



FOREIGN AND COMMONWEALTH OFFICE
DEPARTMENTAL INVESTMENT STRATEGY

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FCO: Investment Strategy

Introduction

1. The FCO's aim is to work for UK interests in a safe, just and prosperous world. To this end, the FCO has 7 objectives (consolidated from the 9 objectives in the SR2000 period - see annexes 1 and 2) which, together with key Public Service Agreements (PSAs), form a commitment to the public on what the FCO aims to deliver. Through grant-in-aid funding, the FCO also sponsors the British Council and the BBC World Service to help achieve FCO objectives.
2. The FCO's PSA targets measure progress towards the Department's Objectives. While it is relatively straightforward to set reasonable targets for commercial, consular and entry clearance service activities, it is inherently difficult for foreign policy. The FCO has therefore produced a sophisticated "scorecard" system for monitoring performance. Each PSA is supported by a Service Delivery Agreement (SDA) that explains how the FCO intends to meet its targets. Both the PSA and SDA are underpinned by "scorecards" listing specific, usually quantifiable outcomes the FCO is planning to deliver.
3. In 2002, the FCO made important senior management changes to give greater strategic focus to achieving both objectives and PSA targets. The new Finance and Strategy Group brought together, for the first time, the Foreign Secretary, his ministerial team and the FCO Board to provide strategic direction. The FCO's Policy Board and the Board of Management have been merged to ensure coherence between policy and resource strategies and decisions. The new, unified Board has been strengthened through the addition of the Directors for Finance, Personnel, Information and Strategy & Innovation. These changes have been underpinned by creating a new Directorate for Strategy and Innovation (DSI) which will co-ordinate work on the FCO's strategy. An FCO Strategy will be completed by summer 2003, providing a vision of the FCO of the future and a coherent framework to organise more effectively and deploy resources to meet future priorities. The FCO's investment strategy will support the Department's strategic priorities for delivering its objectives.

Overview

4. This document is in seven main sections, which describe the following elements of the FCO's asset management and investment strategy:
 - (a) Overall asset strategy,
 - (b) Current asset base,
 - (c) The strategy for modernising and reconfiguring the FCO's asset base to meet the Department's objectives and PSA target,
 - (d) Progress since the SR2000 Settlement,
 - (e) Future investment plans for the next Spending Review period (2003-04 to 2005-06),
 - (f) Management and control of capital resources to ensure projects are delivered effectively and efficiently in accordance with best practice and value for money criteria,

(g) Action plan for further improvements.

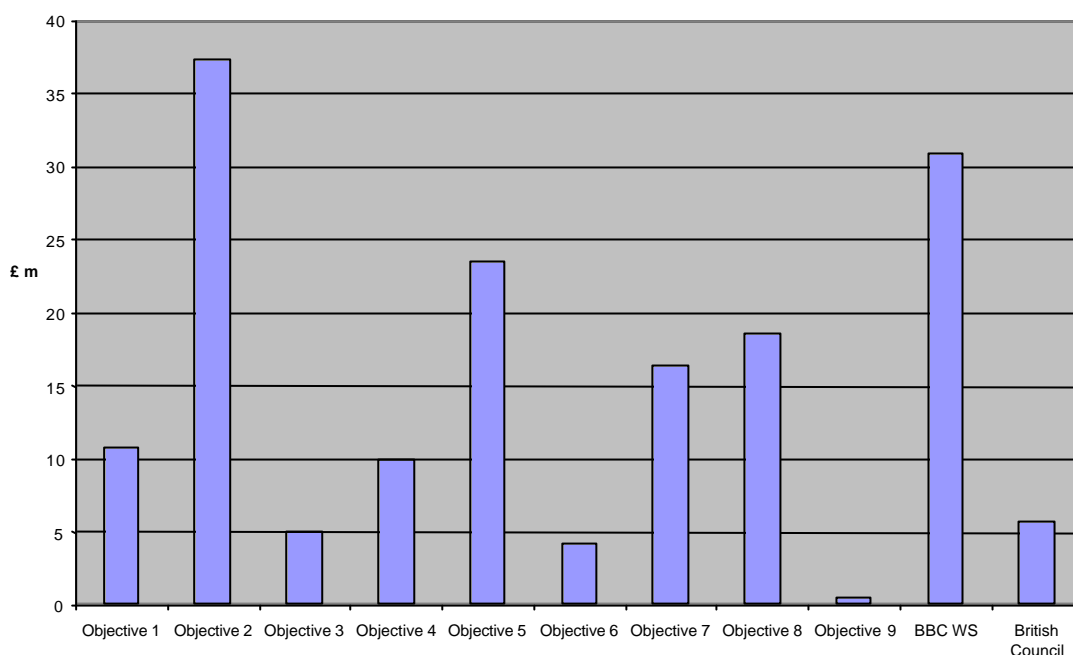
A. Overall Asset Strategy

5. The FCO's overall asset strategy will help the FCO achieve its Objectives and PSA targets through efficiently deploying capital assets. The FCO operates within a changing and unpredictable world and therefore needs modern communications and a flexible, safe and secure network of representation overseas. Furthermore, the FCO faces rising and sometimes unpredictable demands for better public services: commercial, consular and entry clearance.
6. The FCO has met these new challenges by effectively managing its asset base and through new investment. Asset recycling has been, and will continue to be, central to the asset management and investment strategies. The 1998 Comprehensive Spending Review permitted the FCO to reinvest up to £90 million of the proceeds of estate sales in the triennium 1999-00 to 2001-02. The 2000 Spending Review renewed the arrangement and raised the ceiling to £100 million for the triennium 2001-02 to 2003-04. The FCO is recycling approximately half of all such receipts into ICT investment during the SR2000 triennium.

Measuring an Asset's Contribution to FCO Objectives

7. Attributing assets' contribution to specific Objectives is complicated: many FCO activities are "joint products". For example, staff, especially in small posts, are often multi-tasked, e.g. undertaking political and economic work, or consular and information work. Similarly, the assets at their disposal are jointly deployed on delivering Objectives. Moreover, the FCO's properties abroad host officials from other Government Departments, who are working towards their Departments' objectives. This makes it difficult to untangle the contribution made by multi-purpose assets, such as the estate, ICT and vehicles.
8. To address this, the FCO gathers data annually on how staff are dividing their time between objectives and how much of the estate they are using in the process. This provides detailed information on property utilisation, and enables the FCO to attribute the estate cost component of the total cost of delivering the objectives. The information also helps the FCO calculate charges to other Government Departments for their use of the FCO's estate; cost more accurately the work of British Trade International (some of which entails charging the customer); and define more clearly the consular and entry clearance service costs, where the FCO aim to recover all its running costs through charging. The results of this information-gathering exercise are published in Schedule 5 of the Resource Account. Illustrative figures for planned investment by objective (before capital reclassification – see paragraphs 9 to 11) in 2003-04 are shown in Figure 1 below.

Figure 1: Planned Investment by Objective (2003-04)



Note:

These figures show Schedule 5 data (Spending by Objective). However, only a small part of the figure shown by Objective 2 is directly invested by BTI. The remainder reflects the broader benefits to Objective 2 activities from FCO investments in security, ICT and the estate.

Capital reclassification

9. One of the FCO's key financial goals has been to adapt to Resource Accounting and Budgeting (RAB) following its introduction government-wide in 2001-02.

Important aspects of this have included introducing interest on capital and depreciation charges, and bringing capital budgets into line with standard accounting policy under RAB.

10. A significant part of what had been recorded as capital spending prior to the introduction of RAB did not create assets on the FCO's Fixed Asset Register (as defined under RAB accounting conventions). Spending that does not lead to the creation of a Fixed Asset must be treated as Administration, Programme or an impairment on the asset value under RAB, not simply capital. The FCO has therefore restated its Capital and Resource Budgets to reflect this. With Treasury agreement, the FCO has reclassified some of its capital budgets as follows:

Table 1: Capital Reclassification

£m	Original capital allocation*	Capital reclassified	Administration cost	Programme	
				NATO/ UN/ OECD	BBC Monitoring
2002-03	127.5	-62.4	+56.8	+1.6	+4.0
2003-04	138.5	-63.5	+56.6	+2.9	+4.0
2004-05	140.0	-65.1	+56.1	+5.0	+4.0
2005-06	147.0	-59.0	+55.0	+0.0	+4.0

* Excluding BBC World Service (see note 5 in table 6 below).

11. These reclassifications affect the interest on capital and depreciation charges. The Treasury has therefore reduced the FCO's non-cash budgets for these items commensurately (Table 2).

Table 2: Impact of Capital Reclassification on Interest and Depreciation

£m	Interest on Capital (@6%)	Depreciation
2002-03	-3.4	-3.0
2003-04	-5.8	-3.3
2004-05	-5.7	-4.8
2005-06	-4.8	-6.2

B) Asset Base

12. The FCO held some £1.25 billion of assets at the end of March 2001; it expects this to have increased to £1.4 billion by March 2004 as a result of investment planned for the SR2000 period. Most of the assets are properties, and most of them are abroad (Table 3).

Table 3: Baseline Asset Values (Net Book Value in Current Prices)

£ 000s	As at 31 March 2001	Forecast for 31 March 2003
FCO		
Land and buildings:		
<i>UK</i>	83,839	85,201
<i>Overseas</i>	961,200	1,064,045
Total - Land and buildings	1,045,039	1,149,246
Furniture, fittings and equipment	116,366	136,189
Information and Communication Technology	56,642	91,026
Vehicles and other assets	32,434	28,424
FCO Total	1,250,481	1,404,885
BBC World Service		
<i>Broadcasting</i>	99,700	121,000
<i>Monitoring</i>	17,200	18,600
BBC World Service	116,900	139,600
British Council	90,820	99,500
TOTAL	1,458,201	1,643,985

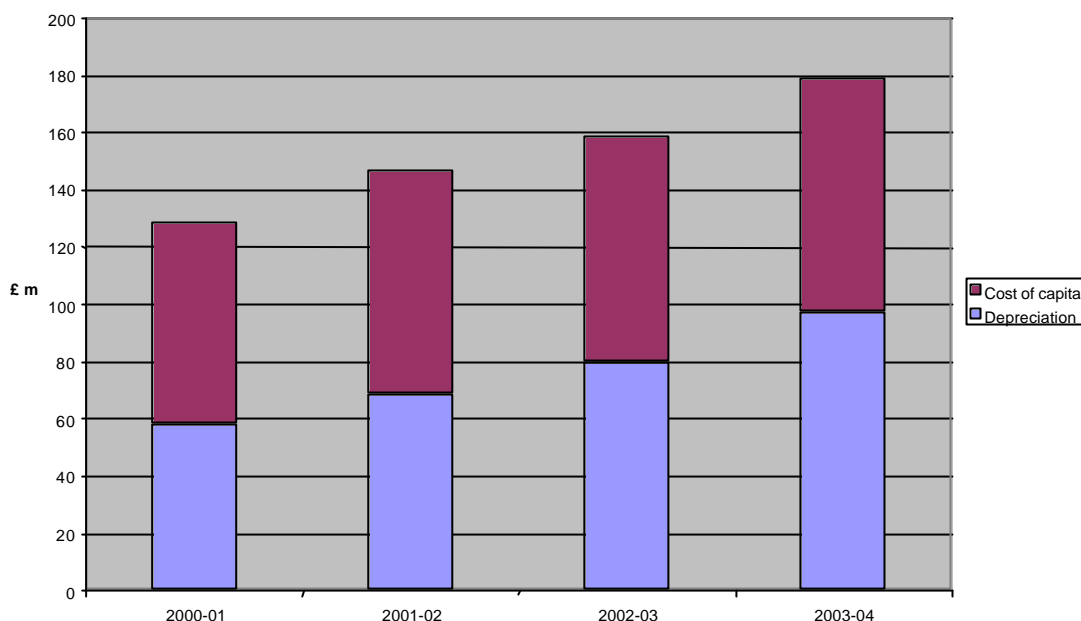
13. The projected increase in assets shown in Table 3 is net of depreciation and impairment; valuation changes due to exchange rate movements and property market developments are excluded from Table 3 above. Each class of asset depreciates at a separate rate, as reflected in the FCO's Resource Accounting policy (Table 4).

Table 4: Asset Life

Category	Asset life (as per accounting policy)	Net book value (£000) at 31 March 2001
Freehold buildings	(up to) 60 years	715,987
Leasehold land and buildings	Term of lease	329,052
Vehicles		
- motor cars	4 years	9,810
- light commercial	6 years	2,366
- heavy commercial	8 years	579
Furniture and fittings	12 years	106,203
Equipment		
- office equipment	5 years	1,919
- technical equipment	8 years	6,234
- heavy machinery	20 years	2,010
Information systems	5 years	55,125
Communication systems	8 years	1,517
Antiques and works of art	No depreciation	19,679
Total value		1,250,481

14. Holding assets has costs under Resource Accounting and Budgeting in terms of depreciation, interest on capital charges and valuation adjustments (either increases in asset values or impairments when an asset declines in value). Interest on capital charges and depreciation combined are projected to grow from £129 million in 2000-01 to £179 million by 2003-04 (pre-reclassification), when the charges for these items will shift from the Annually Managed Expenditure (AME) budget to the Departmental Expenditure Limit (DEL) budget. (See figure 2 below). Once in DEL, the cost of capital and depreciation charges will be funded on the same basis as other Administration Cost activities. (Separate arrangements existed for spending in AME). Any additions to the FCO's asset stock above that planned for 2003-04 will raise the DEL costs of holding assets above the levels shown in figure 2, leaving less available to spend on other activities. Thus RAB creates an incentive to economise on assets wherever possible.

Figure 2: Depreciation and Cost of Capital on FCO Assets (2000-01 to 2003-04)



Impairments and re-valuations

15. 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. Unfortunately, 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 particularly volatile overseas property markets and exchange rate movements. These factors may result in an 'impairment' caused by downward revaluation of assets.
16. In 2001-02, downward re-valuations of the FCO's property overseas included impairments of £24.7 million, affecting the non-cash AME budget, but not the FCO's spending on Departmental activities. These impairments are volatile (see Table 5), as can be seen by looking at the last 4 years with values ranging from £198 million in 2000-01 to £0.7 million in 1999-00. In recognition of the unique risks faced by the FCO, from 2003-04, when impairment costs become part of the FCO's Departmental Expenditure Limit, the Treasury will provide an 'impairments' reserve that can be used to absorb the effects of these unavoidable risks, thus reducing the likelihood of adverse impacts on the FCO's operations (see box).

Table 5: Impairments

Year	Impairments (£ million)
1999-00	0.7
2000-01	198.2
2001-02	24.7
2002-03 forecast	76.0

Revaluation Reserves

When an asset is re-valued at a figure higher than its historic carrying cost (the construction cost/ purchase price less depreciation), the increase in value gives rise to a revaluation reserve for that specific property. Any subsequent downward valuation of this property will be charged against this asset-specific reserve until the revaluation falls below historic carrying cost. From this point, an 'impairment' will be incurred against the Resource account. This is illustrated by the following example:

Year 0 – asset has an historic carrying cost of £5 million

Year 1 – asset is re-valued at £6 million (a revaluation reserve is created with a value of £1 million, being the difference between the historic carrying cost and re-valued cost). The FCO receives no additional funds to spend as a result of this increase in value.

Year 2 – the asset is now re-valued at £5 million, eliminating the revaluation reserve.

Year 3 – the asset is again re-valued, this time at £4 million. This is below the historic carrying cost by £1 million, which would usually then be charged against FCO's Resource budget, potentially pre-empting funding for the FCO's operations.

To protect the FCO from such risks, the Treasury has established a separate, ring fenced, non-cash reserve of £25/20/20 million for the FCO for the years 2003-04 to 2005-06. At the end of each year, any unused funds may be rolled forward to build up a buffer for managing future non-cash risks. This arrangement will be reviewed in SR2004 when the FCO will have fuller information and experience in assessing and, where possible, managing the impact of impairments.

Asset base: condition and utilisation

17. The FCO's overseas estate is an important resource for HMG. It is used mainly by the FCO but other Government Departments also make extensive use of it.

Wherever appropriate, the FCO promotes office co-location overseas with EU partners and, occasionally, with other suitable missions. Most current co-locations are with Germany (in Almaty, Astana, Lima, Quito and Reykjavik), the Netherlands and France (Almaty) as well as with Italy (Minsk) and the European Commission. The FCO's largest co-location project is with Germany, the Netherlands and the European Commission in Dar Es Salaam.

18. Assets will be held or created where it is affordable and value for money to do so.

In total, the overseas estate consists of over 4,300 buildings, ranging from substantial office blocks (e.g. the British Embassy in Washington, 8,000 square metres in size) to garages for vehicles, and including offices, residential accommodation for staff and amenity facilities. About 30% are owned and 70% leased. The portfolio mix of properties is not static: the estate mix responds to operational needs as well as the performance of properties.

19. The FCO's largest offices are in London. Functions that do not need to be carried out at expensive Central London locations are undertaken either at Hanslope Park (Buckinghamshire) or Croydon. The overseas estate's utilisation – as well as the fitness for purpose of individual buildings - is measured by a set of Key Performance Indicators (KPIs). They help to identify under-performing properties, prompting either remedial actions or disposal. Non-KPI factors may also prompt disposal of a property: for example, staff numbers may change in response to

reprioritisation of foreign policy work, resulting in a property being too large or small for the FCO's needs.

20. The FCO has developed and improved its KPI system for analysing buildings' conditions since the Departmental Investment Strategy 2001-04 was published in autumn 2000. The FCO conducts regular condition surveys of all owned and major leased properties, the results of which feed into its forward maintenance programmes and Spending Review bids. The FCO is developing a new scoring system that examines separately all the building elements and services, including the grounds and boundary security. Each criterion carries different weighting so that, for example, the electrical wiring is a more critical factor than the windows and doors. The result is a score where 100% would mean that the entire building and grounds have been found to be in good order, 80% would be considered acceptable, and scores below 60% would trigger immediate remedial work. Although the FCO is still in the process of gathering the necessary data, the results so far indicate that only about 5% of properties fall into the remedial work category. These properties are usually in Posts where it is difficult or very costly to sustain UK health and safety standards through routine maintenance.
21. The FCO has also agreed to pilot the Design Quality Indicator (DQI) assessment methodology, sponsored by the Construction Industry Council. The DQIs focus on measuring the value of a project and provide a tool for everyone involved in producing and using new buildings to attain value through the procurement process. They complement existing Key Performance Indicators which assess the performance and operation of estate assets.
22. Expenditure on maintenance at posts increased by nearly 40% between 1996-97 and 2000-01. However, to maintain the quality of buildings and ensure efficient working, some additional estate maintenance beyond current levels is required.
23. Monitoring non-estate assets' condition and utilisation does not currently involve the use of KPIs. Non-estate assets, being mainly ICT, office equipment, furniture and vehicles are a relatively small proportion of the FCO's total assets and it would not necessarily be economic to monitor them in the same way as the estate. Instead, eligibility, care and maintenance requirements and disposal policy are regulated by formally established FCO-wide operating procedures.
24. The FCO is, however, working on a plan to apply KPIs to its larger ICT assets in order to assess whether these assets continue to represent value for money. The key measure of an ICT asset's performance is the extent to which it is generating the benefits claimed for it in the business case, or wider benefits brought about through new working practices enabled by new technology. The FCO is focusing initially on establishing a benefits register to capture and manage the achievement of those benefits. In due course, the FCO will develop KPIs to assess other attributes such as reliability, security and ease of use. From this, the FCO will be able to better assess whether these assets are giving best value for money.

C) Investment Strategy

25. The FCO's strategy for the 2000 Spending Review period (2001-04) emphasised the need to increase its ICT assets, reconfigure and modernise its estate and improve security. By 2003-04, the FCO planned to invest more in ICT than in the estate for the first time. The FCO also planned a more modest increase in investment in assets needed for consular and entry clearance services. Increased security requirements were to be factored into the FCO's ICT and estate investment plans, and additional sums were to be invested in upgrading security equipment at Posts.
26. The SR2002 Settlement has provided an additional £24 million (including £7 million for the British Council) over the three year Review period (2003-06). This will help the FCO to build on its achievements in the SR2000 period. The FCO plans to improve the quality and reliability of its ICT infrastructure, providing a stable network for better public services and new management information systems. The FCO will continue to strengthen security and, assisted by the asset recycling programme, reconfigure the estate to meet its needs.
27. The FCO plans to fund at least £100 million of investment during 2003-06 by selling under-performing properties (although the proceeds net of the cost of replacement buildings will be substantially less). Re-provisioning decisions – as with other investment decisions – will be informed by Resource Accounting and Budgeting information on the relative cost effectiveness of rent or buy options. The FCO will only build or buy assets where it is value for taxpayers' money to do so. The FCO will adapt the formula by which asset recycling revenues are distributed: currently all sales revenues are distributed equally between new investment in the estate and ICT. As of April 2004, re-provisioning costs will be retained for the estate, and only the remaining sums split equally between estate and ICT investments.
28. The majority of FCO investment is in the estate, ICT and security. Each of these categories is overseen by a Strategy Unit, which work together under the guidance of the Departmental Investment Strategy Group (DISG) to ensure that the FCO's overall strategy is delivered (see section F).

(a) Estate investment

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
- ?? Each property is fit for purpose, efficiently employed, and providing value for money

To achieve this the FCO will:

- ?? re-prioritise the distribution of property assets in response to changing diplomatic and service delivery demands
- ?? devolve RAB disciplines to the Directorate and Post levels to ensure an optimal mix of owned and leased property assets (subject to trial arrangements being successful)

- ?? pursue asset recycling vigorously to release resources for high priority uses in the estate and ICT
- ?? use the home estate more intensively by investing to enable more flexible working practices
- ?? promote at home and overseas HMG's environmental policy
- ?? showcase the UK where possible.

(b) ICT investment

The FCO's ICT investment strategy aims to provide a common global infrastructure and new applications to enable the FCO to make best use of information and expertise, and to modernise working practices. This will convert the FCO from a headquarters with outstations into a single, on-line global organisation. The FCO has four main ICT investment programmes to achieve these aims:

- ?? Infrastructure – to establish a common global desktop ICT system (Firecrest), and telecommunications network (FCO Telecommunications Network – FTN), 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 – the implementation of a secure FCO Intranet with global access and document management facilities, and new ways of working to share experience, expertise, and to take full advantage of these facilities. However, affordability constraints mean that we will only fully achieve this goal in the longer term. Over the next two years, we aim to improve the services provided by the FCO's intranet, progressing towards a secure intranet with shared workspaces and other information management tools by 2005-06;
- ?? Management information and resource management (Prism programme) – 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;
- ?? Public services – modernise public services: commercial, consular, entry clearance and information services.

(c) Security

The FCO's security strategy aims to ensure that all staff can work safely and in a secure environment. This strategy is aimed at ensuring:

- ?? The FCO's buildings, at home and overseas, function securely and effectively and meet its requirements;
- ?? the FCO can become a single global on-line organisation able to protect its data and its systems;
- ?? the FCO securely deploys its assets: knowledge, expertise and resources, in pursuit of its business needs.

The FCO plans to deliver this strategy through:

- ?? a specific and sustained investment in protective physical security measures, particularly at those overseas Posts assessed as most at risk of terrorist or criminal attack, or vulnerable to mob violence or civil insurgency;
- ?? installing specific technical security equipment, to achieve a high level of information protection in all Posts at high risk;

- ?? developing a programme of ICT Security measures applied through the planning, development and installation of ICT systems, backed up at the user stage by ICT security inspections and security awareness training;
- ?? introducing innovative access controls, locks and security furniture, to simplify and standardise security at Posts, allow closer integration of all staff and more creative designs for the Embassies of the future.

D) Progress during 2001-02 and 2002-03

The Effect of September 11 on FCO Investment

29. The events of September 11 marked a turning point in the international fight against terrorism. The FCO was forced to reappraise its investment plans, reprioritising security expenditure within year and bringing forward other security expenditure planned for later in the SR2000 triennium (2001-02 to 2003-04). In addition, the disruption to property markets affected the FCO's asset recycling receipts (Capital Appropriations in Aid) that had been expected to support its capital spending plans.
30. In November 2001, the FCO obtained additional funds from the Treasury Reserve to help finance these costs, including £6.2 million of additional capital, and approval to bring forward a further £10.7 million of planned investment (repayable to the Consolidated Fund over the following two years).
31. Subsequently, in February 2003, the FCO received a further £5.1 million of capital to help further enhance security at Posts in the Middle East. In addition, due to the effect on the FCO's asset recycling programme of the prolonged downturn in global property markets, the Treasury allowed the FCO to bring forward £10 million in the form of a loan to be repaid in 2003-04.

(i) Estate

32. During 2001-02 the FCO invested £54m in estate projects, of which about 14% was spent on the home estate. In 2002-03 the FCO plans to spend £48m on the estate, most of it overseas.

Home estate

- ?? The planned Home Estate rationalisation in London was concluded in 2001-02 as staff moved into the Old Admiralty Building. In line with the FCO's CSR commitment, Central London staff are now housed in two buildings: King Charles Street and the Old Admiralty Building. (In addition, the FCO accommodate, in collaboration with the Home Office, UKVisas at Albert Embankment). As a result the FCO is saving £8 million per annum on rents and rates on properties it no longer occupies in London, and expect lower energy costs because two air-conditioned buildings have been replaced by the naturally ventilated Old Admiralty Building.
- ?? Planning began in 2001-02 aimed at rationalising and redeveloping the FCO's site at Hanslope Park. The FCO's requirement is to move staff from temporary into permanent buildings. The FCO is also planning to provide new facilities to house and better protect ICT equipment in line with HMG's business continuity planning.

?? In March 2002, the FCO established an Environmental Management System (EMS) for the FCO's main building in Whitehall and it achieved external certification to the international quality standard in August 2002. This recognises the FCO's commitment to improvements in energy efficiency and waste reduction, benefiting both the environment and the taxpayer. The EMS will be extended to the Old Admiralty Building during 2002-03, and later to the Hanslope Park site. The Old Admiralty Building refurbishment achieved an environmental quality standard rating of excellent.

Overseas estate

?? The key elements of the FCO's overseas investment strategy for 2001-04 have either been completed or are underway. They include the recent completion of new Embassies in Moscow, Tallinn, Sofia, Lima and Caracas, new visa offices in Canberra and Accra, and the fit out of offices in Boston and Zagreb. New offices at Dar es Salaam, a joint project with other EU missions, are now completed, and projects for new offices are progressing on site at Tunis, San Salvador and Yerevan. In addition, a major improvement to the FCO's offices is underway in Baku and Chennai. In 2003, the FCO should also start work in new offices in Mumbai.

?? Furthermore, the FCO has expanded its network of Posts, including opening, re-opening or upgrading Posts in Pyongyang (North Korea), Asmara (Eritrea), Chisinau (Moldova), Dili (East Timor), Kabul (Afghanistan) and Dushanbe (Tajikistan).

(ii) Asset disposals/recycling

33. The FCO met its CSR2000 target, and made a good start on sales in 2001-02, selling over 70 properties in 2001-02 with gross proceeds amounting over £40 million. In addition, non-estate asset sales generate approximately £1 million a year. However, property has been affected by the economic downturn since the 11 September disruption. Sales in 2002-03 are currently projected to be £15m-£25m. If so, sales will need to be £35m-£45m in 2003-04 to meet the FCO's target.

(iii) Information and Communication Technology

34. Information and Communication Technology investment has concentrated on two main infrastructure projects:

- Firecrest (a project to ensure an industry-standard personal computer with full network facilities is available on the desk of every member of staff who needs one). The FCO invested £20.2 million of capital expenditure on Firecrest in 2001-02 reducing to £13.4 million in 2002-03 as global roll out to all Posts neared completion.
- The FCO invested £18.1million in 2001-02 and £25.6m in 2002-03 on the Foreign and Commonwealth Office Telecommunications Network (FTN). This provides secure global voice, e-mail and data telecommunication links.

35. In early January 2002, the FCO signed a £53 million contract for Prism, the largest of its new ICT and change management programmes. Prism will enable

well-informed and quick decision-making, and empower managers to take greater responsibility and control. Staff will be able to spend less time on routine data-handling tasks and more on front line work. The FCO estimates that it will deliver running cost savings of some £8-12 million annually once it is fully operational (see box). The first phase of the global roll out is due to go live in July 2003.

Prism Benefits

The Prism Programme will provide the FCO with integrated processes and a new management information system, covering finance, personnel, payroll and procurement. The processes affected by Prism are estimated to consume some 14% (£113 million) of the FCO's annual total expenditure of £800 million.

Prism will help the FCO to meet its strategic objectives – it will enable good decision-making on how resources should be used in support of those objectives. Prism will enable the FCO to derive the full benefits of Resource Accounting and Budgeting; devolve budgets effectively; and prioritise resource use at all levels. It will enable the FCO to improve its internal service delivery. The FCO will also be able to provide more timely information for Parliament and other external stakeholders in line with the Modernising Government agenda. As well as these immediate benefits, Prism, along with other programmes being introduced over the same period, will enable wider change in the FCO, in the way the Department works and the jobs it does. Staff will be empowered to take genuine responsibility and control of their work and career. Greater efficiency should lead to more rewarding jobs as staff are able to concentrate on core FCO work clearly aligned to supporting FCO objectives.

36. The FCO's entry clearance modernisation project began in 2001-02. This three-year programme will introduce a global on-line entry clearance system, providing more choice of service to visa applicants and more efficient delivery. This high quality project won recognition and funding from the Government-wide Capital Modernisation Fund.
37. The e-procurement system (Orbist) went live in early 2002. It enables Posts worldwide to purchase goods online from authorised suppliers, thus reducing transaction and procurement costs.
38. The Internet Project saw the launch of the new i-uk portal website, produced in partnership with British Trade International, the British Council and the British Tourist Authority, in October 2002. The website provides a single point of access to a wealth of information about the UK to an overseas audience, showcasing the UK and promoting investment, cultural and tourism opportunities in the UK, as well as UK exports of goods, services, and social values. The Internet Project has also delivered the 'FCO Web Platform', on which the majority of embassy/high commission websites are to be hosted. Staff from 28 Posts have already been trained on the content management system, and around 80 will receive training during 2003.

(iv) Security and Safety

39. The FCO's security investment strategy for 2001-04 included measures aimed at strengthening security at the most vulnerable Posts to protect them against

terrorist/Al Qaeda attacks. The FCO has re-appraised security risks and accelerated investment in this area, partly as a result of the major terrorist incidents in 2001-02 (including 11 September, Bali). Security requirements, in line with threats and risks, are under constant review. The global international terrorist threat has caused many more overseas posts to be assessed as at high risk of attack.

- ?? Investment in 2001-03 delivered a sharp increase in the range and number of protected vehicles at Posts, personal security equipment and physical security of missions - such as the installation of bomb-resistant windows and perimeter security measures. Security manpower has also been increased at most posts worldwide.
- ?? Increasingly sophisticated counter-espionage measures have been deployed to a number of high-risk posts.
- ?? Biometric access control systems are on trial and exploration is underway into different kinds of mail opening equipment (e.g. to counter anthrax threats).
- ?? The FCO has doubled the amount of protective systems (e.g. CCTV) installed to meet the demands of posts and heightened security risks and continued with the agreed upgrade programme.

(v) *British Trade International*

40. British Trade International (BTI) 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. Its two operating arms, Trade Partners UK and Invest UK, are responsible for these activities. BTI's work is jointly funded by the FCO and DTI as well as directly from the Treasury.
41. BTI 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 desk-top internet access. The FCO has contributed £7 million to BTI's investments during 2001-02 and 2002-03 (a further £1.1 million will be contributed in 2003-04) to support its Internet based E-Business Strategy, which is focused on two major projects:
 - ?? An Internet Portal project, providing web enabled services for both customers and staff. This will offer facilities for new ways of collaborative working over the web and an enhanced content. The first phase of this project is due to be introduced in summer 2003 with new facilities for staff and partners of BTI. A second phase providing new services for customers will go live in autumn 2003.
 - ?? A Customer Relationship Management Project to enable more effective cross team working and support for customers, enhancing customer service; improving management information and more effective marketing. Based on pilot projects, BTI expects to deploy an "off-the-shelf" fully web-enabled system for InvestUK in autumn 2003.

As required by the Spending Review Settlement, BTI will publish more detailed information on its investments.

(vi) BBC World Service

42. Major capital projects have enabled BBCWS to achieve its objectives of reaching key target audiences, thereby contributing to FCO's objective 5 (see annex 1). The work on replacing the transmitter in Oman has been completed successfully. Transmitter replacement in Singapore and Cyprus are, as per schedule, at the planning stage (see planned investment below). These investments will provide shortwave transmissions, vital to the retention of the World Service core audience: short-wave broadcasting delivers 75% of its global audience.

43. The BBC World Service Digital Production Project was approved in 2001. This £23 million capital project will replace out-dated analogue production technology with a modern digital system. Completion is planned for autumn 2003. By delivering an integrated digital production and broadcasting system, the quality and performance of the World Service will be enhanced.

(vii) BBC Monitoring

44. All overseas units have been re-equipped with a new production system, and Monitoring's business continuity strategy was completed successfully. The first phase of the digitisation programme (also see planned investment below) was approved in 2001 and is now operational. This £1.7m project has replaced ageing analogue distribution systems with modern digital technology. This delivers high quality audio and video material to the desktop and provides users with a readily accessible archive of previous broadcasts.

(viii) British Council

45. In January 2002, the Council opened its first ICT-based Knowledge and Learning Centre (KLC) in Delhi. Costing £0.7 million, it has a large videoconferencing room and 70 PCs for public use with excellent web access, which is being well used to access UK information. In March 2002, the second KLC opened in Belgrade costing £0.4 million. In 2002-03 the British Council will spend a further £0.8 million (premises-related costs) and £2.2 million (non-premises) on new KLCs in Accra, Paris, Cairo, Kuala Lumpur and Ankara. In addition, where major projects are scheduled in the overseas estate programme, work is being cost-effectively co-ordinated with the roll out of new KLCs.

46. The British Council has developed plans to initiate an integrated Finance and Business System (FABS) project. Implementation will be spread over the next 4 years. At least half the project costs are connected to a comprehensive review of business processes, and will ensure the efficient working of the British Council, thereby generating operating efficiencies and administration cost savings. (See Future Investment).

(ix) Selling into Wider Markets

47. The 'Selling into Wider Markets' initiative enables the FCO to make better use of its assets, exploiting any spare capacity to earn revenues by selling services to other Government Departments, other Governments or to the private sector. Sales

in 2001-02 were unexpectedly strong at £4.5 million against a target of £1.5 million. The major contributors have been the METRO project for HM Customs and Excise (£1.3 million), FTN (£1.5 million), and use of FCO facilities for translation, interpreting and language training (£0.4 million). Sales in 2002-03 are expected to increase to £9 million.

E) Investment Plans

2002 Spending Review

48. Prior to the SR2002 Spending Review Settlement, the FCO had a capital budget of £126.2 million for 2003-04. The 2002 Spending Review Settlement revised the FCO's Objectives (Annex 2) and increased the FCO's capital budget by £0/5/12 million over the three years 2003-04 to 2005-06. In addition, the British Council will receive an extra £3/2/2 million over the triennium. Forecast revenues from estate asset recycling are expected to provide additional funds, with the FCO maintaining its underlying target of £100 million over the triennium (although the proceeds net of the cost of replacement buildings will be substantially less). These targets will be challenging and the receipts cannot be guaranteed. Table 6 (below) reflects this uncertainty by showing a range for the asset recycling receipts and the effect it would have on the FCO's expenditure plans.

Table 6: FCO Capital Plan (£m)

Source of Funds	2002-03	2003-04	2004-05	2005-06
FCO Baseline	109.6	123.2	123.2	123.2
British Council	5.8	8.3	7.8	7.8
BBC World Service (note 2)	30.0	0.0	0.0	0.0
BBC Monitoring	4.0	4.0	4.0	4.0
Capital Modernisation Fund	3.0	3.0	0.0	0.0
HMT Reserve Claim	5.1	0.0	0.0	0.0
SR2002 Uplift	0.0	0.0	5.0	12.0
Total original allocation (prior to asset recycling)	157.5	138.5	140.0	147.0
Capital Reclassification	-62.4	-63.5	-65.1	-59.0
Asset recycling (note 3)	15.0-25.0	45.0	35.0 - 40.0	25.0 -30.0
Total	110.1-120.1	120.5	109.9-114.9	113.0-118.0
Uses of Funds - FCO				
ICT	18.8-23.8	35.1	35.8-36.8	28.2-29.2
Estate	18.2-23.2	35.9	35.9-39.9	42.9-46.9
Of which:				
<i>Reprovisioning (note 4)</i>	9.0-15.0	27.0	21.0-24.0	15.0-18.0
<i>Other</i>	9.2-8.2	8.9	14.9-15.9	27.9-28.9
Security (note 5)	4.8	5.5	5.5	5.5
Other Directorates, Public Services, BTI and Others	25.5	21.5	23.6	25.7
Presidencies and DUP	0.0	0.0	1.3	2.9
Repayment of Treasury 'loans'	7.0	13.7	0.0	0.0
Total FCO	74.3-84.3	111.7	102.1-107.1	105.2-110.2
British Council	5.8	8.8	7.8	7.8
BBC World Service (note 2)	30.0	0.0	0.0	0.0
BBC Monitoring	0.0	0.0	0.0	0.0
Total	110.1-120.1	120.5	109.9-114.9	113.0-118.0

<i>Memorandum</i>				
Total Capital to British Council (note 6)	11	14	13	13

Notes:

- (1) Funds are net of OGD receipts
- (2) Under RAB stage 2, starting 1 April 2003, the treatment of public corporations budgets differs from under RAB stage 1, such that the BBC World Service no longer receives a separate capital allocation, only programme funding (which includes an assumed capital baseline of £31 million).
- (3) 2003-04 includes £15 million of property sales delayed from 2002-03.
- (4) Reprovision is dependent on the level of asset recycling.
- (5) Excludes items that are intrinsic to the estate, ICT or other Directorates' security investments.
- (6) British Council receives additional capital funds from outside of the FCO's capital budget allocation.

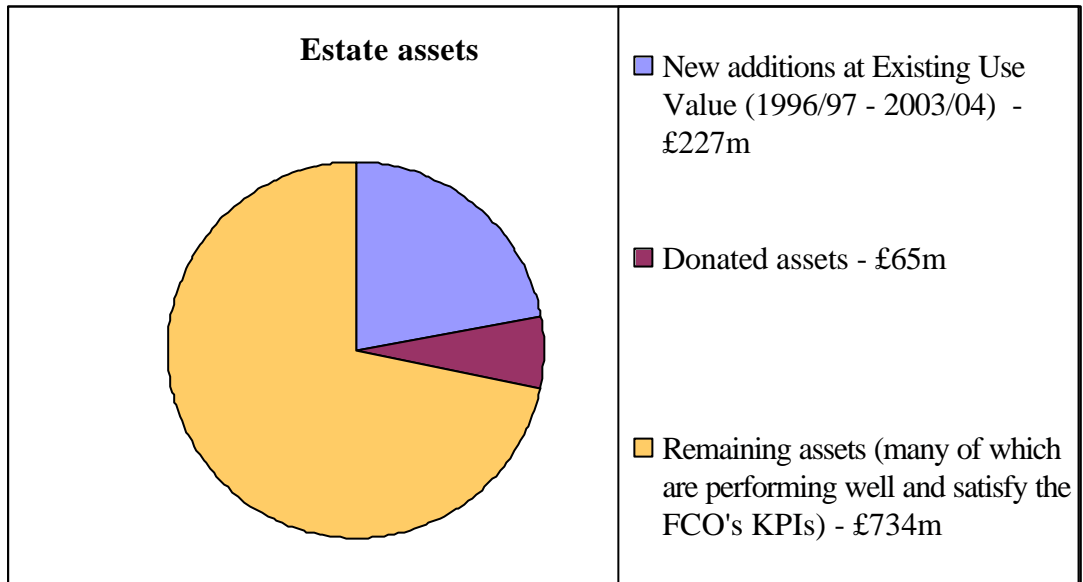
Asset Disposals/Recycling

49. In SR2000, the FCO's £100 million asset recycling ceiling was explicit as part of the 2000 Spending Review Settlement. 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). While no explicit figure has been set for SR2002, the FCO plans to maintain its underlying asset recycling target at £100 million. However, the internal distribution of the proceeds will change in recognition of the increasing impact of asset recycling on estate assets.
50. Gross asset recycling revenues were split 50:50 between investment in the estate and ICT during the SR2000 period. From April 2004, the FCO intends to fund the costs of re-providing properties as the first claim on the asset recycling revenues (expected to be around 60% of gross receipts) and split the remaining revenues equally between investment in the estate and ICT. Thus the FCO expects the share of asset recycling revenues reinvested in the estate to rise from a gross figure of 50% annually during 2003-04 to 80% annually in 2004-05 and 2005-06. The ICT share of gross asset recycling receipts will be 50% in 2003-04 and 20% in 2004-05 and 2005-06.
51. As the FCO's estate modernisation and asset recycling programme proceeds, the pool of long leased or owned property that is not providing value for money will diminish. By the end of the second triennium in 2003-04, the FCO shall have sold property worth over £180 million since asset recycling began, some 15% of the FCO's total owned estate. Over the same period the FCO will have invested in new properties or upgraded some of its stock and it is unlikely that these properties would be sold under the FCO's recycling programme. Once donated assets are excluded (because there are usually restrictions applied to disposal of such assets), it is evident that the FCO shall have to identify £100m of disposals during the SR2002 triennium from a remaining pool of £734 million of properties, many of which are performing well at present (Chart 1)¹. In order to sustain a beneficial programme of recycling in the third triennium, 2003-04 to 2005-06, without eroding its base of strongly performing assets, the FCO is considering

¹ Properties that have become surplus through re-prioritisation or fail to be operationally effective or good value for money are being sold. But we shall not dispose of well-used premises that satisfy the FCO's KPIs.

innovative ways of obtaining better value for money from the estate to supplement the existing asset recycling programme, such as disposals through PPP deals in which the FCO retains use of the assets. The FCO is also exploring the possibilities of selling surplus development rights attached to its properties, without losing the benefits of their use.

Chart 1: Scope for Asset Recycling



See Paragraph 51

52. The FCO expects to establish separate, explicit asset recycling ceilings for the British Council and the BBC World for the triennium beginning 2003-04, subject to agreement with them.

53. British Council and BBC World Service asset recycling is permitted under the terms of their Financial Memoranda with the FCO. Both benefited from budget uplifts in the SR2000 Settlement; and both are increasing their asset base and changing its composition. It is to be expected, therefore, that individual asset recycling ceilings could be introduced over and above the £100m target on core FCO's asset recycling so that both the British Council and BBC World Service can use this mechanism to improve asset management and capital budgeting.

Capital Plan

54. Our present capital investment is devoted primarily to information and communication technology, the estate and security. Since 2001-02, increasingly capital investment has been in ICT, promoting the FCO's modernisation plans to become an integrated, on-line global organisation. This investment has been directed particularly at the FTN and Firecrest programmes, creating a network that can support systems such as Prism.

55. Over the next triennium, the FCO's strategy aims to maximise the return on the resources at its disposal. The FCO will continue its large investment in modernising through ICT: enhancing system infrastructure and investing in new

programmes. The value of the FCO's estate will grow, albeit more slowly than in the recent past, as it continues to reconfigure the estate to meet new needs and priorities. High levels of security will be built into both ICT and estate investment. In addition, the FCO plans to invest in other technical security assets, for example CCTV. Current plans are shown in Table 6.

Information and Communication Technology

56. The technical infrastructure to allow the FCO to run a modern and cost effective ICT and communication system involves two core elements: FTN and Firecrest. The FCO intends to upgrade and modernise this infrastructure to support new, powerful software applications (e.g. Prism). FTN will require additional bandwidth capacity starting in 2004-05, while the 'Future Firecrest' programme will upgrade the operating system, renew licences and replace ageing hardware.

Estate

57. 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 £120 million in new buildings including re-provision over the next 3 years predominately to ensure greater protection for FCO staff. 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, all as part of the asset recycling programme.

Security

58. Security of FCO staff, information and assets at home and overseas is one of the FCO's highest priorities. The threats to FCO interests, particularly from international terrorism, are global and increasing in range and intensity. In the most serious cases the FCO has had to close Posts for a limited period.

59. Most new Embassy projects are based mainly or in part on the need for greater security. Security requirements are factored into all such projects from the start. 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 deploying to Posts only those which are suitable for the local environment.

Other Directorates Capital expenditure

60. Investment by other Directorates, UKVisas and Consular will total around £60 million over the three years to 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

61. The SR2002 Settlement requires the FCO to create a DUP, increasing from 1% of FCO budget in 2003-04 to 2% by 2005-06. 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 £0/1.3/2.9million (including Capital costs of Presidencies of the EU and G8 in 2005).

BBC World Service

62. The BBC World Service intends to continue its investment programme in two principle ways:

- modernise transmission assets that are due for replacement, or upgrade where there is a demonstrable need for their continued use (for example, Singapore and Cyprus)
- To ensure that the BBC World Service is digitally capable and thereby compete effectively across existing and new platforms

BBC Monitoring

63. 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

64. The British Council's investment plans fall into 3 main categories, rationalising the overseas and UK property base; investment in global ICT infrastructure; and investment in business systems software. The British Council intends to use £5.9m of the Spending Review 2002 award to fully exploit the opportunities from its planned integrated Finance and Business System (FABS) and to maximise business benefits through re-engineered processes.

PFI projects

65. The FCO determines the most appropriate source of project financing on a project-by-project basis. Every large project (i.e. large enough to be considered by the Departmental Investment Strategy Group – see Section F) is considered for PFI funding under the umbrella of the Public Private Partnership.

66. The capital value of the FCO's PFI deals is worth £98 million, consisting mainly of the Berlin Embassy completed in 2000, and the FTN project. The FCO also has two small PFI arrangements to obtain value for money services for data archiving and car leasing. 'Syntegra' provides the equipment used by the records database, MINERVA, for a quarterly charge of £54,000. Through this arrangement, the FCO obtains the equipment it need to run its records-keeping activities while avoiding an initial capital outlay and the risks associated with owning the equipment. Similarly the FCO's car leasing arrangement is a cost effective way of meeting a part of its requirement, mainly in the EU, without bearing the risk of ownership. Currently, the FCO leases 62 motor vehicles, 4.7% of its fleet.

67. PFI projects abroad raise particular difficulties. PFI viability depends mainly on the returns required by the private sector as compared to the interest on capital charge, which currently stands at 6%. The returns sought by developers overseas are often higher than 6% so the potential for further deals in the mode of Berlin

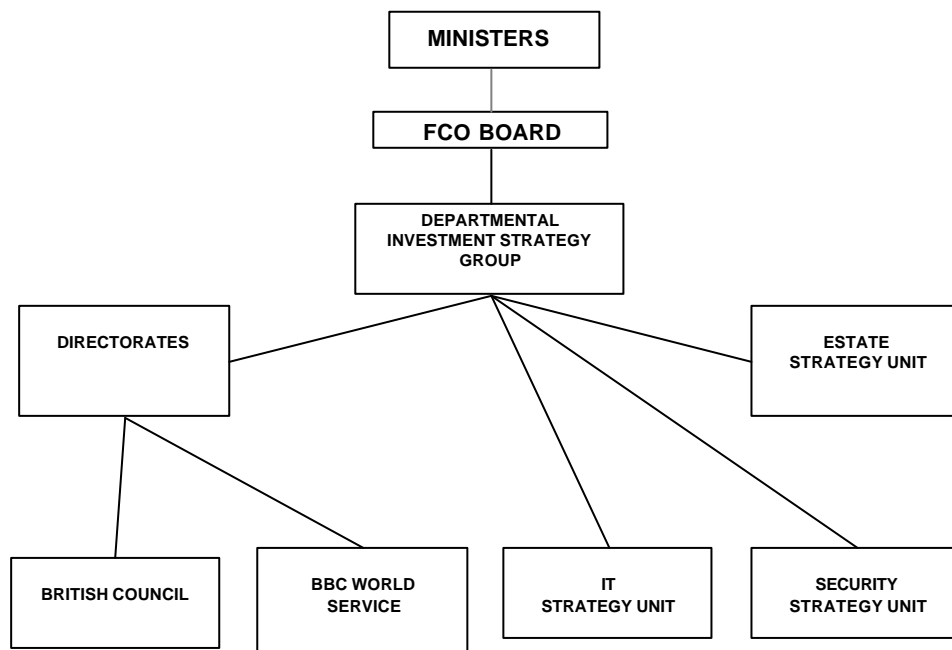
may be limited. Security considerations also complicate matters, especially for ICT projects. However, these considerations do not rule out the prospects for PFI entirely and the FCO will continue to assess the PFI potential of all proposed major projects. The planned cut in the Treasury interest on capital charge from 6% to 3.5% from 1 April 2003 will further erode the value for money of PFI solutions, making it less likely that the FCO, like other Government Departments, will adopt PFI in future (see “Investment Appraisal and Optimism Bias” below). The FCO continually seeks value for money in its investments and is always willing to consider fresh approaches in order to achieve this.

F) Capital Programme Management

Departmental Investment Strategy Group (DISG)

68. The FCO Board is responsible to Ministers for the strategic overview of investment. Authority over investment decisions cascades down from the FCO Board to the Departmental Investment Strategy Group (DISG) and, below that, to Strategy Units and Directorates within the FCO, and ultimately to the BBC World Service and British Council, where appropriate. The control mechanisms remain essentially unchanged from those described in the Departmental Investment Strategy 2001-04, although the Board was reinforced in 2002 by the addition of the Directors for Finance, Personnel, Information and Strategy & Innovation. The threshold for delegation of authority from the DISG to Directorates and Strategy Units for ICT projects was raised to £2 million in 2002, the same as that for estate projects. For consistency, increases in the delegation of authority ceilings for the British Council and BBC World Service will be made.
69. Experience has shown that the DISG works well in overseeing the investments for the FCO as a whole, and reprioritising in response to unexpected events. This was clearly demonstrated in the aftermath of 11 September, when investment in security increased sharply.

Chart 2. Authority for Capital Spending



Project management

70. The FCO is fully committed and actively engaged in the Office for Government Commerce's (OGC) Gateway Process, which is used to scrutinise management of large, complex and/or novel projects. In addition, in accordance with a requirement laid down by the Cabinet, the FCO will establish by July 2003 a Centre of Excellence for project and programme management. This body will:
- ensure that project teams have the right mix of people and skills, identifying training needs where necessary, and commission consultant input to provide specialist skills that cannot be met by FCO staff;
 - consider long term project and programme needs, assessing whether the FCO, British Council and BBC World Service have the right mix of internal and external resources;
 - review and assess the effectiveness of the FCO's business processes, benchmarking these against external best practice within Whitehall and the private sector;
 - network with Centres of Excellence in OGDs, maintaining strong links with the OGC, Cabinet Office and other parts of central government;
 - develop "client side" capability, to ensure the FCO project owners demand and obtain the best value for money from its projects; and
 - ensure coherent upward reporting to DISG and the FCO Board on major projects.
71. This Centre of Excellence will align closely with the teams carrying out Gateway Reviews. There are 6 such "Gateways". Gateways 0, 1 and 2 incorporate the three main stages in the development of FCO business cases (Strategic, Outline and Full business case) which, as appropriate, are presented to the DISG for approval. The key elements of these business cases are set out in Annex 2. The DISG also monitors progress at Gateways 3, 4 and 5 that cover Contract Award, Readiness for Service and Benefits Evaluation.
72. A project's risk is scored during the initial stage of the Gateway process using the OGC's Project Profile Model (PPM). Risk is assessed against a number of criteria, including: cost, the number of staff involved, geographical location and the nature of the project.
73. For ICT, new projects are being planned on an incremental modular basis to minimise risks of project cost and time overruns. For high-risk projects, Gateway review teams will be 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. Currently, the FCO has one high-risk project (Future Firecrest) within the Gateway process, some medium risk construction and ICT projects (including Prism, which has completed 'Gate 3', and the internet project, which will soon be due for a 'Gate 4' review), and some low risk projects (which may not need to be assessed at each of the Gateways). The FCO's DISG already carries out internal scrutiny of its projects, in much the same way as the external scrutiny exercised by the Gateway process.

74. The FCO's project management structure comprises three key roles: a Project Owner, Project Sponsor and Project Manager, along with technical support and the project team as shown in the chart on Project Management (Annex 4).

Project Owner

75. Projects need clear, active and visible leadership from a single senior owner from the business. In accordance with best practice in the public and private sectors, programme ownership is business-led, with an individual drawn from the 'business area' that requires the project. This applies to both ICT and estate projects.

Project Sponsor

76. The Project Sponsor is a person dedicated to fully understanding the nature of the project. The Sponsor is responsible for preparing the business case. The latter identifies the benefits that will be delivered and the budget for the project. The Sponsor will score the risk of the project against OGC's Project Profile Model, and will procure the appropriate professional services for delivering the project.

Project manager

77. The project manager is the named individual responsible for the day to day management of the project, who provides the interface between the Project Sponsor and the supply side of the project. In smaller value projects, the Project Sponsor has more involvement in the management role. Where appropriate the FCO will buy in the necessary expertise (e.g. for major projects such as Prism). For others, where it is better value for money to do so, the FCO will use in-house project management skills, which it will continue to develop through appropriate training and development programmes.
78. In addition, the FCO is committed to improving its project management procedures and was represented on the User Group for the Cabinet Office's project on 'Improving Programme and Project Delivery'.

Investment Appraisal and Optimism Bias

79. HM Treasury published its revised 'Green Book' on Investment Appraisal and Evaluation in December 2002. The main change from the previous edition was "unbundling" the discount rate into 3 elements: a social time preference rate of 3.5% (the new discount rate), an optimism bias factor, and a factor for other project risks. Optimism bias captures the tendency to underestimate project costs and implementation periods and overestimate benefits when presenting a business case for authorisation. The treasury's new approach will take effect from 1 April 2003. At the same time, Treasury will reduce the interest on capital charge from 6% to 3.5% to bring it into line with the new discount rate (see Table 7 below).

Table 7: Impact of the Reduction in the Treasury Discount Rate from 6% to 3.5% on the FCO's Departmental Expenditure Limits

£ million	2003-04	2004-05	2005-06
Original Allocation per 2004 Settlement letter (interest on capital @ 6%)	87	90	94
Adjustment (-2.5%/6%)	-36	-37	-39
Adjusted Allocation (interest on capital @ 3.5%)	51	53	55

80. The FCO is adopting the guidelines set out in the Green Book. In particular, the FCO has carried out a review of past projects to identify the optimism bias factor on its ICT and estate projects. The FCO has found that:

- ?? On estate projects costing below £5 million, there is little evidence of cost overruns beyond the 15% contingency factor the FCO currently apply to such projects.
- ?? On larger estate projects, there is evidence of a larger optimism bias factor of around 45% above the contingency. This bias is below the Whitehall average of 51% shown in the Green Book, despite the unique risk exposure the FCO faces in operating internationally (e.g. exchange rate risk).
- ?? Early indications are that the optimism bias on FCO ICT projects is around 50% rather than the 200% Whitehall average identified in the Green Book.

81. The FCO is carrying out additional work to identify the drivers behind the optimism bias affecting FCO projects. This work will help better inform decision-making and enhance the robustness of project and risk management procedures.

G) Action plan for improvements

82. The 2000 Departmental Investment Strategy helped identify areas where the FCO intends to improve performance. Those relating to project management are highlighted in section F. Other areas the FCO is addressing concern *resource allocation* and *evaluation and appraisal*.

Resource allocation

83. Resources are currently allocated on the basis of the business cases and strategies presented by the Strategy Units, UKvisas, Consular Division and Directorates. Capital allocations are made in the light of the overall strategy and objectives, seeking to maintain an appropriate balance between the estate, ICT, security and public service delivery needs.

84. The 2000 DIS highlighted the need to develop risk and benefit management techniques to improve investment allocation. Projects such as Prism, GenIE and website development have benefits realisation programmes in place. The FCO undertakes risk assessments as part of investment planning. It is looking to increase its skills in this area and to integrate risk management more formally into

strategic planning and resource allocation. The FCO has put in place detailed risk registers for all its major projects.

85. Prism will enable the FCO to maximise its use of RAB information and incentives, encouraging better budget management and allowing the FCO to develop best practice business processes. RAB disciplines have been devolved to Directorates and Strategy Units, so that their investment proposals and resource allocation decisions are better informed.
86. The FCO is trialing devolution of estate costs to geographical Directorates. This will create notional budgets for the Directorates based on the depreciation and interest on capital charges on the estate assets used in their area. Directorates will have the right to instruct the Estate Strategy Unit to dispose of or acquire properties (on an owned or leased basis) subject to affordability and value for money constraints. The FCO's aim is to discover whether better decisions will be made when estate budgets are held by those who are most directly affected by estate decisions, instead of continuing to take estate decisions centrally. This trial is being implemented in the Middle East and North Africa Directorate (MENA). It is, of course, taking place against a background in which responsibility for project management is devolved to all Directorates, including MENA.

Appraisal and evaluation

87. In terms of appraisal and evaluation, the FCO uses 'post implementation' peer reviews (as recommended by OGC) for its estate and ICT projects. The FCO has agreed to improve its evaluation techniques and implement post-project evaluations by March 2003.
88. The FCO is also continuing to develop Key Performance Indicators to cover the condition of all FCO-owned properties abroad. The FCO has agreed to pilot the Design Quality Indicator assessment methodology, sponsored by the Construction Industry Council. The DQIs focus on measuring the value of a project and complement existing Key Performance Indicators. In addition, the FCO is developing ICT Key Performance Indicators to improve awareness of the fitness-for-purpose and the intensity of use of FCO ICT assets.
89. The FCO is reviewing and updating the Financial Memoranda for the British Council and BBC World Service to ensure they are RAB-compliant and set appropriate delegated authority limits on capital spending.
90. The FCO will be raising the ceilings for the British Council's and BBC World Service's delegation of financial authority for investments to £2 million, making these comparable with the FCO. The Department is also examining separate ceilings for British Council and BBC World Service's asset recycling.

Annex 1**FCO Objectives, 2001-04**

- ?? **Objective 1:** *A secure United Kingdom within a more peaceful and stable world.*
- ?? **Objective 2:** *Enhanced competitiveness of companies in the UK through overseas Sales and investments; and a continuing high level of quality foreign direct investment. (Through BTI, shared with DTI)*
- ?? **Objective 3:** *Increased prosperity for the UK through a strengthened international economic order.*
- ?? **Objective 4:** *A strong international community; leading to an improved quality of life worldwide.*
- ?? **Objective 5:** *Pivotal influence worldwide over decisions and actions which affect UK interests; positive foreign perceptions of the UK; authoritative, comprehensive information on foreign issues for UK decision-takers.*
- ?? **Objective 6:** *A strong role for the UK in a strong Europe, responsive to people's needs.*
- ?? **Objective 7:** *Effective consular services to British national's abroad.*
- ?? **Objective 8:** *Regulation of entry to, and settlement in, the UK in the interests of social stability and economic growth. (Shared with the Home Office).*
- ?? **Objective 9:** *Secure and well-governed United Kingdom Overseas Territories enjoying sustainable development and growing prosperity.*
- ?? **VfM:** *Improved value for money in delivering FCO targets by implementing the Government's Modernisation and Civil Service reform programmes. The FCO will achieve a 3% efficiency saving, including through installation of new ICT which will generate an 11% (nominal) return on the investment.*

Annex 2 FCO Objectives for SR2002 Period (2003-06)

?? Objective 1: 'Security'

A secure United Kingdom within a safer and more peaceful world.

?? Objective 2: 'Trade and Investment'

Enhanced competitiveness of companies in the UK through overseas sales and investments; and a continuing high level of quality foreign direct investment. (Through British Trade International, shared with DTI.)

?? Objective 3: 'Prosperity'

Increased prosperity and a better quality of life in the UK and worldwide, through effective economic and political governance globally.

?? Objective 4: 'Europe'

A strong role for the UK in a strong Europe, responsive to people's needs.

?? Objective 5: 'Impact Abroad'

International decisions and actions which advance UK objectives and interests. Authoritative advice and support to the whole of Government on international issues. Positive foreign perceptions of the UK and the Government's policies.

?? Objective 6: 'Public Services'

High quality consular services to British national's abroad. Effective regulation of entry to, and settlement in, the UK in the interests of sustainable growth and social inclusion (shared with Home Office).

?? Objective 7: 'Overseas Territories'

Secure and well-governed British overseas territories enjoying sustainable development and growing prosperity.

Annex 3 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

Annex 4: Project Management

