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

# 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.<sup>1</sup>

**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.

<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup> 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)
<b>Revenue expenditure</b>					
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
<b>Sub-total revenue expenditure</b>	<b>135</b>	<b>143</b>	<b>137</b>	<b>141</b>	<b>154</b>
<b>Major capital project expenditure</b>	<b>64</b>	<b>78</b>	<b>66</b>	<b>82</b>	<b>115</b>
<b>Total estate expenditure</b>	<b>199</b>	<b>221</b>	<b>203</b>	<b>223</b>	<b>269</b>
<b>Proceeds from asset sales</b>	<b>11</b>	<b>11</b>	<b>60</b>	<b>15</b>	<b>58</b>

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.<sup>4</sup> 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.

<sup>4</sup> 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<sup>5</sup> 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.

<sup>5</sup> 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.<sup>6</sup> 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.<sup>7</sup> 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.

<sup>6</sup> 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.

<sup>7</sup> *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<sup>2</sup>; 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',<sup>8</sup> 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.

<sup>8</sup> *Putting the Frontline first: Smarter Government*, December 2009, Cm7753.