National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

HC 295
SESSION 2009–2010

11 FEBRUARY 2010

Adapting the Foreign and Commonwealth Office's global estate to the modern world

Our vision is to help the nation spend wisely.

We promote the highest standards in financial management and reporting, the proper conduct of public business and beneficial change in the provision of public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 900 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work leads to savings and other efficiency gains worth many millions of pounds: at least £9 for every £1 spent running the Office.

Adapting the Foreign and Commonwealth Office's global estate to the modern world

Ordered by the House of Commons
to be printed on 9 February 2010

Report by the Comptroller and Auditor General
HC 295 Session 2009–2010
11 February 2010

London: The Stationery Office
£14.35

This report has been prepared under section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

Amyas Morse
Comptroller and
Auditor General

National Audit Office

4 February 2010

To support its global business operations, and those of wider UK Government, the Foreign and Commonwealth Office needs to operate a flexible global estate, adaptable to changing demands, appropriate to the environment within which it operates, and suitable to the FCO's particular needs.

Printed in the UK for the Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
P002347996 02/10 7333

Contents

The National Audit Office study team consisted of:

Marisa Chambers, Emma Willson, Candida Owusu-Apenten, George Rinu, and Andy Makin, under the direction of Tim Banfield.

This report can be found on the National Audit Office website at www.nao.org.uk/fcoestate2010

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

Summary

The FCO's global estate

1 To support its global business operations, and those of wider UK Government, the Foreign and Commonwealth Office (FCO) needs to operate a flexible global estate, adaptable to changing demands, appropriate to the environment within which it operates, and suitable to the FCO's particular needs (such as diplomatic representation and public waiting areas). It needs to do so at the lowest reasonable cost. The estate currently comprises 4,062 properties (valued at £1.6 billion) in 279 cities and other locations. Locations where the FCO has a presence are known as 'posts' and may consist of Embassy, High Commission or Consular offices, an official Ambassadorial Residence and staff accommodation. There may be several posts in different parts of one country. Locations vary from major cities to insecure environments, tourist destinations and developing countries where additional infrastructure, such as electricity generators, may need to be provided. As at 31 March 2009, 13,000 FCO staff worked in offices overseas and 2,500 lived in staff accommodation.[1]

2 Maintaining a suitable global estate is complicated by:

- **A changing environment:** The estate must be flexible and respond to changes such as new and expanding priorities for a diplomatic presence, or the changing requirements of the FCO and other government organisations with overseas operations.
- **Security considerations:** FCO staff work in some of the most vulnerable locations worldwide, where UK diplomatic premises are prime targets for terrorism or demonstrations, and additional infrastructure such as blast resistant walls and windows may be needed while balancing accessibility and security.
- **Political and diplomatic considerations:** Certain locations and properties, including the 383 buildings gifted to the FCO by foreign governments, present particular diplomatic challenges that the FCO must manage.
- **Exchange rate pressure:** Fluctuating exchange rates also affect funds available for estate-related projects after commitments such as salaries, rents and rates have been met.

3 Annual expenditure on the FCO's global estate increased from £199 million in 2004-05 to £269 million in 2008-09 (**Figure 1**), largely due to increases in capital spending from £64 million in 2004-05 to £115 million in 2008-09. These increased capital funds were provided to undertake essential security upgrades following the bombing of the Istanbul Consulate in 2003.

1 Staff numbers as at March 2009, based on quarterly post returns.

4 In June 2009 we published a report on the FCO's financial management.[2] Our conclusions were broadly positive, with the FCO showing good leadership in raising the profile of financial management and some early successes achieved. This report focuses on an area where, as the FCO recognises, there is scope for improvement. It examines how the FCO manages its global estate, but does not cover routine estate maintenance.[3] The report assesses the FCO's performance against criteria:

- A clear **estate strategy**, reflecting wider departmental priorities and used to develop local and regional estates strategies (Part 2).
- Accurate, comprehensive **financial information on revenue and capital expenditure and management information** feeding into the strategy and reviewed routinely to identify the potential for better and more cost-effective estate management (Part 3).
- **Clear processes and responsibilities** for identifying, evaluating and implementing changes flowing from, for example, new ways of working or changing security requirements, with a **single point of responsibility** having oversight and control over estate management and funding (Part 4).
- Clear structures for working with and charging **other government organisations** which use the estate (Part 5).

Figure 1
Global estate expenditure and proceeds from estate asset sales

	2004-05 (£m)	2005-06 (£m)	2006-07 (£m)	2007-08 (£m)	2008-09 (£m)
Revenue expenditure					
Rents and rates	72	77	66	71	74
Maintenance and refurbishment	44	49	52	51	61
Utilities	13	14	15	14	14
Berlin Embassy (Private Finance Initiative)	6	3	4	5	5
Sub-total revenue expenditure	**135**	**143**	**137**	**141**	**154**
Major capital project expenditure	**64**	**78**	**66**	**82**	**115**
Total estate expenditure	**199**	**221**	**203**	**223**	**269**
Proceeds from asset sales	**11**	**11**	**60**	**15**	**58**

Source: FCO Departmental Reports (2004-05, 2005-06, 2006-07) and FCO information

NOTE
Figures restated to 2008-09 values.

2 Comptroller and Auditor General (2009), *Financial Management in the Foreign and Commonwealth Office*, HC 289 2008-09.
3 Appendix 1 describes our methodology.

Key findings

On developing a clear estate strategy

5 At the highest level, the current estate strategy reflects the FCO's departmental objectives and provides a high level description of the estate's strategic aims. The underpinning detail is, however, scant. The strategy does not outline the FCO's estate requirements, whether the estate meets these requirements and how any gaps will be addressed. Without a clear framework to assess estate performance and drive change, it is difficult to determine the potential for, and success in, delivering a cost-effective estate.

6 The FCO has recognised these weaknesses, and in July 2009 appointed a professionally qualified Director of Estates and Security to enhance estates expertise. The Director is responsible for developing a new estate strategy to be presented to the FCO Board in February 2010. This includes commissioning detailed analysis to identify the internal FCO capacity needed to deliver the required estate and help develop an asset management strategy for the estate.

On financial and management information

7 Since 2006, the completeness of the financial and management information the FCO uses to manage its estate has improved with the introduction of a new property management database. However, the FCO does not collect data in line with certain key requirements laid down for UK-based departments by the Office of Government Commerce, for example, the database allows users to generate information on space utilisation but not on cost per person. Furthermore, the quality of data collected is poor with a third of posts that responded to our survey not using the database.[4] Given the lack of good data, the FCO does not have a strong evidence base on the cost or use of the estate to enable strategic, well-informed decision-making, to promote the efficient use of space or to identify surplus assets for potential sale.

On project and programme management

8 The FCO does not have an effective system for bringing together the information necessary to manage its programme of capital projects around its estate. Poor information hinders the FCO's ability to monitor effectively project costs against budget, or to identify the systemic causes of delays and cost overruns.

4 Given the lack of estate-related management information we undertook a survey of posts. The response rate was 83 per cent. The FCO told us reasons for posts not responding included difficulties with internet access, and staff changes during the survey period.

9 Our analysis showed that project performance could be improved. The FCO does not hold comprehensive historic data on the outturn of all its completed capital projects. We collated data on 42 projects completed since 2002. A third of the projects we analysed exceeded their initial approved budget by over 10 per cent, and two-thirds of projects were delivered late. We estimated the total cost overrun since 2002 to be approximately £57 million against a total of £250 million. Information was not available to enable us to quantify the extent of the total delays across the capital portfolio.

10 Monitoring of in-year capital expenditure is also poor. This led to a £11 million cost overrun in 2008-09, which was accommodated by internal FCO budgetary transfers. Inadequate monitoring makes it difficult to identify and rectify the underlying causes of the overruns and delay. The re-organisation of estate governance arrangements, provides an opportunity to address these problems, with a new committee replacing the Investment Committee from November 2009 with improved support and a clearer focus on estates issues.

Processes and responsibilities for dealing with change

11 Complex organisational structures and responsibilities have adversely affected the FCO's ability to respond to the changing requirements for the estate. Overall responsibility for the estate rests with the Estates and Security Directorate but it controls only 59 per cent of the budget spent on the global estate. The remainder is split between eight London-based Geographical Directorates which determine the funding allocated to posts for local rents and maintenance work. This fragmented approach to funding and responsibility restricts the Estates and Security Directorate's ability to oversee the effective use of the total funds available and, for example, to ensure the consistent application of good estates practices across the Geographical Directorates.

12 There is no formal incentive on the management teams within posts to make more efficient use of the space available to them where possible. Action depends on the motivation of individual managers as there is no accountability framework or budgetary incentive to manage their use of accommodation in the most efficient way or respond effectively to changing business requirements. While there are clear processes for identifying the need for health and safety and security-related change, it is less clear who is responsible for identifying and actioning other changing requirements, for example, dealing with unused space or opportunities to dispose of properties. Underused space remains a problem across the global estate with 59 per cent of the posts[5] responding to our survey having unused office space and staff accommodation. However, there are a number of constraints limiting better use of underused space such as the costs of reconfiguration, access to funding, security restrictions and the diplomatic and representational needs of the FCO overseas.

5 Based on 179 posts responding to our survey after having removed posts where properties have been gifted to the UK by host governments, restricting the FCO's ability to adapt the estate.

On relations with wider government

13 The FCO has a departmental objective to provide a flexible global network serving the whole of British Government but could do more to actively promote the use of its global estate more widely where feasible. A recent FCO survey of its stakeholders identified over 90 UK organisations operating overseas, including the Department for International Development and the British Council.[6] All have different accommodation and business requirements which means co-location is not always the most appropriate solution. Other organisations can operate from the FCO estate where available accommodation supports their business model and space exists or can be created cost-effectively. There are opportunities for increased co-location. We identified 63 posts reporting surplus space where other organisations are operating separately from the FCO. The data does not exist to show whether these organisations' business requirements make co-location appropriate or cost-effective.

14 There are a number of barriers that hamper the FCO making best use of available space within FCO properties. Different business requirements such as the need for public access may mean that it is not practical for other organisations to co-locate with the FCO. Legal or diplomatic implications and security can prevent unused space being sub-let to other users. There are no shared strategic objectives across government to pursue co-location and little collective sense of responsibility or drive to maximise the use of the FCO's property overseas where feasible. Rather, responsibility rests with the FCO but it does not have the authority to drive coordinated cross-government action. Current arrangements between the FCO and other organisations mean there is inconsistent communication of developing business requirements or alignment in their respective requirements with regard to estates. This prevents the FCO assessing the potential for greater space sharing, as well as creating difficulties for the FCO as it tries to respond cost-effectively to the changing estate requirements of other organisations.

15 The current charging arrangements for use of FCO managed property, based on full cost recovery in line with government policy, are another reason why other government organisations do not always co-locate with the FCO. According to an FCO survey of its stakeholders, one-third of the 91 government organisations using FCO property overseas were dissatisfied with these arrangements, citing clarity of costing and high costs as weaknesses.[7] Furthermore, our analysis showed that it is unclear as to when other government organisations should contribute to the capital costs of new FCO accommodation which they intend to share.

6 The British Council is not a government organisation. It is an executive Non-Departmental Public Body and charity. Its status varies according to the country in which it operates and is mainly classed as either a charity or commercial body.

7 *FCO Survey of Whitehall Partners* (2009), Ipsos MORI, August 2009. From 91 organisations surveyed, 34 per cent did not express an opinion and 33 per cent were dissatisfied.

Value for money conclusion

16 The FCO has £1.6 billion invested in property overseas and spent £269 million managing the estate in 2008-09. We conclude that to date the Department has not secured value for money in the way it manages its global estate as a whole. We identified examples of good practice and innovation such as reconfiguring some office space and responding to emerging security threats. However, complex arrangements for managing and funding the estate and the absence of a clear strategy for its use inhibit the FCO's ability to ensure the estate is appropriate for its changing business needs. Furthermore, the FCO does not have the necessary management information to assess or robustly prioritise developments, or to make decisions based on an understanding of the full costs of the use of its assets and the potential benefits of investment.

17 The FCO has recognised many of these shortcomings and, following the appointment of an estate specialist as Director of the Estates and Security Directorate, has taken positive steps to improve estate management, including the development of a new estate strategy. These steps have the potential to help secure improved value for money in the future.

18 Further steps are needed to improve value for money by minimising the cost of government operating overseas. Opportunities for other government organisations to use FCO accommodation are not being maximised. The full cost charging arrangements act as a disincentive and, despite available spaces in some posts, there is no collective cross-government responsibility for identifying where sharing accommodation is appropriate and best value for money.

Recommendations

19 The FCO has started to take a number of positive steps that should improve management of the global estate. Findings from this study have already fed into these developments. Changes include:

- Appointment of an estate specialist as Director of the Estates and Security Directorate. The FCO also intends to recruit a Head of Asset Management and Capital Programme Director.
- Reorganising estate governance arrangements through establishing a new Estates Committee to review both capital projects and wider estate issues.
- New strategic guidance issued by the FCO Board in October 2009.
- Commissioning a detailed analysis to identify the internal FCO capacity needed to deliver the required estate, prioritise maintenance and building compliance work and develop an asset management strategy. This work will feed into the FCO's new estate strategy to be presented initially to the Board in February 2010.

In light of these developments, we make the following recommendations:

On the Department's estate strategy

a **The FCO's estate strategy does not outline how the estate satisfies current requirements or how gaps will be addressed.** Building on Board discussions in October 2009, the FCO should develop clear strategic priorities for the estate, outline how estate decisions will be made, address the issue of unused space, and detail what information is needed to manage the estate effectively and consistently across posts.

On the Department's use of information

b **The FCO's management information on estate characteristics is poor, affecting its ability to identify the need for change, make effective strategic decisions and improve estate management in order to achieve better value for money.** The FCO should enforce more consistent use of the standard property management database across posts and ensure accurate data is collected routinely to assess estate performance. In line with Office of Government Commerce specifications this should include: cost and space per person; cost per m^2; and environmental and functional suitability to FCO requirements. With this additional information, the database should be used more actively as a strategic tool for informing future investment.

c **Gaps in information used to monitor capital projects, such as analysis of projects completed to time and budget, make it difficult for the FCO to assess and improve performance in delivering capital projects effectively.** The FCO must collate and use management information on capital projects more effectively to improve project management and the effectiveness of the delivery of its capital programme.

On processes and responsibilities for making change

d **Changes in the business needs of both the FCO and other organisations operating overseas, such as increased open plan working and the regionalisation of passport and visa services, have increased the amount of unused space within FCO properties.** Responsibility for managing their day-to-day accommodation in the most efficient manner in response to changing business needs should rest firmly with posts. To facilitate this change, the FCO should develop an estate accountability framework for posts, underpinned by budgetary and other incentives, with regular monitoring by the Estates and Security Directorate based on an agreed set of metrics.

e **The source of funding within the Department for estate-related change is not always clear, and there is no central oversight of all spending on the estate.** To drive greater coordination a single Directorate should provide strategic oversight, control estate-related spending, and assure the quality of estate information. In making decisions, this single authority should consider how best value can be achieved across the whole estate while ensuring business needs are met. This should include the agreement of common strategic objectives with other departments.

On the Department's relationship with other government organisations

f **The current arrangements for sharing accommodation with other organisations operating overseas do not encourage efficiencies across government.** To encourage greater use of the FCO's global estate, Treasury and the FCO should undertake feasibility work to determine the most appropriate operating structure to deliver value for money across the government footprint overseas. This should build on the recent 'Smarter Government White Paper',[8] which encourages a review of the ownership and governance options for central government. It should also consider: the differing business models of organisations operating overseas; where better value could be achieved; appropriate cost and charging options to incentivise greater co-location and the structures necessary to develop a collective responsibility to achieving value for money. These structures could include a shared and consistent performance measure, or a requirement to co-locate with the FCO unless it can be proved to be poorer value for money than alternatives or inappropriate for their individual business models.

g **The FCO and other government organisations have not always had a shared understanding of their respective strategic plans for their estates.** Both the FCO and other government organisations need to engage constructively to deliver value across the global estate from a pan-government perspective. This should include developing a shared co-location strategy where appropriate and establishing better communication channels at all organisational levels to provide a greater awareness of strategic plans and make more reasoned, aligned estate decisions. Other organisations must plan and commit to use the FCO estate as they plan and commit to use their own.

h **The current charging regime lacks transparency and is confusing and costly.** The FCO should make the current arrangements more transparent by clarifying the components of full cost charges and how leased office space is recharged. To encourage greater cross-government working and overall value for money across all government working overseas, the FCO should continue to explore with Treasury alternative charging mechanisms which enables organisations overseas to compare their estate costs on a like-for-like basis. In addition, the Treasury and FCO should investigate the appropriateness of current capital project funding arrangements and, where necessary, the FCO should develop clear guidelines for when capital contributions from other organisations are required.

8 *Putting the Frontline first: Smarter Government,* December 2009, Cm7753.

Part One

The operating environment of the global estate

Requirements for a global estate

1.1 The Foreign and Commonwealth Office (FCO) aims to deliver political, commercial and diplomatic activities overseas in the United Kingdom's interests. To support this, it needs to operate a responsive, cost-effective worldwide estate suitable to its operations overseas. This estate should provide:

- **Functional office space to relevant UK health and safety standards.** At the end of March 2009, FCO data shows that 13,000 FCO staff worked in offices overseas.[9]
- **A safe environment for staff during a time of increased security threats when more staff are being moved to dangerous regions.** According to an FCO staff survey, the number of staff feeling safe while working overseas has remained consistent over recent years: 80 per cent of staff in 2008 and 77 per cent in 2007.[10]
- **Staff accommodation for UK employed staff living overseas.** At the end of March 2009, FCO data shows that accommodation was provided for 2,500 FCO staff.[11]
- **Representational facilities to help fulfil diplomatic functions and promote British interests.** Almost half of the 188 posts responding to our survey used the Head of post residence for representational functions more than once a week. Some posts also need offices to have a representational function.

1.2 The current global estate consists of 4,062 properties (valued at £1.6 billion) and is situated in 279 cities and other locations (**Figure 2**). Locations where the FCO has a presence are known as 'posts' and may consist of Embassy, High Commission or Consular offices, an official Ambassadorial Residence and staff accommodation. Locations vary from major cities to insecure environments, or tourist destinations (**Figure 3** on page 14). There are posts in 30 of the least developed nations[12] where additional infrastructure such as electricity generators may be needed.

9 FCO information (31 March 2009).
10 FCO staff survey 2008.
11 FCO information (31 March 2009).
12 Committee for Development Policy, United Nations, 2006 (www.un.org/ohrlls).

Figure 2
The global estate

Region	Number of locations	FCO staff working overseas (%)	Number of properties				Estate value (£m)
			Offices	Residential properties	Residences	Total	
Africa	39	20	55	511	33	**599**	137
Americas	57	14	76	483	52	**611**	264
Asia Pacific	35	14	51	489	28	**568**	231
Europe	87	21	121	822	59	**1,002**	569
Middle East and North Africa	31	13	51	606	27	**684**	240
Russia and the Caucuses	12	4	13	140	11	**164**	5
South Asia and Afghanistan	18	14	31	393	10	**434**	134
Total	**279**	**100**	**398**	**3,444**	**220**	**4,062**	**1,580**

Source: National Audit Office analysis of Foreign and Commonwealth Office management information from March 2009

NOTE
Staff figures based on 13,012 FCO staff working overseas. Residential properties include those occupied by FCO staff and others working overseas. This does not include the 109 compounds and 706 other properties (such as guard houses and stores) used by the FCO. The estate value reflects the open market value at the end of March 2009 for FCO owned properties.

1.3 The overseas environment creates additional challenges to implementing specific changes. Our survey of posts shows that a lack of appropriate facilities, planning restrictions and difficulties obtaining building materials are common problems encountered by posts. As FCO staff work in some of the most vulnerable locations worldwide, additional measures such as blast resistant walls and windows and controlled access need to be provided.

1.4 The global estate must be flexible. To sustain business overseas, it must respond cost-effectively to the changing environment and business requirements by acquiring, adapting and disposing of properties where necessary. These changes include new and expanding requirements for a diplomatic presence and evolving security and operational requirements.

Figure 3
Varying estate characteristics

Location	FCO staff at March 2006	FCO staff at March 2009	Specifics
Abuja (Nigeria)	135	232	• Growing presence (Nigerian capital since 1991) • Poor infrastructure • Security threat
Beijing (China)	212	240	• Security threat • Variable construction quality • Local bureaucracy
Berlin (Germany)	113	97	• New office financed through a Private Finance Initiative • Secure environment • Declining FCO staff numbers
Jeddah (Saudi Arabia)	41	35	• Declining FCO staff numbers as work centralised in capital (Riyadh) • Security threat • All property on single compound
Palma (Spain)	1	6	• European tourist destination • Estate managed from Madrid • Office accommodation only as all staff employed locally

Source: National Audit Office visits and Foreign and Commonwealth Office information

NOTE
Staff figures represent FCO staff working at post, whether employed locally or in the UK.

A number of inherent factors influence the delivery of a cost-effective, responsive estate

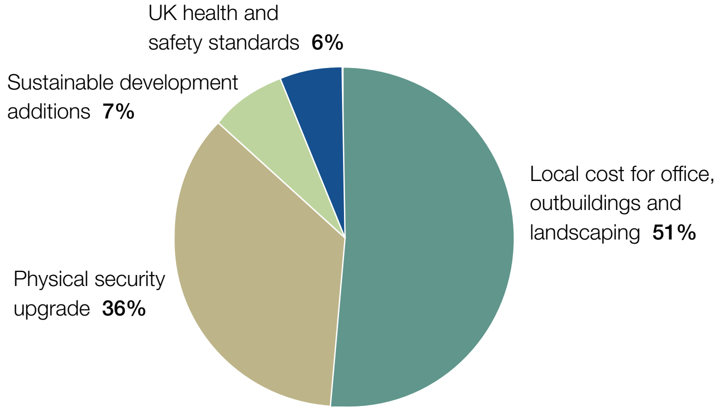
1.5 A number of factors affect the FCO's ability to deliver the most cost-effective global estate. These include:

- **Diplomatic constraints:** At present, according to its own data, the FCO uses 383 properties (around 10 per cent of the total) provided as gifts by host Governments, as in Addis Ababa. To change or dispose of these buildings could be unacceptable politically or diplomatically for the UK Government, obliging the FCO to continue to use them despite, for example, high running costs.

- **Host Government constraints:** In certain countries, such as Nigeria, there are restrictions on foreign jurisdictions owning property. In other locations properties must be in designated areas, such as the diplomatic quarter in Riyadh.

- **Security constraints:** The FCO estimates that the number of posts operating in countries with a critical or severe terrorist threat rating has increased more than three-fold since November 2006. FCO properties must meet specific security standards imposed since the 2003 Istanbul Consulate bombing. These include a minimum distance between buildings and public areas, access control and blast resistant walls and windows. These requirements increase building costs. Project management specialists MACE estimated that FCO offices cost twice as much as a standard local build (**Figure 4**). The high sunk costs may make estate adaptations more difficult and expensive, reducing the scope for flexibility across the FCO estate and increasing the cost of change. The FCO's additional security requirements can also reduce the instances where other organisations, particularly those requiring public access, find FCO accommodation suitable to their needs.

Figure 4
Breakdown of a typical FCO office build cost

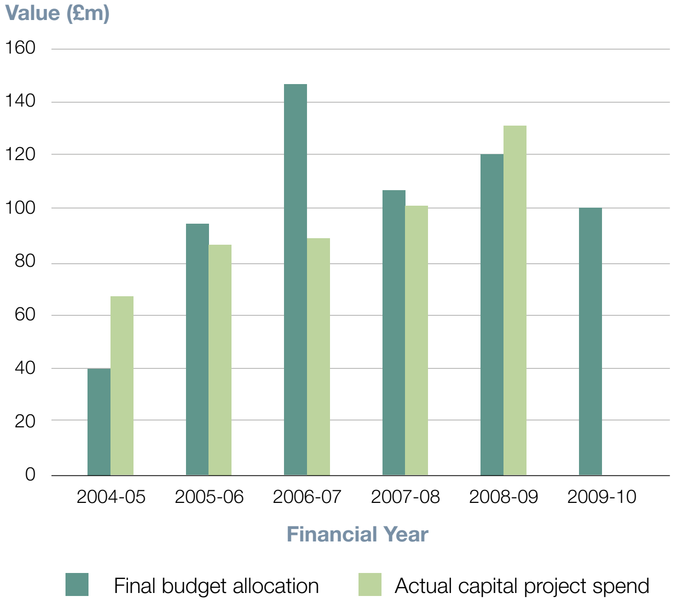


Source: Cost Break-up Reports, MACE, 2009. Average based on the four recent office builds conducted by MACE with a total estimated cost of £64 million (Jakarta, Manila, Harare and Warsaw).

After several years of increases global estate funding has begun to fall

1.6 The FCO's annual estate-related capital funding allocation increased from £40 million in 2004-05 to £120 million in 2008-09, reflecting the need for the FCO to undertake essential security improvements (**Figure 5**). However, in 2009-10 revised budgetary priorities within the Department meant the allocation fell 17 per cent to £100 million. As a result, nine projects (with a total cost of £87 million) planned for 2009-10 have been delayed until 2010-11. Four of these were security-driven projects, and the FCO plans to manage the security risks in the interim. Funding for maintenance also fell over the same period.

Figure 5
Estates capital project funding allocations and expenditure since 2004-05



Source: National Audit Office analysis of Foreign and Commonwealth Office data

NOTE
Aside from 2009-10, figures are restated at 2008-09 prices.

Part Two

The strategy for the global estate

The strategy for the global estate is incomplete

2.1 The FCO's estates and security mission statement, outlined in its estate strategy, is to *'enable the FCO to operate worldwide by accommodating and protecting its staff and families, information and other assets'*. The current strategy, to be replaced in 2010, recognises the global estate's importance within the FCO in enabling the delivery of all the FCO's departmental objectives.

2.2 The strategy does not assess clearly, as expected in Office of Government Commerce guidelines,[13] current estate requirements, whether these are being met and how any gaps will be filled. Instead it provides a high level description of estate challenges, aims, and factors influencing estate management. The estate strategy does not provide:

- **A clear timetable and success criteria** outlining estate priorities and planned responses in the short, medium and long-term.
- **Objectives for properties overseas**, such as the diplomatic image buildings should portray, and how these objectives should be prioritised and managed.
- **Constraints, specific to the FCO**, that restrict flexibility (see Part 1).
- **The appropriate balance between owned and leased accommodation applicable to the range of locations across which the FCO operates.** Posts range from having wholly owned to wholly leased estates.

2.3 Without a clear strategy, there is a risk that estate-related decisions will not reflect business requirements, and that the FCO will be unable to identify where to allocate resources to achieve a cost-effective estate. The FCO recognises these weaknesses and following the appointment of a specialist Director of Estates and Security, is planning to produce a more comprehensive strategy to improve decision-making and introduce regional strategic planning. The new estate strategy is due to be presented to the Board in February 2010 and the FCO is currently commissioning work to develop an asset management strategy and detailed implementation plan.

13 The Property Asset Management Plan developed by the Office of Government Commerce summarises how organisations should consider their estate in terms of the organisation's delivery strategy. An organisation's estate strategy is seen as the basis for the Property Asset Management Plan.

2.4 Although individual posts have a dedicated estate strategy, these do not always demonstrate a clear link to wider estate objectives. During our post visits we reviewed the strategies and found most provided general commentary on the estate's fitness for purpose and planned changes, but there was no clear framework for assessing an estate's suitability or specification of where local conditions restricted change. Without considering the overall strategic direction at post, local estate decisions may be inconsistent with regional or global estate objectives. The FCO intends that its new estate strategy will address this issue.

Changes to the estate have not always been aligned to the strategy

2.5 Recent changes to the global estate have not always aligned with the aims set out in the estate strategy and progress against some aspects has been slow (**Figure 6**). The strategy does not refer in detail to security needs. Although not all recommended security work leads to capital expenditure, security improvements drove 53 per cent of the 88 capital projects developed since March 2007.[14] If the estate strategy does not drive changes across the estate, estate-related business priorities may not be achieved.

Figure 6
National Audit Office assessment of the FCO's performance against its strategic aims

Strategic aim	NAO assessment of delivery
Provide estate aligned to wider Government priorities to provide value for money for all stakeholders.	**In progress:** Other organisations use FCO property overseas, although challenges such as charging arrangements and planning need to be overcome.
Deliver improved asset management processes using appropriate financial and estate management tools.	**Poor:** Estate data is poor and incomplete.
Respond to emerging demands such as sustainability, appropriate disability access and open plan working.	**In progress:** Some posts have responded well by reconfiguring office spaces and introducing sustainable improvements.
Sales are made where parts of the estate no longer meet key performance indicators.	**In progress:** Poor information presents challenges in assessing whether sales are necessary. We identified unused space. Targets for disposals met consistently.

Source: Foreign and Commonwealth Office Estate Strategy (November 2008) and National Audit Office assessment

14 National Audit Office analysis of capital project data.

Part Three

Estate management information is weak

3.1 To help identify the need for change and devise estate strategies the FCO has, since 2006, used a central database (Pyramid) to record and monitor overseas properties. The system is managed by the FCO's Estates and Security Directorate which has overall responsibility for the estate (**Figure 7** overleaf). Directorate staff input details for offices, official residences and owned staff accommodation. Posts provide information on leased staff accommodation. FCO Services, an FCO trading fund, provides a range of estate-related services and updates the property condition assessments.

3.2 Pyramid users were generally positive about the database, but expressed concerns over data quality. We identified a number of data weaknesses. In particular:

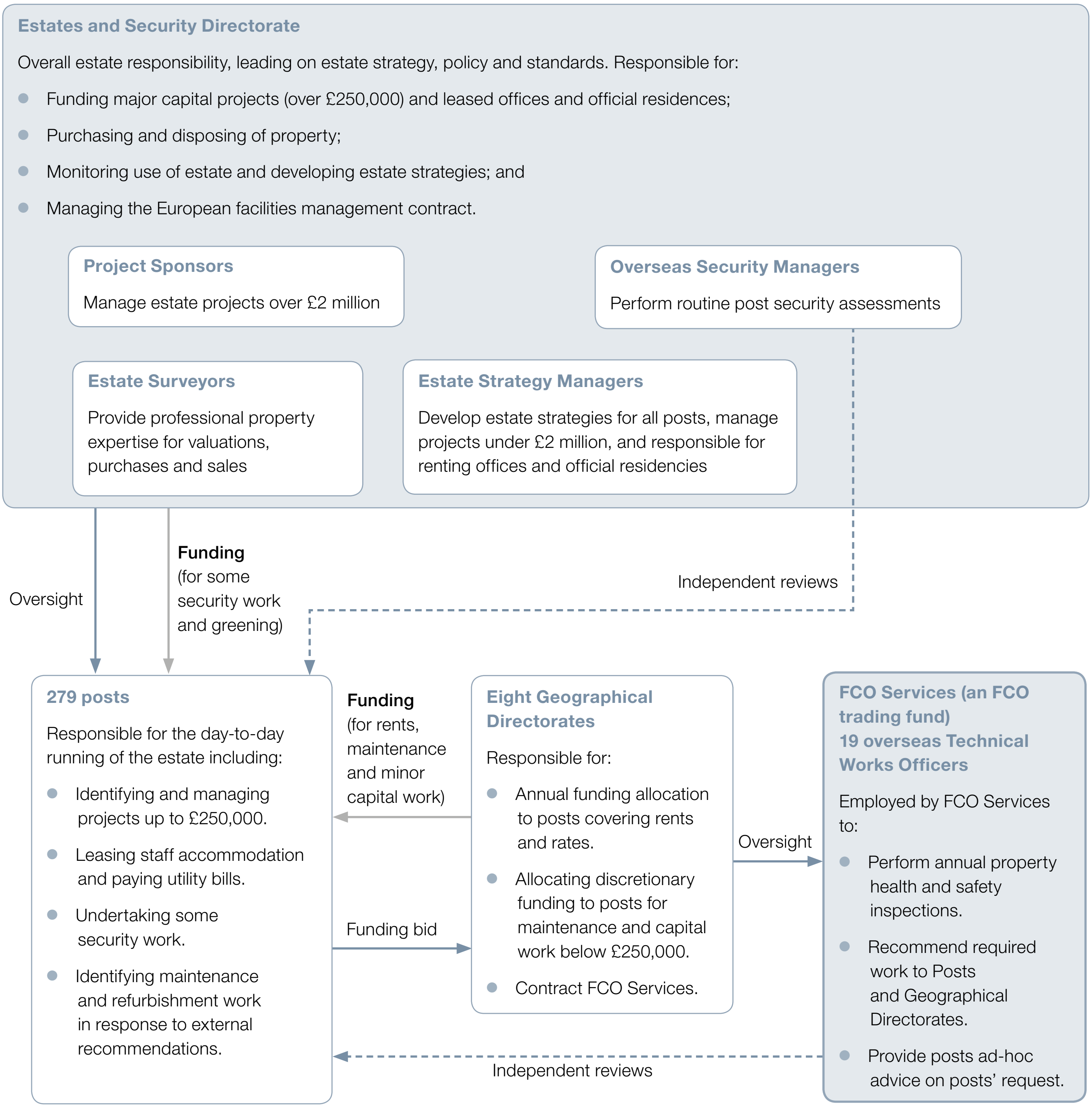
- **Use of Pyramid is inconsistent.** Of the 188 posts who responded to our survey, almost a third did not use Pyramid[15] and most posts we visited only up-dated Pyramid twice a year, rather than on an ongoing basis.
- **A number of Pyramid records were inaccurate.** At two posts we found post property records differed significantly from Pyramid and we also found properties recorded on the system that were no longer leased or owned by the FCO.
- **Property suitability assessments have not been updated since 2006,** even for posts that had undergone significant estate changes.
- **Details of office net internal areas**[16] were inaccurate and incomplete, affecting key performance indicators.

The FCO does not collect data in line with key requirements laid down for UK-based departments by the Office of Government Commerce (**Figure 8** on page 21), and the information collected is of poor quality and incomplete. Gaps and weaknesses in estate information hinder the FCO's ability to assess estate efficiency and effectiveness accurately.

3.3 Currently, the FCO does not have sufficient data to identify poorly used space and instead relies on posts to communicate this information. Our data analysis showed the FCO owns or rents 3,600 overseas residential properties to provide accommodation for UK-employed FCO staff, as well as staff from other government organisations working overseas. Although the FCO is confident these properties are fully used, occupancy data is not available to show, for example, the proportion of properties occupied by staff from other government organisations.

15 National Audit Office survey of FCO posts.
16 Usable area within a building, excluding maintenance rooms, corridors and structural walls.

Figure 7
Teams involved in managing the global estate



Source: National Audit Office analysis

3.4 We were unable to calculate a cost per square metre or cost per person for the global estate given the lack of information, but using our survey data, we estimate that 121 posts (71 per cent of the 171 posts for which data was available) had a space per person exceeding the current Government aspiration for domestic central government offices (12m^2) by over 50 per cent.[17] No further information is available to determine the extent to which the FCO can adapt these properties, how much it would cost to do this, or whether these larger spaces are required for business needs such as public waiting areas and meeting spaces. Without an accurate space assessment per person, or understanding the reasons behind variations in space usage, the FCO will find it difficult to identify the scope for maximising the use of office space across its estate.

Capital project information needs improving

3.5 We found that the underlying management information on capital projects was incomplete and insufficient to manage a portfolio of projects or learn from past experience. In part the gaps in the data reflect information lost when a new financial accounting system was introduced in 2004-05 and the effect of successive departmental re-organisations. However, in general the information gathered by the Department does not identify the extent of cost and time variances, current and original budget approval by the FCO's Investment Committee, forecast and planned completion dates, adopted procurement routes, or whether milestones had been met. This lack of detailed information restricts the FCO's ability to monitor capital projects, assess the quality of project performance, and understand and deal with reasons for poor delivery.

Figure 8
Office of Government Commerce UK estate performance data requirements and available FCO estate data

Performance measure	Available	NAO commentary
Cost per staff member	No	Database staff numbers inaccurate.
Cost per m^2	No	Database m^2 figures incomplete. Space per person calculated using National Audit Office survey.
m^2 per full time member of staff	No	
Workplace productivity (functional suitability, environment and facilities)	No	Property suitability assessments out of date and only available for offices.
Environmental sustainability (water and energy use and recycling)	No	Database, introduced in Summer 2009, will provide data on carbon emissions.
Operability (condition and health and safety)	Yes	Annual assessments completed on all property by FCO Services.

Source: 'Better Measurement, Better Management', Office of Government Commerce, 2006 and National Audit Office review of Foreign and Commonwealth Office information

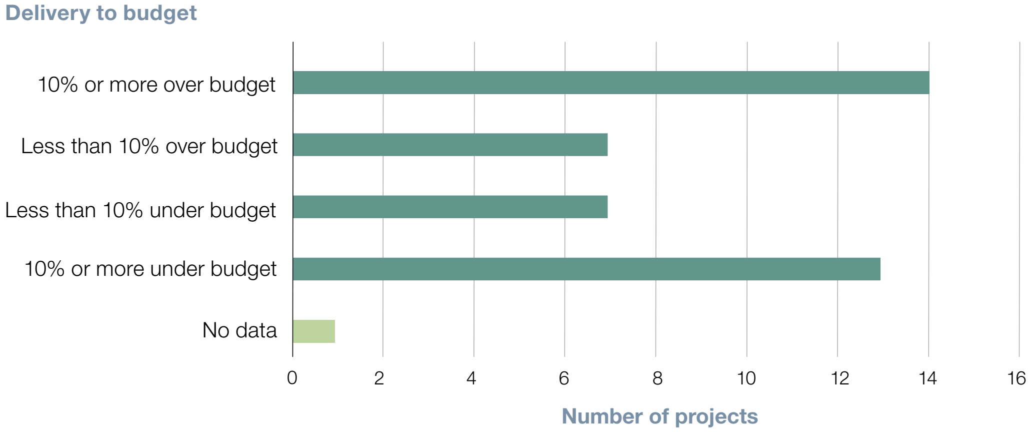
17 Based on 171 posts, after removing seven offices gifted to the UK by host governments over which the FCO has more limited control.

Our analysis of the capital programme indicates that delivery performance varies

3.6 Responsibility for capital projects exceeding £250,000 lies with the Estates and Security Directorate, and the FCO Investment Committee approves projects exceeding £2 million. At the end of February 2009, there were 39 approved projects with lifetime project costs of £455 million. Within the Directorate, seven experienced project sponsors oversee projects over £2 million, and project management is frequently contracted out to specialists such as FCO Services or MACE, a private sector company.

3.7 By reviewing individual project returns and cost reports we compiled data for 42 capital projects completed since 2002 (costing an estimated £250 million). Gaps in recorded information were completed through discussions with project managers and individual posts. Our analysis showed that 29 projects were delivered late and 14 exceeded their initial approved budget by over 10 per cent (**Figure 9**), with a total cost overrun of £57 million. The initial budget was increased in 41 per cent of cases (17 projects) with the approval of the Investment Committee. Only two projects went on to exceed their revised budget. Given a lack of information, we were unable to identify reasons for project problems. Failure to deliver consistently to budget and time hinders the FCO's ability to plan its future capital portfolio accurately in line with budget capacity.

Figure 9
Budgetary performance on 42 capital projects completed since 2002



Source: National Audit Office analysis of capital project data from individual project monitoring forms, discussions with Foreign and Commonwealth Office staff

There has been inadequate oversight over the progress of the capital project portfolio

3.8 The terms of reference for the FCO Investment Committee require it to 'monitor approved projects quarterly' and 'review projects forecast to exceed agreed budget or forecast completion days.' Our review of Committee minutes and discussions with members showed this did not always occur. For example, although the 54 per cent cost increase (to £27 million) in Harare was detailed in an Investment Committee submission in April 2008, there was no evidence of Committee discussion until January 2009. Our recent report on the FCO's financial management also identified weaknesses such as post-project reviews not being shared with the Investment Committee.[18]

3.9 Controls over in-year capital spending across the portfolio are poor, with a consistent failure to match spending to budget (Figure 5). In 2008-09, the Estates and Security Directorate was allocated £120 million capital funding. Late in the financial year, it identified a predicted underspend of £5.7 million. In an attempt to deal with this, the Directorate brought forward spending which resulted in a £11 million (9 per cent) overspend, despite an office-wide drive to stay below budget. As a result, funds were diverted from elsewhere within the FCO to cover the additional capital spending commitments. The overspend reflects the lack of connectivity between financial and project management systems, as well as poor cost information.[19]

3.10 The FCO has recognised the shortcomings in its governance arrangements for approving and monitoring capital expenditure on the estate. In November 2009, a new Estates Committee was established to provide improved support and a clearer focus on estates issues. Furthermore, the FCO intends to create within the Estates and Security Directorate a capital programme delivery team which will have stronger links to procurement teams, although its full remit has yet to be decided.

18 Comptroller and Auditor General (2009), *Financial Management in the Foreign and Commonwealth Office,* HC 289 2008-09.
19 Ibid

Part Four

Responsibilities and processes for change

A number of barriers hinder the identification and implementation of change

Lack of coherence over estate responsibilities

4.1 There is no single authority with control over estate spending decisions (Figure 7). While it has overall estate responsibility, the Estates and Security Directorate is only responsible for 25 per cent of the £135 million overseas expenditure on maintenance and rent (57 per cent of £269 million total estate expenditure including capital). Geographical Directorates, based in London, are responsible for the remainder and prioritise and allocate this funding to posts. Currently, the Estates and Security Directorate is piloting an outsourced facilities management and maintenance contract across 14 European posts, giving it greater control and oversight of the estate. The FCO plans to extend this model to other regions where feasible, which will increase its control of estate-related funding.

4.2 Funding to make estate-related change is complex, with eight separate sources (including funding for maintenance) available from London-based business units, such as Geographical Directorates and the Estates and Security Directorate (**Figure 10**). During our visits we found posts using different sources for similar projects (office reconfigurations) and some posts were unclear as to the appropriate source of funding. Our survey found that, of the 96 posts reporting difficulties in implementing security-related improvements, two-thirds said access to funds was a problem.

4.3 Fluctuating exchange rates also affect available funds. The FCO recently reported a budget shortfall of 12 per cent in 2009-10 due to an adverse exchange rate position. A weakening of sterling restricts funds available for estates projects after other commitments such as salaries, rents and rates have been met. Approximately one-third of rent and rates expenditure is incurred in euros, one-third in US dollars and one-third in sterling or other currencies, and therefore is sensitive to currency changes. Nearly all posts[20] said that exchange rates adversely impacted on their ability to manage the estate.

20 Based on 91 per cent of 188 posts responding to our survey.

Figure 10
Available funding for the estate

Estates and Security Directorate responsibility

Capital projects over £2 million

Investment Committee approved and managed within Directorate by project sponsors.

Capital projects between £250,000 and £2 million and initial fit-out costs for new offices and residences under £250,000

Managed within Directorate by regional Estate Strategy Managers.

Sustainability fund

Posts bid for funding (between £5,000 and £100,000) to undertake environmental projects, conduct audits, or employ dedicated staff.

Geographical Directorate responsibility

Annual allocation

Funding allocated to posts for rents and rates. Additional increments can be available throughout the year.

Maintenance funding

Allocation process differs across eight Directorates. Posts submit bids for specific work.

Capital projects below £250,000

Posts submit bids for specific projects, prioritised by Directorates.

Responsibility of others

'One Team Agenda'

Posts submit bids to the Change Unit for specific projects that encourage greater open plan working.

Estates and Security Directorate (Security)

Dedicated funds to implement recommendations arising from routine security assessments.

Source: National Audit Office review of Foreign and Commonwealth Office information

NOTE

Boxes in green reflect funds spent centrally while other funds are allocated to posts.

Posts are not incentivised or accountable for making change

4.4 Posts are responsible for daily estate management, and are able to undertake small changes (Figure 7). We found evidence of post-driven change at over half of the posts we visited. However, only 41 per cent of posts we surveyed felt they had autonomy to undertake change, while a third did not. There is no accountability framework or formal incentive for posts (such as the ability to retain savings) to manage their accommodation efficiently or respond effectively to changing business requirements.

4.5 There is detailed guidance on how to access specialist skills to deal with specific estate-related security issues, for example, the need to use security cleared UK labour. There is, however, no clear guidance for posts outlining how to address poorly used space such as when to consider an office reconfiguration, approach other potential users, access suitable skills and funding or deal with security constraints. Guidance is particularly important as post estate managers tend to lack specialist property management skills, having had various roles within the FCO. A lack of a clearly defined process means effective responses to changing business requirements will depend on factors such as the commitment and drive of individual estate managers, rather than a predetermined approach being followed.

4.6 Budgetary and geographical constraints can hinder posts' access to personnel with particular estate skills. FCO Services provides 34 estate specialists, with 19 located overseas, but often the posts benefiting tend to be those where specialists are based. Saudi Arabian posts had administrative difficulties getting specialists into the country, and Abu Dhabi could not fund an advisory visit by FCO Services. Posts face particular challenges accessing skills where technical and IT work require staff with higher levels of security clearance. Most of these staff are currently introducing a new FCO computer system, which is a priority for the FCO. Without easy access to skilled personnel, not all posts will undertake work consistently to improve the estate.

4.7 Essential security and maintenance recommendations are not always implemented. FCO Services noted that it sometimes repeated maintenance recommendations, and the FCO estimates that underinvestment in maintenance and health and safety means approximately 40 per cent of the estate no longer complies with legal and FCO standards. This can be due to a lack of funds. In addition, there are no formal processes for how the FCO should follow up these recommendations and who is accountable for action, yet the implications of poor implementation can be serious. Inadequate maintenance could lead to deteriorating property conditions necessitating increased expenditure later, as will be the case in Bridgetown and Canberra. Without clear accountability and follow-up processes, the estate will not meet required standards and properties could become devalued.

Responsibilities for the identification of the need for change are sometimes unclear

4.8 Four London-based Estate Strategy Managers assemble the changing requirements identified by posts, estate surveyors, FCO business areas and other organisations using FCO property.

4.9 There are clear processes for identifying the need for some change, although responsibilities and lines of communication are not always clear. Following routine visits, specialists produce clear recommendations outlining required security and health and safety changes. Identifying the need for other changes is less systematic. Posts can raise issues, such as the existence of spare space, with Estate Strategy Managers but this is on an ad-hoc basis. During our visits, posts told us they only sought to identify unused or unsuitable properties following specific requests by London. One post had identified a suitable property for disposal but was reluctant to sell as proceeds would flow to the FCO, while costs of leasing new accommodation would be paid from its own budget. However, 89 per cent of posts had received a visit from London-based estate staff in the last year, indicating that various London-based staff have the opportunity to assess the need for change at posts.

4.10 Poor information (Part 3) and unclear responsibilities mean the identification of the need for change other than for security or maintenance purposes can be inconsistent. Without clear structures and processes to identify the need for change, the FCO will be unable to fully appreciate and balance the changes required and maximise opportunities to make best use of available space, such as disposing of properties where feasible.

Some posts have been more successful than others in making use of space

4.11 We found that the FCO has flexed parts of its estate successfully but has not done so consistently (**Figure 11** on pages 28 and 29).

Figure 11

National Audit Office summary of the effectiveness of the Foreign and Commonwealth Office's response to key changing business requirements

Description of changing business requirement	National Audit Office assessment of response
Operational requirements: for example greater open plan working and changes in staff numbers and mix	
Our survey found a number of posts responding well by reconfiguring office spaces: 49 per cent of posts had reconfigured office accommodation in the last three years (costing an average of £142,000 in 2008-09). However, both our survey and post visits identified unused space. Reasons for this include changes in FCO and other government organisation staff numbers and changing working patterns. A lack of information meant we were unable to identify the extent and cost of poorly used space. Fifty-nine per cent of posts said they had unused space,[1] including 86 units of staff accommodation, 29 visa reception areas and 32 offices (Figure 12). Our post visits found poorly used space in: **Bangkok:** One area has 11 empty rooms, which will increase when planned staff moves go ahead. Offices, valued at £10 million, are owned by the FCO. **Lagos (Nigeria):** As well as under-populated office areas, the visa reception area and booths are under-used after visa services were outsourced to a private contractor. Offices, valued at £9 million, are owned by the FCO and plans to rationalise the estate have been under consideration since 2006. **New York:** The Consulate General offices are located over two floors leased for £1.4 million per annum. Open plan working was limited and we found surplus office space across both floors. Upon renewing the 15-year lease in 2009, the landlord would only lease floors in their entirety. Our high level analysis of data from our survey relating to office space per staff member indicated there are 121 posts (71 per cent) where available space exceeded, by over 50 per cent, the levels currently aspired to by Government (12m^2 per person) for domestic central government offices. This included 89 per cent of offices in the Americas and 63 per cent of offices in Europe. This excludes properties gifted to the UK Government, and no further information is available showing where the FCO can address unused space or if the space is required for FCO business purposes. Practical considerations such as security, diplomatic or legal constraints, which we cannot quantify, and the cost of reconfiguring offices prevents the FCO making full use of some surplus space.	Mixed

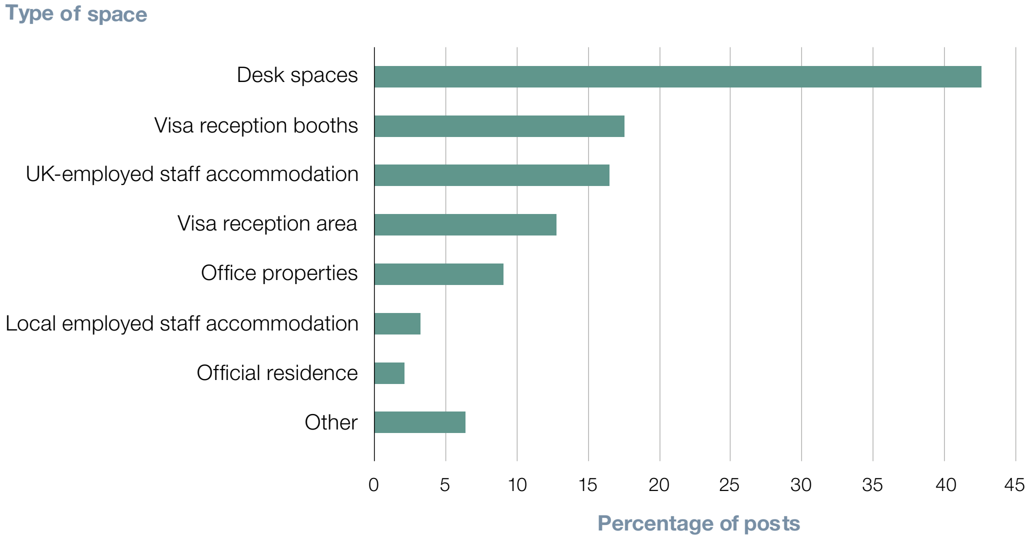
Description of changing business requirement	National Audit Office assessment of response
Diplomatic presence: including the formation and recognition of countries (Pristina, Kosovo), newly established capital cities (Abuja, Nigeria), and the increasing importance of countries (China) to the UK	
Europe to Africa: In line with the FCO's business objectives, FCO data shows that many UK national staff moved from Europe to Africa, as reflected in residential accommodation numbers. A number of capital projects, such as in Brussels (£13 million) and Paris (£3 million) helped make better use of space.	Good
Kabul: In January 2007, the FCO announced plans to double its presence to 47 staff by March 2008, generating a need for additional office and residential accommodation. In this challenging environment, the FCO created new office space and sourced residential properties to time and budget (£8 million).	Good
China network: According to FCO data, staff numbers increased 23 per cent from 2006 to 2009, significantly straining existing office accommodation. As a result, posts stopped or delayed the arrival of further staff. We found current office spaces were of poor quality with few facilities. Posts in Beijing and Guangzhou have gone some way to address this through reconfiguring parts of the office.	Poor
Security: changing security needs mean that between November 2006 and October 2009, the number of posts operating in countries with a critical or severe terrorist threat rating increased more than three-fold	
On the whole, the FCO capital programme has responded well, such as the accelerated expansion of visa offices in Abu Dhabi to accommodate 180 additional staff. Fifty-three per cent of capital projects considered since March 2007 are security-driven. There have been delays to some projects, such as security enhancements in Baghdad. However, our survey found that over half of posts (53 per cent) indicated that not all of the more minor security-related work had been conducted. Two-thirds of these posts felt some security risks remained at their post. Given the changing nature of the risks, the FCO cannot always mitigate all security threats. Despite increasing security risks, FCO estates and security policies have avoided any deaths of staff in its buildings since the 2003 Istanbul bomb attack.	Mixed
Sustainable operations: an FCO strategic objective is to promote a low carbon economy	
The implementation of green measures across the global estate has been slow and more can be done to engage posts. Our analysis of FCO's financial data showed that only 17 per cent of available greening funds were spent in 2007-08, increasing to 92 per cent in 2008-09. Our post visits found variable involvement in environmental issues.	Improving

Source: National Audit Office assessment based on post visits, review of capital project case files, analysis of management data and National Audit Office survey of 227 posts with 88 per cent (188 posts) response rate

NOTE

1 Based on 179 posts responding to our survey, after having removed posts where properties have been gifted to the UK by host governments, restricting the FCO's ability to adapt the estate.

Figure 12
Unused space identified by posts



Source: National Audit Office survey of 188 posts

NOTE

Overall 96 posts reported some vacant space, some in more areas than one. Gifted properties have been removed from this analysis as these cannot be easily disposed or reconfigured.

Part Five

Working with other government organisations

Other government organisations do not always make full use of FCO accommodation

5.1 The FCO's departmental strategic objectives commit it to providing a flexible global network serving the whole of British Government. In support of this, various organisations overseas use or operate from FCO accommodation where consistent with their business needs. A recent FCO survey identified 91 such organisations.[21] Our analysis of FCO data shows 10 per cent of 14,500 people using FCO office accommodation are not FCO staff.[22] In 2008-09 the FCO charged those using its global estate £19 million to use FCO-owned accommodation.[23]

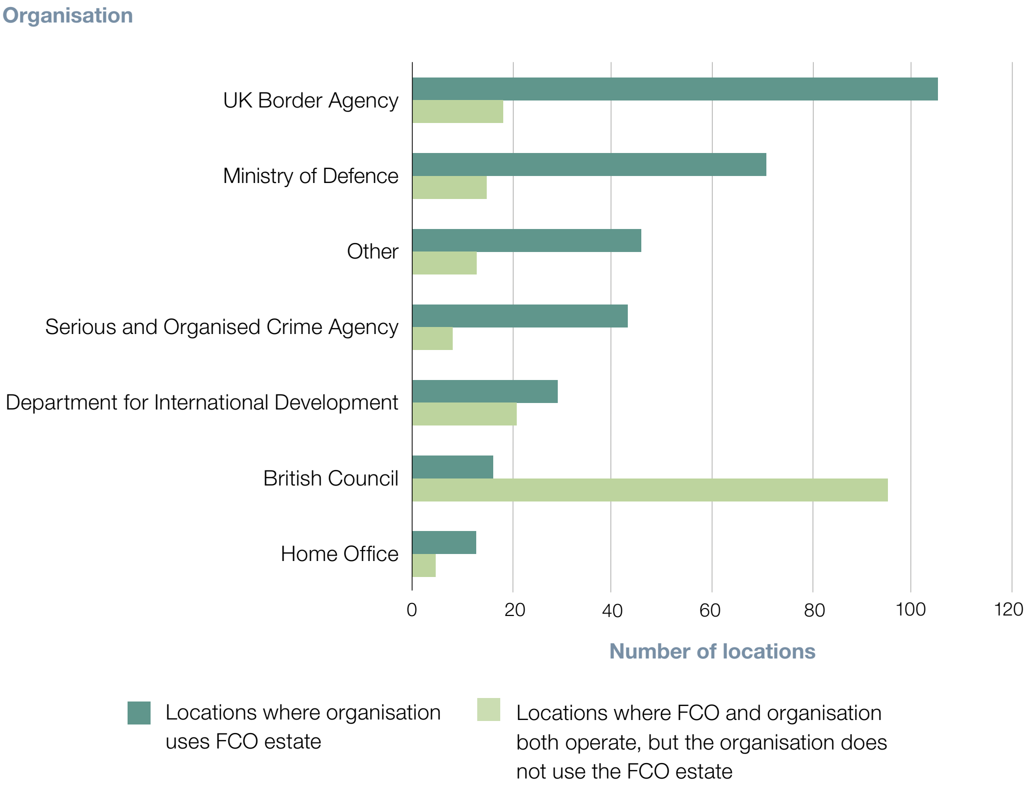
5.2 Other organisations using the FCO estate can lead to improved cross-government working, enable the FCO to fulfil its objectives and make better use of available space, as in Manila and Dar Es Salaam. However, it is not always appropriate for other organisations to use the FCO estate given different business and security requirements (paragraph 5.6).

5.3 We found other organisations are not making full use of the FCO estate. Posts responding to our survey noted that there were 175 teams from other government organisations that were operating in the same location as them but not within FCO offices (**Figure 13** overleaf); 63 of these posts also reported unused desks and empty offices.[24] Information assessing whether or not this space meets the requirements of other organisations, or whether co-locating would be more cost effective, is not available.

5.4 The FCO was unable to provide information on how the amount other organisations are charged has changed over time or comprehensive figures on the number of staff from other organisations using the FCO estate. The limited data available showed that the number of staff from other organisations using office space fell 22 per cent from 1,931 in 2006 to 1,499 in 2009. No information is available to allow us to investigate this reduction. Without accurate information on other organisations using FCO accommodation, and the associated charges, the FCO is unable to assess whether co-location is successful and the scope to extend use of FCO properties.

21 *FCO Survey of Whitehall Partners* (2009), Ipsos MORI, August 2009.
22 National Audit Office analysis of charging data.
23 Figures provided by the FCO. Details of amounts charged for use of FCO leased accommodation are not available.
24 This includes the British Council, although it is not formally a government organisation and its status varies according to the country in which it operates.

Figure 13
Organisations operating overseas and using the FCO estate



Source: National Audit Office survey of 188 overseas posts

NOTE
Other organisations identified some inconsistencies in our survey information. The British Council highlighted five differences, the Department for International Development identified 23 and the UK Border Agency only use FCO accommodation whilst operating overseas (except for operations outsourced to private partners). For consistency, this graph uses original survey data.

There are a number of barriers to increased use of the FCO estate

5.5 By failing to encourage greater use of its surplus estate where feasible, value for money may not be maximised from the perspective of government as a whole. Looking to the future, there is a risk organisations will move away from using the FCO global estate, creating additional unused space. In an FCO survey of its stakeholders, 14 per cent of other organisations said they are unlikely to remain in FCO buildings in the future.[25] There are a number of factors that restrict use of the FCO's global estate.

25 *FCO Survey of Whitehall Partners* (2009), Ipsos MORI, August 2009.

Use of the FCO estate is not always appropriate for other organisations

5.6 The FCO and other organisations' differing requirements mean co-location is not always feasible. These include:

- **Business requirements:** The primary purpose of FCO offices is to provide an environment suitable for its diplomatic function. However, the British Council predominantly requires educational facilities and classrooms easily accessible for the public.
- **Security:** The greater public accessibility required by other government organisations is not always possible within the secure environment of FCO property.
- **Diplomatic and legal status:** Legal or diplomatic implications can prevent unused space being sub-let to commercial users, and the FCO needs to consider reputational issues when assessing the suitability of potential tenants. Furthermore, the British Council's status as a charity or commercial body in some countries precludes it from operating from FCO diplomatic premises.

Management structures allowing other government organisations to use the FCO estate effectively are not fully in place

5.7 To date, the FCO has not always responded well to the changing requirements of other government organisations as it has not been fully informed about other organisations' strategic plans. The FCO feels it has an understanding of the Department for International Development's future business model, but less so for the UK Border Agency (the largest user of the FCO global estate), which was formed in April 2008 and is still developing its strategic direction. Recently the UK Border Agency regionalised its visa operations, reducing the number of posts issuing visas from 135 in 2003 to 77, impacting on staff and estate requirements.[26] Our survey and post visits both highlighted a number of unused visa offices across the estate.

5.8 The Change and Delivery Directorate is responsible for the FCO's objective to deliver an overseas network for wider government. In November 2009, the FCO transferred estates' responsibility from Finance to the Change and Delivery Directorate with the intention that estate decision-making should align better with wider government requirements.

26 The visa operation was transferred from the FCO to the Home Office in 2008-09. Many of the decisions regarding regionalisation were made while still part of the FCO.

The charging regime is problematic and unpopular

5.9 In 2008 the FCO negotiated Service Level Agreements with other government organisations, outlining detailed charging structures. Leased office space (53 per cent of office accommodation) is recharged through local agreements between other government organisations and posts. Government organisations are recharged for using FCO-owned offices at full cost, reflecting government policy.[27]

5.10 According to an FCO survey of its stakeholders, one-third of other government organisations using FCO property overseas were dissatisfied with charging arrangements.[28] Problems include:

- Using FCO property is costly for other government organisations as most do not require all of the services and facilities provided, particularly the higher level of security usual in FCO properties. Although operating elsewhere could be cheaper for individual government organisations, it may not represent best value when considering government's footprint overseas.
- We were unable to develop a clear understanding of the basis and consistency for recharging other government organisations or how much FCO received from others for use of leased office accommodation.
- Our survey showed that 64 per cent of posts found managing costs and charging difficult. Some posts we visited were unsure how to calculate charges given differences in arrangements for leased and owned office accommodation and a lack of clear guidance.
- Other government organisations also reported problems with clarity of costing[29] and a lack of certainty over future charges. Half of those dissatisfied with the charging arrangements complained about clarity of costs.

5.11 Poor communication of charging arrangements and a lack of understanding mean the FCO may not be charging other government organisations fully and could be discouraging others using FCO accommodation, resulting in additional unused space.

27 Managing Public Money, Chapter 6: *'Full cost charging should be applied except where: i) certain discretionary services provided in competition with the private sector, where a commercial rate is normally charged, e.g. letting out public space for private use.'*
28 *FCO Survey of Whitehall Partners* (2009), Ipsos MORI, August 2009.
29 Ibid

5.12 There is also a lack of consistency in how and whether other government organisations contribute to the capital costs of FCO estate projects. The Treasury provides capital funding to the FCO based on FCO, rather than whole of government, estate needs. Usually the FCO pays the capital cost for all new projects, later recouping the cost from those using the estate. However, in some instances the FCO has sought direct capital contributions for FCO managed projects from other government organisations. Not all of these organisations, notably the UK Border Agency, have capital budget provision for the overseas estate. Our review shows a lack of clarity as to how and when it would be appropriate for other government organisations to make a financial contribution. This has delayed projects and increased costs for the FCO (**Figure 14**).

Figure 14
Variations in capital contributions from other organisations

Project	Difficulty	Detail
Kabul (Afghanistan)	Unable to secure wider government buy-in	Two-thirds of those using FCO offices in Kabul are not FCO staff. When the current lease expires in 2013 new accommodation will be required. Given security considerations and high construction costs, any new project would be unaffordable by the FCO alone. To address this, the FCO sought wider government capital, aiming to agree this by September 2008. No agreement has yet been reached, threatening the project's viability.
Abuja (Nigeria)	Uncertain contribution	Following approval in January 2007 for the construction of new offices (£30 million), the FCO sought a contribution from the Department for International Development. In July 2007, the Department for International Development agreed informally to contribute £5 million. However, in May 2009 it withdrew because of an increase in the required contribution. After a two-year delay and £1 million spent on consultants the FCO had to re-start the project.

Source: National Audit Office review of capital project case files

Appendix One

Methodology

The main elements of our fieldwork, which took place between February and May 2009, were:

Selected method	Purpose
1 Review of key documents	
Our review included departmental, Directorate and post estate strategies, Investment Committee papers and project papers for six capital projects.	To inform our understanding of the FCO's estate strategy, how estate performance is assessed, and the decision-making process. To develop case studies assessing the challenges in responding to changing requirements.
2 Semi-structured interviews	
We undertook around 30 interviews, including: A range of FCO staff, including capital project sponsors, Estate Deputy Directors and finance teams; and London and post representatives from organisations using FCO property overseas including the UK Border Agency, Department for International Development, British Council and the Ministry of Defence.	To understand: Roles and responsibilities, how estate changes are identified and challenges implementing change. Relations between other organisations and the FCO and reasons for using/ not using the FCO estate.
3 Post visits	
We undertook eight overseas visits to a range of posts selected, in conjunction with the FCO, to cover variations in geographical spread, size and local circumstances. We conducted semi-structured interviews with staff, reviewed documentation and performed site inspections.	Identify ineffectively used space and potential solutions. Review use of management and budgetary information and discuss relations with London. Gather data on individual case studies. Obtain data to validate London management systems and our survey. Develop and pilot our post survey.

Selected method	Purpose
4 Post survey	
We engaged consultants to design and run a web survey of posts. Questionnaires were sent to the 227 posts with estate management responsibilities. An 83 per cent (188 posts) response rate was achieved.	To obtain: Data not collated; Data to validate existing property databases; Posts' perspectives on estate management and interactions with London; and A broader understanding of the estate.
5 Quantitative analysis of management and performance data	
We evaluated data from our survey, FCO's estate management database and additional management and financial information.	To evaluate: Trends in the size, cost and use of the estate, capital projects, disposals and staff numbers; and Delivery of capital projects to time and budget and project progress.

FSC
Mixed Sources
Product group from well-managed forests and other controlled sources

Cert no. TT-COC-002825
www.fsc.org

Design and Production by
NAO Marketing & Communications Team
DP Ref: 009234-001

This report has been printed on Consort 155 and contains material sourced from responsibly managed and sustainable forests certified in accordance with FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation this ensures that they have effective procedures in place to manage waste and practices that may affect the environment.

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail
TSO
PO Box 29, Norwich, NR3 1GN
Telephone orders/General enquiries: 0870 600 5522
Order through the Parliamentary Hotline
Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
E-mail: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/General enquiries 020 7219 3890
Fax orders: 020 7219 3866
Email: bookshop@parliament.uk
Internet: http//www.bookshop.parliament.uk

TSO@Blackwell and other Accredited Agents
Customers can also order publications from:

TSO Ireland
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401

£14.35

ISBN 978-0-10-296349-6

9 780102 963496