



**Foreign &
Commonwealth Office**

CSR07 Value for Money Programme

VfM Delivery Agreement

December 2007

1. Introduction

This document provides a detailed plan for the delivery of the Foreign & Commonwealth Office (FCO) Value for Money (VfM) Programme throughout the 2007 Comprehensive Spending Review (CSR07) period (2008-2011). It includes agreed objectives, approach, governance arrangements, milestones, benefits and risks. Delivery of efficiency savings is critical to the FCO's performance and delivery of frontline services. Efficiency is a continuous process; it is therefore envisaged that further projects will be developed and delivered. This document provides a high level summary of projects that contribute to the overall efficiency target for the FCO to deliver maximum benefit within its allocated resources.

As part of CSR07, the FCO aims to achieve at least 3% annual cash-releasing efficiency savings on its 2007-08 near-cash Departmental Expenditure Limit (DEL) baseline by 2010/2011. The VfM Programme is comprised of a number of individual projects. Project managers are responsible for their own project delivery plan and for achieving their contribution to the overall FCO target.

2. Vision

The CSR07 VfM Programme builds on the achievements of the 2004 Spending Review (SR04) Efficiency Programme. The FCO will deliver the government target for CSR07 efficiency savings and at the same time continue to deliver on FCO priorities, Departmental Strategic Objectives (DSOs), Public Service Agreements (PSAs) and meet the long term international challenges facing the UK.

The FCO will make net cash-releasing VfM savings of £144m by 2010/2011 (£130m resource and £14m capital). At the same time, we will maintain services in the UK and abroad. The FCO aims to generate its savings through a combination of reducing back-office costs, especially the costs of facilities management, overseas procurement, and through reducing expenditure on low priority activities both in the UK and overseas.

3. Delivery Strategy

We have divided the VfM Programme savings into a number of separate projects, each with its own project manager and Senior Responsible Owner (SRO) – the individual who will be accountable for implementation. All of the project savings will be cash releasing – i.e. will yield resources that can be redirected back into front-line services or will enable the FCO to live within its CSR settlement which includes an annual 5% real term reduction in Administration costs. The FCO intends to build-in delivery of savings when setting budgets controlled by devolved budget holders in the FCO. We will continue to develop all of the VfM projects, particularly those aimed at producing savings in the medium to long term. As a result, savings delivered

by individual projects may change. Any shortfall in meeting the overall efficiency target will be made up through additional savings or through new efficiency projects that will be developed during the CSR period.

The projects that are key to delivery of the FCO's targets include Shared Services, the implementation of the FCO's IT Strategy, maximising the benefits of FCO procurement, rationalising the FCO's operations in Europe, and savings from the British Council and BBC World Service. These are set out in more detail below:

3.1 FCO Shared Services Programme

The FCO's Shared Services Programme (SSP) comprises two main projects – Shared Service Centres and Shared Contracts. It is expected that the SSP will deliver £16m of VfM savings by 31 March 2011. The Programme's vision, endorsed by the FCO Board, is as follows:

“Through the implementation of Shared Services, the FCO will spend less time, effort and money on running itself. We will do this through:

- the creation of Shared Service Centres, to deal with all financial, procurement and, ultimately, HR transactions in a single unified on-line structure for the FCO network;
- greater and better use of Shared Contracts, to get the best value for money in buying goods and services.

Our staff, our customers and our suppliers will benefit from simplified, standardised and streamlined services. We will be better at accounting for our use of taxpayers' money. And our delivery of the FCO's strategic priorities will be enhanced through better management information, and a streamlined and more agile network. Achieving cash releasing benefits during the course of implementation is important. But this will be treated as a consequence of the Programme not its main driver.”

The SSP aims to achieve a substantial net saving by the end of the CSR period: it will also enable the FCO to realise qualitative (i.e. non cash-releasing) benefits, including better compliance with statutory obligations, more accurate and accessible management information, and a more agile global network of posts. (Non cash-releasing benefits, though welcome, will not score towards achieving the FCO's VFM target).

In order for these benefits to be realised they need to be properly estimated, tracked, monitored and recorded. The Programme's business case is benefits driven, in line with Office of Government Commerce (OGC) best practice. The Director General Finance, Keith Luck, as the SRO for the Programme, is personally accountable for ensuring benefits realisation and has appointed a full-time benefits manager to work with the Programme and business units.

The Shared Service Centres project aims to **share processes** across the FCO's global network of over 240 overseas posts. The platform for FCO Shared Services will be the FCO's global Enterprise Resource Planning (ERP) system, Prism.

Initially the Shared Service Centres Project will focus on finance and procurement processes, and will in a later phase expand to cover HR processes. The goal is to replace the current separate corporate service structures in each overseas Post and business unit with Shared Service Centres, providing finance and procurement (and ultimately HR) services delivered through standard processes based on best practice. This new structure will be rolled out progressively across the network. Our aim is to cover the UK, Europe, Asia-Pacific and the Americas by 2011, extending globally thereafter.

There are 2 workstreams within the Shared Contracts Project:

a) Facilities Management refers to support services normally provided in-house by FCO or locally engaged staff or local contractors. By outsourcing, via regional contracts, to those for whom this type of service provision is core business, we can rationalise service standards, get better value for money, and free up FCO resources for other activities. The first regional contract will cover the estate in the UK and 14 posts in northwest and central Europe, with further regional contracts to be put in place during the CSR period.

b) Procurement optimisation aims to decrease the cost of the goods and the services we buy through bigger contracts to deliver better VFM.

Risks: The Shared Services Programme manages risk in line with the Office of Government Commerce best practice (using Managing Successful Programmes (MSP) and PRINCE 2 methodology). The main risks relating to the Programme are financial and operational. The reduction in staff will require significant funding. Operational risks include the readiness of posts for Shared Services implementation/cutover, and "change-fatigue" leading to a loss of morale and key staff leaving, with implications for maintaining business as usual. Risks and issues are actively managed and regularly reviewed by the Programme team and the Programme Board.

3.2 The IT ZBR (Information Technology Zero Based Review) Project

This FCO project will achieve £9.5m VfM savings through three main drivers. These are the FCO's Telecommunications Network (FTN), Communications Centre (ComCen) and Programme Management.

FTN - The existing FTN Agreement is a ten-year contract let in May 2000. The reprocurement exercise is due to commence (September 2007) with a view to retendering and letting a new telecomms contract by May 2010. Significant savings have been negotiated with our existing telecomms supplier Global Crossing.

ComCen – This project is currently examining rationalising of the formal telegram messaging system.

Programme Management – A Project Delivery Office (PDO) is being set up as part of the new structure of Information and Technology Department (I&TD). An IT Framework agreement is planned and it is anticipated that this will result in improved VfM savings.

Risks: The IT ZBR team will continue to deliver FTN savings and ComCen business plans. The IT framework is to be tendered and the IT Directorate PDO team has to be formed. Overall there are no major problems envisaged and there is limited risk. In addition, the core IT investment enables the rest of the FCO network to implement the efficiencies they plan and we aim to introduce shared services with the Department for International Development (DFID). This should streamline our use of IT in posts overseas. We are endeavouring to work closely with DFID and to use this opportunity to allow us to realise further savings throughout the CSR period.

3.3 The Improved Procurement project

This project will generate £11m savings in procurement from reductions in the costs of goods and services purchased by the FCO during the CSR period. The savings will be achieved through better management of our expenditure utilising the following techniques:

- Collaboration with Other Government Departments (OGDs) and the Office of Government Commerce (OGC) Buying Solutions
- Mandatory use of corporate FCO contracts to achieve better VfM
- Benchmarking
- Better market analysis and a more strategic approach to procurement overseas

The major categories of influenceable spend have been identified as consultancy, temporary labour, external telecomms, training, stationery and printing, public diplomacy/information, transport maintenance and furniture.

Benefits will be realised in the main through utilising OGD and OGC buying solutions contracts and re-tendering processes for major contracts and commodities which assess vfm and efficiency as part of the process. This is based on a number of factors including unit prices and balancing quality measures to ensure that service levels are maintained or improved. In addition costs savings will be realised through improvements in the on-going contract management.

Risks: There are a number of risks associated with this project. They have been identified as:

- Savings could be eroded by commodity price increases over and above inflation.

- Possible double counting between projects (the VfM savings being captured by other projects)
- Contract leakage through staff not using corporate contracts.
- Insufficient resource dedicated to benefits management.
- Lack of compliance with procedures.

All of these risks will have a mitigating action to minimise or resolve the risk involved. Work is ongoing in these areas. The benefits realisation is largely dependent on the contract re-tendering timelines.

3.4 The Europe ZBR

The Europe ZBR has been underpinned by the need to deliver £9m efficiencies and by the directorate's wish to work more effectively in a region where communications are becoming easier, the policy agenda is evolving, and delivery of Consular, UK Visas and UK Trade & Investment (UKTI) services is being transformed. We have sought further efficiencies by identifying changes to our management of FCO estates, transport and other support services, which build on pilots and good practice. We want to transform the shape of the network's policy activities by focusing the work of individual Missions more tightly on key priorities and finding ways of deploying policy staff more flexibly to meet changing demand, including short term needs and direct expert to expert contact.

Risks: There are a number of risks associated with this project. They have been identified as:

- Possible double counting with other projects
- Policy to be agreed on accommodation allowance
- Interdependencies with other programmes
- Security issues surrounding localisation of slots and estate modernisation.

Work is ongoing in all of these risk areas and there is consultation with other sections and project managers to resolve all areas of risk. The Europe Management Board will endorse the future direction of the project in the run up to April 2008, the project start date. There will also be on-going contact with posts to ensure all plans are on track.

3.5 BBC World Service

BBC World Service is committed to achieve £23m of VfM savings over the CSR period. BBC World Service has met efficiency targets within Spending Review settlements since they were first introduced in 1998. They have been an explicit cash-releasing component within each final settlement.

A tiered approach will be taken to finding the necessary level of savings. The first tranche will be delivered from a number of individual efficiency initiatives across the organisation. Areas such as transmission and BBC supplier divisions, including pan-BBC procurement initiatives, will be key sources. At

the next level the mix of the English output will need to be considered with priorities being news based and reductions in some higher cost output which do not have significant audience impact. There will also be a number of smaller locally targeted savings across BBC supplier divisions.

3.6 British Council

The British Council's VfM Programme will generate £18m of savings over the period of the 2007 Comprehensive Spending Review. These savings will come from reductions in our overseas network, including

- Some office closures
- A 30% grant reduction in its European operations
- Further exploitation of the SAP finance and business system including concentrating support services into regional or global support centres (£7.7m). SAP is the company name derived from the use of **S**ystems **A**pplications and **P**roducts in Data processing
- A move of remaining support services from London and
- A reduction in capital works on its estates

The savings will be delivered through formal change programmes using Office of Government Commerce methodology with monitoring of achievements through the British Council's quarterly business review process.

The overseas change programmes and SAP implementation are well underway and the associated savings will be realised by March 2009. The move of support services out of London is due to happen towards the end of the CSR period.

Risks: The main risks relating to the overseas changes and the movement of support services are operational and political. The risk with implementation of SAP is a failure to fully exploit the system's functions. There is little risk associated with the estates capital reduction given that the British Council has already reduced its reliance on fixed costs and assets over the last few years to increase operational flexibility.

The other main risks to the delivery of the British Council VfM Programme are external damage to reputation, industrial relations issues and destabilisation of operations due to the scale and nature of the changes we are making. Mitigation measures include extensive communications plans, detailed HR plans and portfolio management of the total change programme. There is a full programme management governance structure in place with escalation routes to top management for the highest level risks. We are pursuing a wider range of savings over the triennium than those identified in the CSR so that if some of the VfM savings are delayed for any reason we are likely to have replacements from other areas.

4. Governance of the FCO VfM Programme

The overall SRO for the efficiency programme is Keith Luck, the Director-General Finance. He is supported in this role by a dedicated section in the Financial Planning and Performance Department (FPPD) which, working with other relevant Departments and Units, will take forward the implementation of the strategy. The FCO Board has decided that the project board for the VfM Programme should be its Finance sub-committee.

The FCO's Efficiency Implementation Forum (EIF) will continue to monitor progress on the individual projects. This meets monthly, and acts as the principal forum for questioning managers on implementation and recommending remedial action, e.g. in the event of failure to achieve specific milestones. It will also advise on risk management for the individual projects and seek to identify areas where the FCO might be able to secure further efficiency savings. As the Forum contains project managers from SR04 and CSR07 efficiency programmes, it enables knowledge and experience to be transferred between the two.

The successful delivery of the VfM Programme will be measured against the overall delivery of Public Service Agreements (PSAs), Departmental Strategic Objectives (DSOs) and Key Performance Indicators (KPIs). The FCO will commission an audit of the VfM Programme during the first year (by end-March 2009) to assess compliance with the approach and principles set out in HM Treasury guidance.

5. Efficiency Programme Management and Measuring of Benefits.

The strategic planning team (SPT), reporting to the SRO (DG Finance) is responsible for:

- Monitoring the overall delivery of the FCO efficiency target and developing contingencies where required
- Ensure dependencies between projects are managed
- Work with Project Managers to identify and manage major risk and issues
- Report to HMT and other external stakeholders on progress

The Programme Board for the Efficiency Programme will be the Finance Committee, a sub-committee of the FCO Board. It will:

- Monitor performance of the overall target
- Agree variations to targets for individual projects
- Agree restructuring and other implementation costs
- Make recommendations to the Board on contingency projects

Benefit measurement will be designed to meet the needs of each individual project but will share the following components

- Benefits will be measured against a counterfactual using the Treasury GDP deflator. The projected savings have been calculated as the difference between the FCO's actual expenditure (including non-recurrent

restructuring costs) and the counterfactual, being the baseline costs adjusted for inflation (using the Treasury's GDP deflator). The counterfactual is projected from 2007/08 spend, which is used as the baseline (see Chart 1 below for a purely illustrative example).

- Once the Benefits have been identified, savings will be captured through adjusting the budgets of the spending section of the Foreign office.
- Where necessary internal controls on spending will be established to ensure that there is no leakage of savings.

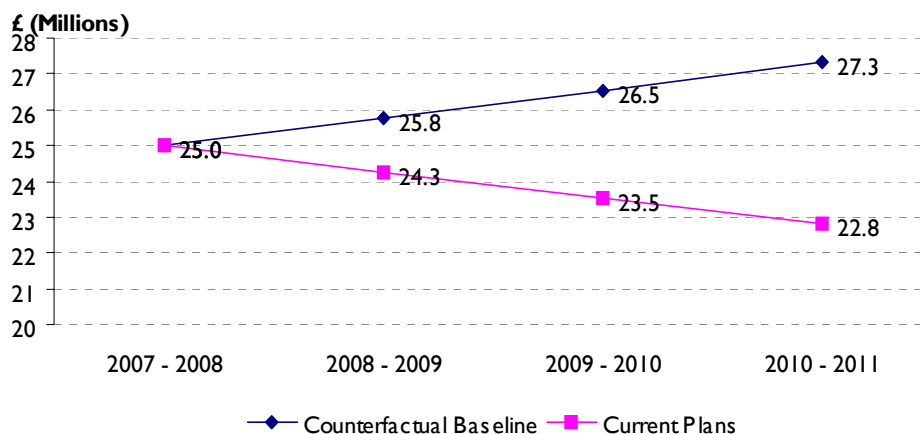


Chart 1: FCO's Value for Money programme vs baseline

(Please note, that the data for this chart is for illustrative purposes only, and does not represent the actual FCO expenditure profile.)

6. Stakeholder Involvement

The managers of each of the individual projects are responsible for ensuring that key stakeholders support implementation. The FCO's Finance Directorate will communicate through the EIF to ensure that all relevant staff are kept informed of developments related to the efficiency plan as a whole.

7. Risk Management and contingency

As we have discussed each efficiency project will have its own risk management strategy. Risk to delivery of VfM Programme as a whole, and the identification of appropriate mitigating actions, will be the responsibility of the Programme team and will be monitored by the Programme board. As part of the risk mitigation process, the efficiency programme team will develop as appropriate further efficiencies to provide contingency savings. These will be submitted to the Programme Board, and where appropriate the FCO Board, for approval.