

**TWELFTH REPORT FROM THE FOREIGN AFFAIRS COMMITTEE
SESSION 2001-2002**

**FOREIGN AND COMMONWEALTH OFFICE
ANNUAL REPORT 2002**

**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 2001-2002 on the 2002 Annual Report of the Foreign and Commonwealth Office, and is grateful for the Committee's helpful and positive observations. This Command Paper sets out the Government's detailed response to the Report, in particular to the Committee's 34 specific conclusions and recommendations.

Recommendation a: We recommend that the FCO ensure that financial information given prominence in future Annual Reports is accessible to the lay reader (paragraph 8)

Recommendation b: We recommend that the FCO re-examine the format in which it presents financial information, to ensure maximum readability and accessibility (paragraph 9)

Recommendation c: We recommend that the FCO ensure that in future Annual Reports there is adequate explanation of the basis on which financial information is calculated (paragraph 10)

Recommendation d: We recommend that the FCO take greater care to ensure that future Annual Reports contain correct financial information before going to press (paragraph 11)

Recommendation e: We recommend that the FCO seek, within the boundaries of Treasury guidance, to include in future Annual Reports the most up-to-date information that it holds on spending by posts overseas and on the FCO budget broken down by command (paragraph 13)

Recommendation f: We recommend that the next Annual Report should contain a comparison between the FCO's public service agreement targets as agreed in 2000 and in 2002, and that similar comparisons should appear in subsequent Reports (paragraph 15)

The FCO welcomes recommendations a - f and will address them in the 2003 Departmental Report.

Recommendation g: We recommend that the FCO should publicise, in future Annual Reports and elsewhere, the benefits it has achieved at relatively little financial cost, and that it should also be prepared to admit where projects have failed to produce the benefits expected of them, with an explanation of why this was the case (paragraph 17)

We accept this recommendation in principle. The FCO is considering how best to reflect cost benefit analyses, in the 2003 Departmental Report.

Recommendation h: We recommend that the Government, in its response to this Report, should set out what progress has been made in expediting the FCO's

response time to the need to establish new diplomatic premises overseas, with particular reference to the use of containers (paragraph 22)

Work is well advanced to ensure that the FCO has a rapid response capability. On the basis of experience in Kabul, the FCO has scoped the use of pre-fabricated accommodation units that can be held in readiness for immediate deployment. Contracts are now in place. This will enable a small team of diplomatic staff to become fully operational, at short notice, anywhere in the world.

Recommendation i: We recommend that consideration be given to establishing a register of former diplomatic staff prepared to be brought out of retirement for limited periods to respond to crises such as that in Afghanistan (paragraph 24)

All staff who are due to retire are invited to register with the FCO's Outplacement and Career Counselling Service (Prosper). Over 1400 retired FCO officers are also members of the Foreign and Commonwealth Office Association (FCOA). Both Prosper and FCOA maintain databases containing members' details. We are using these databases to identify volunteers to help in our response to crises, as was the case, for example, over Afghanistan. The FCO is considering how the present system can be refined or a better system put in place.

Recommendation j: We recommend that the next Annual Report should report progress on the development of systems for responding to international crises and for the rapid deployment of serving or retired diplomatic, consular or other personnel in response to changing circumstances worldwide (paragraph 27)

The FCO has set up three Rapid Deployment Teams that can be despatched to support Posts when a major consular crisis occurs. These teams are on 24 hours stand-by in rotation.

Each Rapid Deployment Team is led by a senior Diplomatic Service officer and comprises about eight staff, equipped with IT and communications. The precise size and composition of the team will depend on the circumstances, but the teams include a core of staff with consular experience and organisational skills. Counsellors and police liaison officers will reinforce the teams as necessary. When deployed, the teams will be under the overall charge of the Head of Post. Their role includes providing help to British nationals affected by the incident, and to the families of victims; establishing links with the local authorities and emergency services; and ensuring efficient co-operation with other British agencies, such as the Police, who may be called to the scene.

The FCO is developing training courses for all members of the Rapid Deployment Teams. The courses will cover issues such as dealing with the bereaved, family liaison, body identification, the work of coroners and pathologists and organisational matters including the use of dedicated IT and communications equipment.

The FCO is also reviewing its structure for managing consular crises in London, to take account of the variety and number of events that can occur at any one time. FCO Consular Division is being reinforced as a result of this review. Arrangements for

staffing both consular and other crises have been developed in the light of recent experience, and this includes calling upon retired staff who are willing to be available. A wider review has considered the need for improved crisis handling capacity in the FCO as a whole. We are looking to establish a 24 hours a day, 7 days a week Situation Centre providing continuous monitoring of events and a rapid alert facility. The Situation Centre would incorporate the previous Out of Hours cover provided by the Resident Clerks.

Recommendation k: We recommend that the Government set out in its response to this Report how the FCO has been funding its increased security costs since 11 September, to what extent these costs have been met by new money, and to what extent by scaling back other activities (paragraph 30)

The Reserve Claim in 2001 provided £26.9 million, of which £9.6 million (and a provision for bringing forward a further £3.7million capital from future years) was solely for increased security costs.

While some of this money went toward advancing essential resilience projects, including Business Continuity Planning, a large proportion of the funds was used to meet immediate essential security requirements both in the UK and overseas.

Continued security requirements from 11 September ran into the new Financial Year (2002-03), and additional requirements have come from the subsequent threats and terrorist actions. The FCO has had to fund these through reprioritising resources.

Some PSA delivery work of a lower or less urgent priority has had to be put back into the new Financial Year (2003-04).

Security at home and overseas has been reviewed in order to enhance security measures and provide a more efficient and cost-effective service. Capital investment in the installation of access controls in UK buildings has begun. This will significantly reduce the administration costs in guarding manpower. Transfer of the responsibility for procurement of security equipment to purchasing experts has released staff resources and realised savings in excess of £250,000. Project management has been introduced into our protective system installations, providing greater visibility, value for money and an ability to prioritise. Implementation of other reviews is likely to happen in the year ahead, particularly in the areas of overseas security management and armoured vehicles, where reorganisation and recentralisation of budgets will provide flexibility in global deployment and maximise purchase savings.

Recommendation 1: We recommend that the FCO include in its response to this Report updated information on its ability to provide secure communications facilities to its diplomatic staff, wherever they may be in the world (paragraph 32)

The FCO provides secure communications (up to and including Secret, with Top Secret to some) to all its Embassies and High Commissions. It provides secure communications (up to and including Restricted) to some of its Consular Posts. The FCO also maintains satellite based secure communications (up to and including Secret) equipment for rapid deployment in any location following emergencies, crises

or the need quickly to establish a UK presence. In addition the FCO now has formal agreements with other Government Departments that enable us to share their emergency communications facilities.

Recommendation m: We conclude that the FCO is right to consider whether there are ways in which it "can deploy [its] network of posts overseas more flexibly or more efficiently", but that it must guard against any risk that attempts to meet efficiency targets set by the Treasury might jeopardise the effectiveness of its diplomatic and consular activities (paragraph 38)

The FCO is considering a number of ways in which British influence overseas may be projected by new, flexible means without impairing efficiency or effectiveness. The FCO will consider any reasonable proposal, including co-location with EU partners and other like-minded countries, if this can be justified in terms of optimising the service provided, and achieving value for money.

Recommendation n: We conclude that the objectives and targets set out in the 2002 Spending Review reflect with relative accuracy the work and aims of the FCO, but that it is hard to envisage how the FCO's contribution to achieving (or failing to achieve) these aims can be realistically assessed (paragraph 40)

The FCO will publish information on performance measurement in a Technical Note, which will be available on the FCO website shortly.

Recommendation o: We recommend that the next Annual Report should explain how the FCO has contributed to the reduction of opium production in Afghanistan over the previous twelve months (paragraph 41)

The 2003 Departmental Report will describe the role played by the FCO in co-ordinating international counter-narcotics assistance to Afghanistan and the actions the FCO has taken to help reduce opium production in Afghanistan in the period covered by the Report.

Recommendation p: We recommend that the Government clarify in its response to this Report how the Global Opportunities Fund will work, the sorts of projects that it will sponsor, how applications for funding will be made, and what differentiates the GOF from pre-existing sources of project funding (paragraph 42)

We are addressing these issues as part of a wider review of FCO programme budgets. We expect the Global Opportunities Fund (GOF) to support activity in four main areas: human rights, good governance (political and economic), energy and environment, and international security (including counter-terrorism). It will also cover our growing Science and Technology work overseas. This will build on existing activity supported by the Westminster Foundation for Democracy, Human Rights Project Fund, and Environment Project Fund, while allowing for expansion of activity in areas like energy security and counter-terrorism. To ensure complementarity and simplify administration, we plan to bring these existing budgets under the GOF chapeau while preserving, where appropriate, their distinct identities. The Conflict

Prevention Pools (co-owned with MOD and DFID) will continue to be managed separately.

We will use GOF to support delivery of the FCO's Public Service Agreements (PSAs) for 2003-2006. We are developing a series of GOF programme strategies, each linked to one or more PSA targets, to underpin project activity. These could include, for example, helping to develop new sources of energy supply and promote sustainable energy policies worldwide. Individual project bids will then be invited to support the programme strategies. FCO Posts will often be involved in coordinating funding applications, but some applications might be made directly by non-governmental organisations (NGOs) and other partners. Implementation of projects is likely to involve a wide range of organisations, from NGOs to international organisations to foreign Governments.

In short, GOF will bear some similarities to existing FCO programme budgets. But it will bring additional resources, which will be carefully targeted through programme strategies to support delivery of FCO PSAs. We see the Know How Fund as a useful model, and are reviewing the lessons learned from this in consultation with DFID.

Recommendation q: We recommend that the Government set out in its response to this Report how the plans of the BBC World Service and British Council have been affected by the results of the 2002 Spending Review (paragraph 46)

BBC World Service:

The award to the BBC World Service of additional funding of £48 million over 2003-06 will be on top of an annual funding baseline of £212 million. This will take the annual grant-in-aid for the World Service to £220 million in 2003-04, £225 million in 2004-05, and £239 million in 2005-06.

With this funding award the BBC World Service will be able to focus on all the main priorities set out in its spending bid.

The World Service will shortly make proposals to the FCO for the phasing of investments over the spending period in order to optimise benefits from the staged increases in year-on-year funding. The major emphasis in 2003-04 will, as planned, be on investment related to Afghanistan, South West Asia and the Arab World, taking into account the developing situation with regard to Iraq. The World Service will also move ahead with strengthened programming for Africa and Europe. The expansion of business coverage in China and South East Asia will not now go ahead until 2005-06. The key strategic themes of FM expansion and online investment will also continue, though re-phased to reflect the fact that not all the resources bid for were secured.

British Council:

The British Council received a significant proportion of what it asked for in the 2002 Spending Review. Its grant-in-aid for the next three years will be as follows:

2003/04	2004/05	2005/06
£169.7million	£174.7million	£184.7million

Allowing for inflation, the figure of £184.7 million for 2005/06 represents a real terms increase of 9.6%.

The Council welcomed the settlement, which in cash terms amounts to an extra £35 million (including £7million capital funding) over the three years. The major priority for the additional funding will be the development of the "Connecting Futures" programme, aimed at developing deeper mutual understanding between young people in the UK and the Muslim world. The Council will also use the extra money to push ahead with its "EU Borderlands" initiative and to support the work of the FCO and DFID in strengthening the NePAD (New Partnership for Africa's Development) initiative. The capital element will help fund the modernisation of the Council's global finance and business system, subject to final approval by the FCO.

Recommendation r: We recommend that the Government, in its response to this Report, provide a full statement of its intentions regarding public funding of BBC World Television (paragraph 48).

BBC World makes a valuable contribution to the standing of the UK abroad. It reaches over 240 million homes in over 200 countries and over 850,000 hotel rooms worldwide. The BBC is committed to making a success of BBC World as a commercial entity. It has a business plan which will see it move towards break-even by 2005-06. The incorporation of BBC World into the BBC's new World Service and Global News Division alongside the BBC World Service and the international-facing pages of BBC Online will strengthen the impact of all of the BBC's international services. The BBC World Service will continue to be funded by grant-in-aid and

BBC World by commercial revenue, these funding streams remaining distinct to prevent cross-subsidy.

Recommendation s: We recommend that the Government in its response to this Report set out what progress there has been towards identifying those areas in which efficiency savings can be made, what these savings consist of, whether the efficiency savings identified will meet the agreed target of 2.5 per cent of current expenditure, and, if not, how the target will be met in full (paragraph 52)

In autumn 2000, each spending area in the FCO prepared an efficiency plan designed to meet the 3% efficiency savings required per annum in 2002-03 and 2003-04. A similar exercise was carried out in autumn 2002 to identify areas to produce the 2.5% efficiency savings required per annum in 2004-05 and 2005-06.

The savings consist of a wide range of ideas including tighter negotiation of contracts, rationalisation of staffing levels and grades at home and overseas, refocusing public diplomacy, outsourcing, streamlining visa procedures, and using staffing resources more flexibly.

In addition to savings in discrete areas of expenditure, the FCO will also be looking at crosscutting areas such as maximising the benefits of IT developments.

Recommendation t: We recommend that the Government ensure that the contribution of a building or location to the effectiveness of British diplomacy is given paramount importance when deciding its future (paragraph 56)

In disposing of an owned property, all factors are taken into account, including its contribution to the effectiveness of British diplomacy, and the more intangible elements such as the historical associations of a building or how it is viewed by the local community. The FCO does not just apply a formula mechanically. But the FCO has to ensure that the taxpayer gets value for money. This requires that our properties must be economical, efficient, effective, safe and secure platforms for our activities. Hard decisions may sometimes be required. Some owned buildings, though cherished, do not provide as much value for money as we could derive by selling and investing in other assets.

Recommendation u: We recommend that the Government explain in its response to this Report what provision it is making to fund future information and communications technology developments, other than through the sale of real estate (paragraph 58)

Over and above the sums made available from asset sales, the FCO plans to invest £56.4 million in 2002/03 and £58.7 million in 2003/04 in ICT assets.

Recommendation v: We recommend that the Government bear in mind when deciding whether to dispose of a property the cost that will be incurred by fitting out any replacement to the required standards of health and safety and security (paragraph 61)

When a property is replaced, the cost of fitting out the new building is always factored into the value for money calculations. In certain Posts at high risk, the market for

property is poor, reinforcing the case for making the most of the owned estate on both security and financial grounds.

Recommendation w: We recommend that in its response to this Report the FCO provide a full explanation as to why air conditioning was omitted from the new Berlin embassy specifications and what has been the experience of both staff and other users of this space, during hot weather, since the building was first opened (paragraph 63)

The area concerned is in fact supplied with four separate air conditioning units which together deliver 7910 cubic metres of fresh air an hour. This air is either heated or cooled according to the outside temperature. In the event of particularly cold weather, this is supplemented by underfloor heating. The system has been entirely adequate for the purpose throughout the two years the building has been open and there has been no discomfort for staff or, to the best of the Embassy's knowledge, the many thousands of visitors and guests.

Recommendation x: We conclude that the successful introduction of the Prism Programme on schedule and to cost is crucial to the modernisation of the FCO's management structures, all the more so because success will depend on staff throughout the organisation being trained in and adapting to the new processes and working practices (paragraph 66)

The successful implementation of the Prism system is important, and the FCO is working to ensure that it delivers maximum benefit.

Recommendation y: We recommend that the Government explain in its response to this Report why it has failed to comment on the fact that one of its major PFI contractor partners has filed for provisional liquidation (paragraph 68)

Global Crossing, the US-based parent company of the FCO's PFI partner, entered Chapter 11 proceedings in the United States in January 2002. These proceedings are designed to give a company protection from its creditors while it re-structures or seeks an outside buyer. The company is allowed to continue trading as normal, subject to court permission, while the process continues. Global Crossing has not filed for liquidation.

The FCO contract is not with the company which has filed for Chapter 11 protection in the US. It is with a UK-incorporated company which is wholly owned by the US/Bermuda company. The UK company has continued to trade throughout the Chapter 11 proceedings.

At the time the Departmental Report was drafted, Global Crossing UK was continuing to fulfil the requirements of the contract, a potential buyer for its parent (for a substantial level of equity) had been found, and the signs for an exit from Chapter 11 were encouraging. We have commented on the FCO Telecommunications Network (FTN) and Global Crossing subsequently in a number of answers to Parliamentary questions.

Recommendation z: We recommend that the Government set out in its response to this Report what risk, if any, the failure of Global Crossing would pose to the

Foreign Office Telecommunications Network. We further recommend that the Government provide us in confidence with details of the contingency arrangements in place, and of any liability that the FCO might have, in the event that Global Crossing should fail, as well as the estimated cost of replacing the service provided by Global Crossing, details of how the due diligence process was carried out by the FCO and by any external advisors prior to the contract with Global Crossing being concluded, and the conclusions of any such due diligence reports (paragraph 69)

Contingency arrangements are in place to allow the FCO to continue to operate should Global Crossing, for any reason, withdraw their service. Work to further enhance existing contingency arrangements for service to North America and Western Europe, as well as for service within the United Kingdom, will be completed in January. Once complete, these contingency measures should ensure no loss of service.

The contingency arrangements involve elements of commercial confidentiality. The FCO would need to reach agreement with the companies concerned before giving details of the arrangements.

The FCO will incur no financial or contractual penalties in the event of Global Crossing becoming bankrupt but would assume a financial commitment when either appointing a new prime contractor or taking the role as prime contractor to ensure continuation of service.

The cost of a replacement service would depend upon the circumstances in which Global Crossing UK became unable to provide the contracted service (for example, how much of their infrastructure remained accessible). We might have to provide additional telecommunications lines as an interim measure and temporarily employ a telecommunications management team to help with the transition, which together we estimate might cost an additional £1.5 million.

Recommendation aa: We recommend that more detailed information on corporate sponsorship appear in future FCO Annual Reports (paragraph 70)

The FCO will provide more background on individual projects in future Reports.

Recommendation bb: We recommend that the Government in its response to this Report explain how the corporate sponsorship agreement for VIP transport meets the FCO's sponsorship guidelines (paragraph 72)

Cars are needed to transport VIPs from aircraft to the lounges. Previously Rover supplied the FCO with vehicles for this purpose free of charge, but this arrangement was withdrawn in February 2001. The FCO then decided to negotiate the current sponsorship arrangement with Lexus which provides value for money in that the costs of the cars would otherwise have to be met by the taxpayer. This is in line with Government policy (paragraph 1.2.1 of the FCO guidelines) which encourages sponsorship of its activities, wherever appropriate. Sponsorship exploits the commercial potential of non-tangible assets, allows more productive use of existing resources and helps to reduce the cost to the taxpayer.

Lexus has not received any overt commercial advantage in terms of direct sales opportunities from this sponsorship arrangement.

Recommendation cc: We conclude that the gender profile within the FCO, while better than it was, can be further improved, and we recommend that barriers to the recruitment of women on merit be identified and eliminated (paragraph 74)

We are continuing in our efforts to encourage more women to join the FCO. The challenge is to market the FCO as an ideal employer for women, and to show potential applicants how they can achieve a good work/life balance. It is encouraging that 48% of the 2002 policy entrants (Fast Stream) were women.

Recommendation dd: We recommend that the Government explain in its response to this Report what steps it is taking to encourage people from the ethnic minorities to apply for positions within the FCO, and furthermore what steps it takes to ensure that ethnic minority candidates are not disadvantaged by selection procedures (paragraph 76)

We want to see the ethnic background of our staff reflect that of the British community we serve. The FCO therefore continues to seek and attract high calibre candidates from all sectors of the community and from universities throughout the United Kingdom. The FCO uses targeted marketing techniques to advertise career opportunities as widely as possible and encourage applications from ethnic minority communities. Selection procedures are regularly "equality proofed" and all the assessors have been diversity trained. The diversity strategy is starting to show results. In 2002, 15% of policy entrants (Fast Stream) were from a minority ethnic

background. For future middle management recruitment, the FCO is considering using executive search consultants to encourage minority ethnic candidates to apply and support them through the process.

As well as scrutinising our recruitment procedures, the FCO is looking closely at the progression of under-represented groups through the FCO, by tracking their progress through appraisal, training and promotion. The FCO has established consultation groups for ethnic minority, gender and disability issues in order to improve the representation of these groups at all levels.

Recommendation ee: We recommend that the Government do its utmost to ensure through practical steps that locally engaged staff, wherever they are based, are employed and managed in accordance with the principles contained in the Charter for the Management of Staff Overseas (paragraph 78)

The FCO is determined to ensure that Posts, who employ local staff around the world including on behalf of other Government Departments, actively apply the Charter of Principles. The FCO's practical steps to that end include:

~~ee~~ Training - in staff management and appraisal, including monthly courses for local staff at regional centres; in valuing inclusion and diversity; and pre-posting courses for Heads and Deputy Heads of Post, and Management Officers.

~~ee~~ A dedicated local staff policy unit in London, which updates policy and monitors implementation for conformity with the Charter of Principles. The Unit disseminates best practice, including in areas such as grievance handling. If local staff take complaints to London, the Unit reviews Post handling of the case.

Members of the Unit regularly meet local staff, both in London and during visits to Posts.

~~✓~~ Clear guidelines to Posts - the local staff volume of the new FCO Guidance series incorporates the Charter of Principles prominently, and modernises aspects of policy in line with the Charter.

~~✓~~ The FCO's Foresight programme, which has contributed substantially to observance of Charter principles, and is helping to promote Posts as single teams.

~~✓~~ Investor in People - the pilot study for seeking accreditation of Posts will further highlight the importance of proper management and development of local staff.

Recommendation ff: We recommend that the FCO issue detailed guidance to its diplomats as soon as possible on how they should respond to requests from ministers that they draft letters of support for companies seeking contracts abroad, when those companies are declared donors to a British political party (paragraph 82)

The FCO welcomes the Committee's recognition that media comment which cast doubt on the political impartiality of the former Ambassador to Bucharest was misplaced, and that it is a necessary part of every Ambassador's and High Commissioner's job to promote British commercial interests overseas.

The duties and responsibilities of Ministers, set out in the Ministerial Code, include a duty not to use public resources for party political purposes and to uphold the political impartiality of the Civil Service. Civil servants, including members of the Diplomatic Service, are also under a duty to conduct themselves with integrity, impartiality and honesty. Guidance exists to cover situations where they are asked to act in a way that is, or which they believe may be, inconsistent with their duty of impartiality.

Recommendation gg: We intend to consider any future political appointments to Diplomatic posts (paragraph 84)

The FCO notes the Committee's comments and its intention to consider any future political appointments.

Paragraph 83 of the FAC report refers specifically to Sir Alastair Goodlad, British High Commissioner to Australia. The FCO wants to put on record that Sir Alastair is a professional and very successful High Commissioner.

Recommendation hh: We recommend that the Government in its response to this Report make a fuller statement of its priorities in co-operating with other Government Departments, explaining also what machinery for such co-operation has been put in place and what progress has been made (paragraph 85)

The FCO makes a contribution to the delivery of international objectives for the whole of Government. A recent survey of stakeholder views of the FCO will help us

to strengthen our relationship with other Government Departments, as well as other stakeholders.

The FCO's priorities for cooperation with other Government Departments are reflected in the FCO Objectives and Public Service Agreement targets that are shared with other Departments.

For the Spending Review period 2003-06, the FCO will have shared Objectives on:

- Trade and investment through British Trade International, shared with DTI;
- entry clearance, through UKvisas, shared with the Home Office.

In addition to shared PSA targets under each of these Objectives, we will have shared PSA targets for:

- European security (shared with MOD)
- conflict prevention (shared with MOD and DFID)
- international trade (shared with DTI and DFID).

For trade and investment and entry clearance work, British Trade International and UKvisas provide the mechanisms for ensuring effective cooperation. PSA delivery plans are being drawn up for the joint PSA targets in these and other areas, overseen in the FCO by the relevant Director General. These will provide a basis for an agreed approach to achieving the targets.