the contract for Prism, a financial accounting and management system. At the time the largest of the new ICT and change management programmes. The Prism Programme is providing an integrated ICT system for the FCO's financial, human resources; procurement and payroll needs. The Programme runs until 2009-10.

29. Throughout the last year, UKVisas has continued to use IT to improve business efficiency and public service, whilst also strengthening the UK's immigration control and increasing its integrity. Better training and development is key, and a new staff training centre opened in Croydon in September 2004 to facilitate this. The Home Office's Immigration and Nationality Directorate (IND) now have access to UKvisas' Central Reference System (CRS) of visa application records. This means that, when necessary, immigration staff in the UK can access visa records directly, thereby speeding up IND case-working and helping to identify immigration trends. UKvisas has also upgraded the visa issuing software so that visas now include a photographic image of the visa holder.

30. Applicants in the countries listed below[1] can now submit (and often pay for) their visa applications over the Internet. This provides an effective service for applicants and makes business processes more efficient. UKvisas plans to expand this service to further Posts where there is benefit. This will not be costly, as it is web based. They are aiming for a total of 35 Posts by the end of 2005. IT has also been used to build on UKvisas' partnerships with outsource companies, many of whom now perform 'data-entry' functions. This saves the time of embassy staff who can concentrate on more specialist tasks.

31. The FCO is currently running a project to develop a system to produce machine-readable temporary passports. These temporary passports will give our overseas posts a flexible temporary passport system for those travellers who need to travel immediately and cannot wait for the turnaround period involved in issuing a new passport at the regional Hub post. They will also allow travellers whose standard 10-year validity passport has been stolen or lost to transit the US; provide a flexible, secure alternative to the current emergency passport; will enable the issue of temporary passports in out-of-the-ordinary situations.

32. Biometric passports are being developed as part of a growing need to tighten up on document security and fraud, particularly in respect of terrorist-related activities. The US Visa Waiver Programme is also a factor. The first UK biometric passports will employ facial recognition (using a high-resolution digital photograph) as the biometric identifier. This will be stored on a chip located on the observations page of the passport. A pilot will start at the Consulate General in Paris in September 2005 involving diplomatic and official passports. Assuming the pilot is successful, biometric passport issuing systems will be rolled out to 104 FCO posts in the first quarter of 2006.

33. In 2003-04, the FCO invested £11.4m in expanding and maintaining its ICT infrastructure, 16.6% of its overall ICT budget. Similar levels of expenditure are anticipated in 2004-05.

Security Investment

34. The FCO's security strategy is aimed at ensuring that all staff can work safely in a secure environment. This means that buildings at home and overseas function in a secure and effective manner and that we protect our data and systems. The security strategy is primarily delivered through specific and sustained investment in protective physical security measures and in technical security equipment.

Security progress report

35. In 2004-05, the FCO received £21.3 million (£6.8 resource and £14.5 capital) from the Treasury Consolidated Reserve, which has been used to improve security at 167 Posts. This investment was in direct response to the bombing of the Istanbul Consulate in 2003, which highlighted the fact that our overseas Posts now face a far greater threat from terrorist attack than in the past.

36. This tragic incident triggered a comprehensive review of our approach to security overseas that concluded that, while more work needs to be done in light of the increased threat levels, no fundamental shift in our approach to security was required. The review led to the development of a systematic risk management approach for assessing the likelihood-impact of threats against our Posts and for prioritising the most cost-effective ways in which we can mitigate these risks.

[1] Australia, Bahamas, Belize, Bermuda, Canada, Costa Rica, Finland, Germany, Guatemala, Hong Kong, Ireland, Jamaica, Luxembourg, Monaco, New Zealand, South Africa, Spain, USA

37. While we continue to make significant investments in the physical security of our posts overseas, the FCO has looked to introduce innovative access controls, locks, integrated protective security systems and security furniture, to ensure that security at all Posts is tailored to meet their specific needs.

38. The security of the FCO's IT networks has also become a major issue. The confidentiality, integrity and availability of the Firecrest network is business critical and the threat from organisations and individuals that would like to gain access to the system is significant. The FCO has launched an exercise known as "Chrome" to look urgently at the most appropriate architecture for the next generation of Firecrest and to strike a balance between security, operational functionality and affordability. This work requires close co-ordination between Whitehall departments because of the interconnectivity of the government's IT systems.

5. UKTI and NDPBs

UKTI

39. UK Trade International (UKTI) brings together the work of the FCO and the Department of Trade and Industry (DTI) on international trade and investment. It aims to enhance the competitiveness of companies in the UK through overseas sales and investment, and to maintain a high level of good quality inward direct investment. UKTI's work is jointly funded by the FCO and DTI as well as directly from the Treasury.

40. UKTI is dependent on the two parent Departments for provision of the basic ICT infrastructure. It attaches priority to the successful FCO Firecrest and FTN projects to provide robust and reliable desktop Internet access. The FCO has contributed £7 million to UKTI's investments during SR02 to support its Internet based E-Business Strategy, which was completed in 2003-04.

BBC World Service

41. The BBCWS has continued to modernise its transmission assets as part of its annual replacement and upgrading programme. It has also completed development on its "Go Digital" language service project in Bush House. A similar capability will be extended to overseas offices.

BBC Monitoring

42. During 2004-05 BBC Monitoring has concentrated on rolling out a new technology roadmap that encapsulates IT development and implementation standards, updating its IT infrastructure, and strengthening Business Continuity. The single largest project during the year has been updating its Windows NT desktop to Windows XP allowing full digital multimedia working across its international network. Moving into 2005-06 BBCM will be consolidating its systems and removing the remaining NT elements from its infrastructure and further enhancing its multimedia acquisition, storage and customer delivery systems.

British Council

43. The British Council has maintained its long-term estate investment programme to maintain the effectiveness and efficiency of its global estate. It has reinvested £6m of disposal proceeds (both residential and office accommodation), and reduced the total footprint funded by Grant in Aid by 16%, including a 25% reduction in its London premises.

The British Council thereby remains on track to achieve its 2006 KPI targets for efficiency, fitness-for-purpose and fire/electrical safety of its global estate.

44. The British Council has continued to refresh and strengthen its IT infrastructure, drawing on the capabilities of its private sector partner to enable good practice in global systems management. In addition, £5.9m of funds from SR2002 has funded the design and development of its global Finance and Business system (FABS). The first phase of implementation was carried out early 2005 in line with strategic plans.

6. Investment Plans

2004 Spending Review

45. Prior to the SR2004 Spending Review Settlement, the FCO had a capital budget of £84 million for 2005-06. Together with a reserve claim for 2005-05 the 2004 Spending Review Settlement increased the FCO's capital budget by £36/35/33 million over the three years 2005-06 to 2007-08. In addition, the British Council will receive an extra £7.8/7.8/7.8 million over the triennium. Forecast revenues from estate asset recycling are expected to provide additional funds of £30 million over the triennium. The FCO's current capital expenditure plan is summarised at Table 3 below.

Asset Disposals/Recycling

47. Under SR2000, the FCO had a £100 million asset-recycling target. The SR2002 Settlement restated the asset-recycling ceiling as 3% of annual DEL provision (i.e. around £41 million in 2003-04, £42.5 million in 2004-05 and £44.5 million in 2005-06). We expect sales revenues of the order of £10 million in 2004-05 and in general, our sales programme has shifted into a lower gear. There are fewer under-performing properties to sell, and the reduction in the Test Discount Rate from 6 per cent to 3.5 per cent has shifted the value for money balance in favour of owning property. We agreed during the 2004 Spending Round negotiations an asset-recycling ceiling of £15m for the SR2004 period, though we are planning for receipts of £10 million p.a.

48. Gross asset recycling revenues were split 50:50 between investment in the estate and ICT during the SR2000 period. From April 2004, the FCO funded the costs of re-providing properties as the first claim on the asset recycling revenues (around 60% of gross receipts) and split the remaining revenues equally between investment in the estate and ICT. Thus the share of asset recycling revenues reinvested in the estate rose from a gross figure of 50% annually during 2003-04 to 80% annually in 2004-05 and 2005-06. Given the lower revised targets for SR04, the FCO will re-direct all of the planned £10-15m in recycling receipts to the estate from 2005-06.

The Estate

49. The increased security threat to FCO properties requires a proportionate and measured response. Where appropriate, the FCO is enhancing the protection of its buildings, for instance increasingly the level of 'stand off' distance to protect against bomb blasts. The FCO is planning to invest around £250 million in new buildings including reprovision over the next three years predominately to ensure greater protection for FCO staff and to meet our health and safety requirements. The FCO will continue to prioritise other estate investment on a case by case basis, reconfiguring the offices and residencies to meet its needs and release resources for reprioritisation in projects providing better value for money.

ICT

50. The FCO has been reviewing its need for electronic information management systems against the requirements of the Freedom of Information Act and the FCO Strategy's need for more flexible working. Significant improvements are planned. The FCO's web-site receives an average 65,000 users daily, downloading 3 million web pages a month. To maintain the service in the light of increasing demand, we will begin in 2005 looking at the requirements for the next generation of our web-site.

Security

51. The FCO is making significant investments in physical security at Posts, including better access control systems and blast-resistant windows, especially in new and refurbished buildings. Technical security investments will include the wider use of biometrics technology for more effective controls. The FCO is acquiring greater numbers and a wider variety of protected vehicles and ensuring that Posts receive those that are suitable for the local environment.

Table 3: **FCO Capital Plan**
(£ million)

	2005-06	**2006-07**	**2007-08**
Source of Funds			
FCO Baseline SR 2004	76.2	76.2	76.2
Capital Modernisation Fund	-	-	-
Supplementary Estimate Changes (net)	10.9		
Near Terms Reserve Claim	35.9	-	-
SR2004 Uplift	-	35.0	33.0
	123.0	111.2	109.2
Asset Recycling	10.0	10.0	10.0
FCO Core Capital Budget	**133.0**	**121.2**	**119.2**
British Council	7.8	7.8	7.8
BBC World Service	31.0	31.0	31.0
BBC Monitoring	-	-	-
Total FCO Vote	**171.8**	**160.0**	**158.0**
Memo			
Uses of Funds – Core FCO[2]			
ICT	21.3		
Estate	37.8		
Security	41.8		
Other Directorates, Public Services, UKTI	31.1		
Presidencies and DUP	1.0		
Total FCO	**133.0**		

[2] Allocations for 2006-07 and 2007-08 will be made during an internal Resource Allocation Round (RAR) to be completed by the end of 2005.

Other Directorates Capital expenditure

52. Investment by other Directorates, UKVisas and Consular will total around £23 million in 2005-06. Delegated authority for the geographical Directorates covers vehicle replacements, equipment, furniture and small-scale estate, ICT and security work not captured by other budgets.

Departmental Unallocated Provision (DUP)

53. The SR2002 Settlement required the FCO to create a DUP. This requirement remains for the SR04 period. It is prudent for this to cover all elements of the FCO's budget including capital. The FCO considers that the capital element of this provision should be £2/2/2million.

BBC World Service

54. The BBC World Service intends to continue its investment programme in two main ways by modernising transmission assets that are due for replacement, or upgrade where there is a demonstrable need for their continued use. The overarching aim is to ensure that the BBC World Service is digitally capable and can thereby compete effectively across existing and new platforms.

BBC Monitoring

55. BBC Monitoring intends to continue its digital programme development by installing digital workstations and upgrading customer delivery systems. Its other key investments involve replacing production systems at all sites and deploying a high quality portal to provide customers with an easy method of access to its products and services.

British Council

56. The British Council has aligned its investment plans to its new corporate business strategy, Strategy 2010. The British Council will continue the roll out of the global integrated business system (FABS) to all overseas operations by April 2007. It will assess a range of modern business applications such as Collaborative Working On-Line, Customer Relations Management, Human resources management, and e-Learning. Prioritisation will be based on strategic business benefits, such that some projects will require low tech solutions in some instances.

57. The British Council will invest £4m in 2004-05 and £6m in 2005-06 to improve security at its most vulnerable locations, to a level consistent with discharging its duty of care to its customers and staff. These measures form an integrated strand of its global estates strategy.

PFI/PPP projects

58. Under the Office for Government Commerce's 'Achieving Excellence' directives, we consider whether a public private partnership approach, including the private finance initiative, would be likely to deliver best value for money at an early stage in the process for appraising options for all proposed large investment projects. Every large project (i.e. large enough to be considered by the Departmental Investment Strategy Group) is considered for PFI funding under the umbrella of the Public Private Partnership.

59. The FCO has two major private finance initiative (PFI) contracts: the new embassy building in Berlin, our telecommunications network FTN (described above). We also have our new 7-year partnership deal for the development and support of the Future Firecrest

desktop infrastructure (see Section 3 above). The capital value of these contracts is currently £91 million.

7. Action plan for improvements

60. The 2002 Departmental Investment Strategy identified areas where the FCO intended to improve performance. We have earlier explained our plans for portfolio management and improving our risk management techniques.

61. In addition, the FCO completed its trial on the devolution of estate costs to Middle East and North Africa Directorate (MENA). It has drawn useful lessons, which will be considered further once Prism has been rolled out overseas, thereby providing the necessary data for any devolution scheme to be fully workable.

62. Furthermore, we have completed the development of an estate prioritisation model as an aid to medium term estate planning that ranks the relative benefits per £1 of investment that we derive from estate investment. The benefits being enhancements to security; health and safety; and operational performance. We have also developed a simple but thorough security risk management model that feeds into this process and ensures robust risk management for all our posts.

63. Our greatest challenge for this SR period is to improve our performance on realising the benefits from our investment, especially in regard to ICT change management programmes. We are addressing this by establishing through a new Change Delivery Group, mechanisms to monitor the delivery of the benefits that are approved as part of the investment decision for significant change projects. Responsibility for monitoring and reporting on benefits, as well as delivering the programme outputs on time and to cost, remains with the programme owner.

Annex I - SR2004 targets (The FCO Strategic Priorities) compared with our SR2002 equivalent

SR02 Target	Status under SR04
PSA 1 Reduce the threat to the UK from international terrorism and the proliferation of weapons of mass destruction. Reduce international crime, drugs and people-trafficking affecting the UK, measured by Whitehall-wide targets. Contribute to the reduction of opium production in Afghanistan, with poppy cultivation reduced by 70% within 5 years and elimination within 10 years.	Rolls forward and becomes PSA target 1 and PSA target 2 **PSA 1** To deter, check and roll back programmes for the development of WMD and related delivery systems in countries of concern, and to reduce the supply of, and demand for, such weapons world-wide. **PSA 2** To reduce the risk from international terrorism so that UK citizens can go about their business freely and with confidence.
PSA 2 Reduce tension in South Asia, the Middle East, and Balkans and elsewhere through action with our international partners, paying particular attention to regions at risk from nuclear confrontation.	Rolls forward and becomes part of PSA target 3 **PSA 3** By 2008, deliver improved effectiveness of UK and international support for conflict prevention by addressing long-term structural causes of conflict, managing regional and national tension and violence, and supporting post-conflict reconstruction, where the UK can make a significant contribution, in particular Africa, Asia, Balkans and the Middle East. (Joint with the Ministry of Defence and the Department for International Development)
PSA 3 Strengthen European security through an enlarged and modernised NATO, an effective EU crisis management capacity and enhanced European defence capabilities. (Joint target with the Ministry of Defence)	Rolls forward and becomes PSA target 5 **PSA 5** Play a leading role in the development of the European Security Agenda, and enhance capabilities to undertake timely and effective security operations, by successfully encouraging a more efficient and effective NATO, a more coherent and effective European Security and Defence Policy (ESDP) operating in strategic partnership with NATO, and enhanced European defence capabilities. (Joint with the Ministry of Defence)
PSA 4 Improve effectiveness of the UK contribution to conflict prevention and management as demonstrated by a reduction in the number of people whose lives are affected by violent conflict and a reduction in potential sources of future conflict, where the UK can make a significant impact. (Joint target with the Ministry of Defence and the Department for International Development)	Rolls forward and becomes PSA target 3 **PSA 3** By 2008, deliver improved effectiveness of UK and international support for conflict prevention by addressing long-term structural causes of conflict, managing regional and national tension and violence, and supporting post-conflict reconstruction, where the UK can make a significant contribution, in particular Africa, Asia, Balkans and the Middle East. (Joint with the Ministry of Defence and the Department for International Development)
PSA 5 Deliver measurable improvement in the business performance of Trade Partners UK's customers; and maintain the UK as the prime location in the EU for foreign direct investment. (Joint target with the Department of Trade and Industry	Rolls forward and becomes PSA target 6 **PSA 6** By 2008, deliver a measurable improvement in the business performance of UK Trade and Investment's international trade customers, with an emphasis on new to export firms; and maintain the UK as the prime location in the EU for foreign direct investment. (Joint with the Department of Trade and Industry)

PSA 6 Secure agreement by 2005 to a significant reduction in trade barriers leading to improved trading opportunities for the UK and developing countries. (Joint target with the Department of Trade and Industry and the Department for International Development)	Rolls forward as DfID and DTI target with contribution from FCO
PSA 7 Make globalisation work for sustainable development in the UK and internationally (and particularly in Africa) by promoting democracy and the rule of law, good economic and environmental governance, and security of long-term energy supply, measured by specific underlying targets.	Rolls forward and becomes PSA target 8 **PSA 8** To promote sustainable development, underpinned by democracy, good governance and human rights, particularly through effective delivery of programmes in these and related fields.
PSA 8 A modern, reformed, and enlarged EU, as measured by progress towards UK policy priorities including economic liberalisation, CAP reform, justice and home affairs, an effective CFSP, and the 2004 IGC; and greater support for Europe in the UK.	Rolls forward and becomes PSA target 4 **PSA 4** A reformed and effective (post-enlargement) EU, as measured by progress towards achieving UK policy priorities, including a robust and effective Common Foreign and Security Policy (CFSP) which complements NATO.
PSA 9 Effective advice on, support for, and delivery of Government objectives across the full range of the UK's international interests through a viable and responsive network of diplomatic Posts. Increased influence overseas and improved perceptions of UK and HMG policies, as measured by opinion polls.	Not rolled forward as a PSA target. Effective diplomatic activity underpins the delivery of all FCO targets
PSA 10 Effective and efficient consular and entry clearance services, as measured by specific underlying targets.	Rolls forward and becomes PSA target 9 **PSA 9** Effective and efficient consular and entry clearance services, as measured by specific underlying targets.
PSA 11 Improvement in the governance, environment and security of the overseas territories, and more diversified economic development, as measured by implementation of the commitments in the 1999 White Paper.	Not rolled forward as a PSA target
PSA 12 Improve value for money across the full range of FCO, BBC World Service and British Council activities by achieving year on year efficiency gains of 2.5%.	Efficiency taken forward through the Government's agreed efficiency targets

Annex II - SR2004 PSA targets aligned to the FCO Strategic Priorities

SR 2004 PSA targets	FCO Strategic priorities
PSA 1 To deter, check and roll back programmes for the development of WMD and related delivery systems in countries of concern, and to reduce the supply of, and demand for, such weapons world-wide.	**SP1** A world safer from global terrorism and weapons of mass destruction
PSA 2 To reduce the risk from international terrorism so that UK citizens can go about their business freely and with confidence.	
	SP2 Protection of the UK from illegal immigration, drug trafficking and other international crime.
PSA 3 By 2008, deliver improved effectiveness of UK and international support for conflict prevention by addressing long-term structural causes of conflict, managing regional and national tension and violence, and supporting post-conflict reconstruction, where the UK can make a significant contribution, in particular Africa, Asia, Balkans and the Middle East. (Joint with the Ministry of Defence and the Department for International Development)	**SP3** An international system based on the rule of law, which is better able to resolve disputes and prevent conflicts.
PSA 4 A reformed and effective (post-enlargement) EU, as measured by progress towards achieving UK policy priorities, including a robust and effective Common Foreign and Security Policy (CFSP) which complements NATO.	**SP4** An effective EU in a secure neighbourhood
PSA 5 Play a leading role in the development of the European Security Agenda, and enhance capabilities to undertake timely and effective security operations, by successfully encouraging a more efficient and effective NATO, a more coherent and effective European Security and Defence Policy (ESDP) operating in strategic partnership with NATO, and enhanced European defence capabilities. (Joint with the Ministry of Defence)	
PSA 6 By 2008, deliver a measurable improvement in the business performance of UK Trade and Investment's international trade customers, with an emphasis on new to export firms; and maintain the UK as the prime location in the EU for foreign direct investment. (Joint with the Department of Trade and Industry)	**SP5** Promotion of UK economic interests in an open and expanding global economy
PSA 7 To increase understanding of, and engagement with, Islamic countries and communities and to work with them to promote peaceful political, economic and social reform	**SP6** Sustainable development, underpinned by democracy, good governance and human rights
PSA 8 To promote sustainable development, underpinned by democracy, good governance and human rights, Particularly through effective delivery of programmes in these and related fields.	
	SP7 Security of UK and global energy supplies
	SP8 Security and good governance of the UK's Overseas Territories
PSA 9 Effective and efficient consular and entry clearance services, as measured by specific underlying targets.	**Public services**

Annex III - FCO Estate Strategy

Introduction

1. This strategy sets out the broad principles on which ESU will, under the direction of the Departmental Investment Strategy Group (DISG) and the FCO Board, manage the FCO home and overseas estate during the SR2004 period.

Detail

2. The FCO is and will remain a global organisation, focussed on the achievement of HMG's agreed International Strategic Priorities. The FCO estate, home and overseas, is a valuable, often high-profile portfolio of public assets, deployed in support of these Priorities, and crucial to their achievement. The estate must provide secure, flexible and cost-effective office accommodation for our staff at home and abroad, and suitable residential accommodation for UK-based officers serving overseas.

3. The FCO estate is unique in virtually every respect: geographical spread (170 countries); range of property types; degree of Parliamentary and media scrutiny; and levels of threat from terrorists, hostile intelligence services and, in places, mob violence and other crime.

4. FCO buildings overseas are the principal platform for British diplomacy. They must; support Posts in the fulfilment of their operational requirements; and represent value for money. In addition, many of our buildings overseas make a highly visible statement about the UK, and are frequently taken as an indicator of our view of the host country. As opportunity offers, we must develop the estate to reflect a modern and diverse vision of the UK.

5. The FCO will continue to need a presence in Central London to support Ministers and engage key external stakeholders. Hanslope Park will continue to provide flexible office accommodation for many support services and will, in future, provide a secure hub for our global Information and Communications Technology (ICT) infrastructure. We envisage concentrating the home estate on the Main Building, the Old Admiralty Building, and Hanslope Park, and expect significant staff moves to Hanslope in fulfilment of our Lyons Review commitments.

6. All FCO estate decisions are based on the principle of active management over the property life-cycle: buying, leasing or building; custodianship, management and maintenance; and in some cases the sale or other disposal, all with a view to maximising our return from these public assets. Central direction of the estate, under the authority of the Departmental Investment Strategy Group (DISG) and the FCO Board, rests with Estate Strategy Unit (ESU). ESU commission estate services from the FCO's in-house service provider, Estates and Security Group, or the market, as appropriate. Geographical Directorates play a vital role in running the Estate on the ground overseas: 50% of all FCO Estate expenditure is devolved to them.

7. All FCO estate decisions will continue to reflect our duty of care to our staff and others who use our buildings. Particularly in the light of the Istanbul bomb, estate spending will for the next triennium give priority to improving the security of our buildings overseas, followed by spending on health and safety, followed by spending on fitness for purpose. Our security spending will focus on minimising the risks to our staff. Our health and safety spending overseas will focus on compliance, wherever possible, with UK standards; equally, and again wherever possible, we will ensure that our buildings

comply with the Disability Discrimination Act (DDA) and other UK legislation of this nature. Many estate projects will naturally address all these factors.

8. We will also during the next triennium seek to increase the flexibility of our buildings, taking advantage of developments in IT and changes in working practices to make the most effective use of our buildings, offices and residential accommodation alike. In particular, we will look for open-plan office layouts, and at the scope for hot-desking and remote working. ESU will with Directorates implement the recommendations of the Glover review of overseas residential accommodation.

9. We will also over the next triennium seek opportunities for further co-location with the other main arms of HMG overseas, notably DfID and the British Council, where this would increase value-for-money; we shall also look for co-location opportunities with EU partners and others. We will be mindful of the legitimate interests in the estate of the Treasury, particularly the Office Government Commerce, and will seek to follow the latter's guidelines for procurement, where we will as appropriate seek innovative procurement strategies. We will be open to new ways of managing the estate including, potentially, radical out-sourcing. We will be mindful of parliamentary interest, and Open Government considerations.

10. In addition to our external stakeholders, ESU will work closely with the FCO's public service provision organisations: UK Visas; UKTI and Consular Division, particularly as regards funding. We shall also work closely with internal stakeholders, particularly Security Strategy Unit and IT Strategy Unit. Above all, ESU's approach will be collegiate.

Background and some current issues

11. We have some 4300 properties overseas - freehold and leasehold - of which 857 are Embassies, High Commissions and other offices, and the residences of Heads of Mission. These 857 properties are the responsibility of ESU. Posts are responsible for staff housing. The highest levels of property ownership are in South Asia and South Africa; the lowest, in South and Central America, Asia/Pacific, and Central Europe/the FSU.

Prioritisation

12. In accordance with the overall strategy set out in the main paper, and as approved by DISG, we shall from 2005/06 prioritise the funds available to us across the network, rather than, as in previous years, allocating informal capital envelopes to Directorates.

13. The underlying methodology can be summarised in the table below:

BENEFITS	COSTS
Improvements in : • Security and; • Health and safety • Fitness for purpose(FFP); As a result of the project.	Increases in: • capital cost; • rental cost, and; • running costs; as a result of the project. These costs contribute to an assessment of the increased Net Present Cost (NPC) caused by the project.

14. The new system:

- gives us global priorities;
- is more transparent;
- accounts for costs as well as benefits;
- encourages spending to be scaled to expected benefits and;
- encourages early consideration of important project data and allows benchmarking of costs.

In particular, the new system makes it much easier to assess the opportunity cost of a given project.

15. But the new system is not perfect:

- many of the judgements underlying the input data are necessarily subjective;
- ‘high cost’ projects will rank lower than low cost projects, although the former may be mission-critical.

DISG therefore approved the new system on the basis that it was a valuable tool, and guidelines for prioritisation - but not a straightjacket. ESU will continue to seek DISG confirmation of the resultant priorities.

Lease or buy?

16. The lease versus purchase decision should continue to rest, primarily, on value for money considerations. Leasing is not necessarily more flexible than owning. The choice depends partly on what length of lease may be obtained and what flexibilities such as break clauses, can be negotiated. In general terms, committing to a longer lease will enable the FCO to negotiate a lower rent. But a lease can only be terminated when it expires, or when there is an in-built break clause (or if a landlord can be "bought-out"). By contrast, if the FCO purchases a freehold it is usually free to sell that interest whenever it so wishes.

17. Where we are taking property for the long term, we will always compare the full costs of owning and leasing, including the capital charge. Where we cannot be sure of our long-term property needs; for example, in the case of an office for a service provider where we cannot be sure of demand, the balance of advantage may be with leasing, even though the immediate costs of buying are perhaps lower. For small, short-term needs, serviced offices may be best.

…or sell?

17. There are a significant number of fixed points in the FCO's overseas network, however, the overall pattern of our representation overseas is anything but static: Posts open and close; staff numbers at Posts rise and fall. We have had asset recycling agreements with the Treasury since the mid-1980s and have, since 1998, sold some £127m of estate assets (40% from two surplus land sales), reinvesting 50% of the net proceeds in the estate and directing the balance to IT investment. The reinvestment percentage was increased to 80% with effect from April 2004.

18. As part of our policy of active management, we shall continue to sell properties that we no longer need, or where we can deploy the funds released to greater advantage elsewhere. However, unless there are major changes of policy in respect of the nature and pattern of HMG's overseas representation, we judge that further large sales or other deals are unlikely. We note that high-profile sales can be difficult to carry through successfully, and can be controversial, particularly where "historic" buildings are involved.

Historic Properties

19. The FCO estate, home and overseas, includes a number of properties accepted as of special architectural or historical importance. These include 40 Residences, with “designated areas” (for which ESU are responsible). Where the open market value of such a property is very large in relation to the present importance of the country in question, we shall need to think hard whether it should be retained. We shall test, rigorously, the "representational" arguments, and we shall consider whether such properties convey the right message about the UK. We will consult Ministers on major decisions affecting the historic properties.

The Home Estate

20. The strategy for the Home Estate (as set down by the FCO Board) is to base all staff in the Main Building and the Old Admiralty Building. At present, other staff are based in Apollo House, Croydon, at Hanslope Park, and at 89 Albert Embankment (UK Visas). We also have Lancaster House for conferences and Government Hospitality: the lease expires in July 2007, and 1, Carlton Gardens, the Foreign Secretary’s official residence: the lease expires on this building in April 2005.

21. Following a comprehensive space audit of the Main Building and Old Admiralty Building, we are redeploying staff in support of the new structures established by the Organisation Project. We expect to make further space savings as the FCO reduces staff numbers, and as our Lyons commitments to move staff from London to Hanslope Park kick-in. These reductions, and works in the Main Building, will facilitate the surrender of Apollo House and Albert Embankment.

More devolution?

22. The precise division of responsibility as between the strategic estate function fulfilled by ESU, and the service provision function fulfilled by ESG (or the market) is presently under consideration in the Internal Market Review. Whatever the outcome of that review, however, we do not expect further devolution of estate budgets and responsibilities to Directorates and Posts. An earlier pilot project to devolve capital

charges and associated powers to a Directorate (MENA) has proved unsuccessful, and has been superseded by the establishment of a global prioritisation system.

Annex IV - FCO Business case procedures.

Key Stages of a Business Case

Key elements within each of the three developed stages of a business case

Strategic Outline Case
- meets business needs;
- affordable;
- achievable;
- appropriate options explored; and
- likely to achieve value for money.

Outline Business Case (pre-tender)
- business need continues to be met;
- confirmation that priorities remain unchanged;
- confirmation that preferred option is still appropriate;
- tender evaluation criteria (agreed with key stakeholders);
- procurement strategy;
- risk register;
- targets for achieving value for money;
- reconciliation of projected whole-life costs (reviewed and accepted by key stakeholders); and
- confirmation that a successful outcome can still be achieved.

Full Business Case (pre-award)
- re-assessment of strategic, economic, financial, commercial and project management factors;
- confirmation that priorities remain unchanged;
- comparison of key objectives and final bid;
- cost/benefit/risk analysis against final bid;
- culture change requirements of final bid;
- comparison of costs against budget and pre-tender estimates;
- critical success factors;
- responsibility for delivering and harvesting identified benefits;
- agreed process for measuring benefits; and
- post-implementation review plan.

Business Case Template: Strategic Outline Case

The strategic case – strategic fit, business need and scope

- The strategic context – fit with the FCO's strategy and related projects, government policy imperatives and existing arrangements
- Business need and drivers for change – what is wrong with the status quo?
- Key stakeholders and nature of their interest in the project
- Investment objectives, scope and desired service outcomes
- Constraints

The economic case – identifying appropriate options

- Wide range of options for meeting the project objectives (including doing nothing)
- Assessment criteria

- Long-listing and short-listing of options to identify which is likely to offer best value for money
- SWOT analysis
- High level benefit appraisal (financial and non-financial)
- High level appraisal of costs, where information is available
- High level analysis of strategic risks
- Shortlist of options for more detailed assessment

The project management case – “achievability”

- Critical success factors
- Project management arrangements
- High level risk assessment and risk management strategy

The commercial case – the business model and potential deal

- Assessment of procurement options to determine how to maximise value for money
- Assessment of the likely attractiveness to providers (including PFI, PPP and Prime Contractor)
- Assessment of whether or not the project is suitable for PFI funding
- Nature of further work required to investigate the market place and inform the procurement process

The financial case – affordability

- High level affordability analysis
- Ability and willingness of budget holders to meet the resource implications
- Statement of support from key stakeholders