National Audit Office

MEMORANDUM TO
THE FOREIGN AFFAIRS
SELECT COMMITTEE

NOVEMBER 2010

Foreign and Commonwealth Office

Briefing for the Foreign Affairs Select Committee

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We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

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This briefing has been prepared for the Foreign Affairs Select Committee to support its evidence session on the Foreign and Commonwealth Office's Annual Accounts 2009-10.

Contents

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Introduction

Aim and scope of this briefing

1 This briefing has been prepared for the Foreign Affairs Select Committee (the Committee) to support its evidence session on the Foreign and Commonwealth Office (the Department)'s Annual Accounts 2009-10.

2 The report draws on the Department's Annual Accounts 2009-10 and on the work of the National Audit Office (NAO), along with other published material.

The Department's role

3 The Department is responsible for 'promoting British interests overseas and supporting our citizens and businesses across the Globe'[1].

4 In 2007, the then Government introduced Departmental Strategic Objectives (DSOs) to the performance framework, designed to formulate and specifically measure departmental objectives. During 2009-10 the Department had eight Departmental Strategic Objectives: maintaining a global network; supporting the British economy; supporting British nationals abroad; supporting managed migration to Britain; countering terrorism and weapons proliferation; preventing and resolving conflict; promoting a low carbon high growth global economy; and develop effective international institutions above all the United Nations and the European Union.

5 In May 2010, the new Foreign Secretary, Rt Hon William Hague MP, announced that the Department's priorities would be refined[2]. He announced in a series of speeches on foreign policy[3] that the Department would focus on supporting the British economy, protecting national security and aiding British citizens abroad. He emphasised five themes:

- bringing strategic decision making about foreign policy, security policy and development together in a National Security Council;
- the transatlantic alliance and our engagement in Afghanistan and Pakistan;
- building up British engagement beyond Europe and North America;
- reform of international Institutions; and
- upholding the highest values of our society.

Overview of the Department

6 For accounting purposes, the FCO Group consists of the Foreign and Commonwealth Office and the Wilton Park Executive Agency[4]. The Department also supports, via grant-in-aid, the Marshall Aid Commemoration Commission[5], the Westminster Foundation for Democracy[6], the Great Britain China Centre[7], the British Council[8] and the BBC World Service[9]. It also holds a strategic investment in FCO Services[10] (formerly an executive agency of the FCO). The Comptroller and Auditor General is the external auditor of all these organisations with the exception of the BBC World Service.

7 The FCO has close links with UK Trade and Investment (UKTI). UKTI is the lead government organisation designed to support UK businesses wishing to trade internationally and overseas enterprises wishing to locate and trade in the UK. These services are delivered through the British Embassies, Consulates and diplomatic missions.

8 The core of FCO's business is its global network of posts and embassies and its central policy making function in London. The ministerial structure as at October 2010 is shown in **Figure 1** overleaf.

Figure 1
Ministers and their responsibilities as at October 2010

Rt Hon William Hague
Secretary of State for Foreign and Commonwealth Affairs

David Lidington
Minister of State:
EU; Europe including Balkans, Ulkraine, Belarus and Moldova; Russia, South Causacus, Central Asia; NATO and European Security; OSCE and Council of Europe; and FCO relations with Parliament.

Jeremy Browne
Minister of State:
South East Asia/Far East; Shanghai Expo; Caribbean; Central America; South America; Australasia and Pacific; Olympics; Public Diplomacy; Human Rights; Consular Policy; Migration; and Drug and International Crime.

Alistair Burt
Parliamentary Under Secretary of State:
Afghanistan and South Asia; Counter Terrorism; Counter Proliferation; North America; Middle East and North Africa; FCO Finance; and Human Resources.

Henry Bellingham
Parliamentary Under Secretary of State:
Africa; United Nations; Economic issues; Climate change; Protocol; oversight of FCO Services; FCO relations with British Business; and Overseas Territories.

The Rt Hon Lord Howell of Guilford
Minister of State:
FCO business with the House of Lords; the Commonwealth; and International Energy Policy.

Source: Who we are, Foreign and Commonwealth Office website 2010

Key events since the Committee's hearing on the Departmental Report 2009

9 **Figure 2** outlines key events that have taken place affecting the Department since the Committee's last hearing on the Annual Accounts in December 2009[11].

Figure 2
Key Events in the FCO since January 2010

Date	Key Event
March 2010	The March Budget sets out the previous Government's approach to deficit reduction.
May 2010	General Election held and a Coalition Government formed. Rt Hon William Hague MP appointed Secretary of State for Foreign and Commonwealth Affairs. Sir Peter Ricketts moves from Permanent Under-Secretary at the Department to become the Prime Minister's National Security Advisor. Martin Donnelly replaces him as Acting Permanent Under-Secretary. William Hague announces the Foreign Office will focus on national security, economic growth and consular services.
June 2010	Emergency Budget announced. In the House of Commons, Rt Hon William Hague announced a £55 million reduction in budgeted FCO expenditure for 2010-11, including an £18 million reduction in programme expenditure.
August 2010	Appointment of Simon Fraser as Permanent Under-Secretary of State.
October 2010	Announcement of Government Spending Review, setting the Department's Budget until 2014.

Source: National Audit Office Analysis

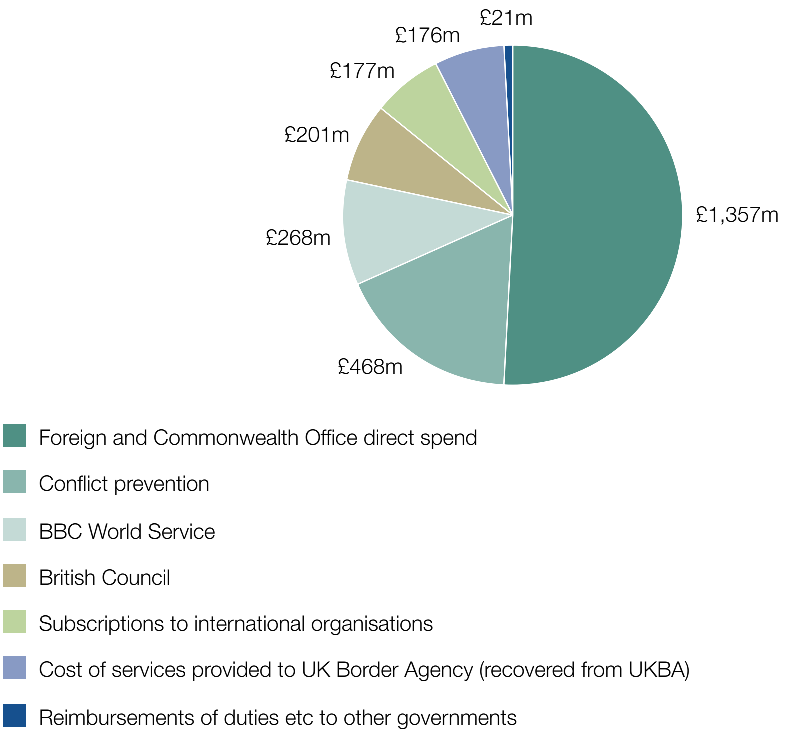
10 In 2009-10 the Department spent just under £2.7 billion and received income of £0.3 billion[12]. **Figure 3** shows how this money was spent by the Department.

11 Part One of this Memorandum covers financial management and provides a commentary on the financial highlights for 2009-10; FCO's management of exchange rate risk; the Department's budget for 2010-11; the impact of the October 2010 Spending Review; FCO's Five Star Finance Programme; and Internal controls. Part Two of this Memorandum covers performance and provides a commentary on departmental performance; the new performance framework; Estates; and FCO efficiencies.

Figure 3

Where the money goes (2009-10 data)

Total FCO Spend is £2,669 million



NOTE

1 Figures shown are Gross Expenditure.

Source: Resource Accounts 2009-10

Part One

Financial Management

Financial highlights 2009-10

Financial results

1.1 The Foreign and Commonwealth Office's 2009-10 Resource Accounts were certified by the Comptroller and Auditor General on 24 June with an unqualified audit opinion and were presented to Parliament on 30 June 2010.

1.2 FCO remained within its overall Net Resource Outturn and Net Cash Requirement for 2009-10. The Department reported a Net Resource Outturn of £2,345 million, which was £22 million below its £2,367 million budgeted figure or a one per cent underspend[13]. Its Net Cash Requirement outturn was £2,237 million against an estimate of £2,262 million.

1.3 In March 2010, the Department sought additional resources of some £134.6 million and cash of some £91.6 million in the 2009-10 Spring Supplementary Estimates[14]. In advance of Parliamentary approval of these Estimates, the Department drew some £90 million from the Contingencies Fund to meet its urgent cash requirements[15]. The funds drawn down utilised some of the Department end year flexibility, transferred funds between budget headings to reflect restructuring and mergers within programmes, and recovery of income from and expenses incurred on behalf of other government departments. The additional resources sought were predominantly used for the following[16]:

- £44.5 million programme expenditure arising from the International Organisation Subscriptions cost sharing agreement;
- £30 million in respect of impairments to cover impact of adverse exchange rate movements;
- £25.1 million for Consular premiums collected by the Home Office on behalf of the FCO;
- £16 million due to exchange rate pressures;
- £6 million for the administration costs of modernisation of the FCO; and
- £5.5 million from the Department for International Development (DfID) in respect of the Returns and Reintegration Fund.

The Department's Staff costs

1.4 The Annual Accounts shows that, in 2009-10, the FCO employed over 13,500 permanent members of staff, of which 65 per cent were located overseas[17]. Of the staff located overseas, some are UK-based staff employed by FCO centrally and some are locally recruited by each individual post to supplement the UK staff and fill a variety of roles.

1.5 As part of its Corporate Services Programme, in 2009 the FCO network identified 108 posts filled by UK-based staff overseas that could be filled by local staff, leading to estimated savings of some £8 million. During 2010, a further 25 Corporate Services posts were identified for "localisation" by April 2012. The move to the employment of more locally recruited staff should, in time, reduce costs and the number of full-time equivalents employed.

1.6 Despite this move towards localisation of posts, the number of UK-based staff actually increased slightly in 2009-10. FCO identified several reasons for what they describe as a temporary increase including: the timings for staff change-over at overseas Posts necessitated a period of hand-over; and the early departure programmes running from December 2009 to March 2010 meant in some positions the replacement staff member was employed prior to the individual leaving[18].

1.7 **Figure 4** illustrates the movement in staff figures in three categories; Locally Employed Staff, UK-based Staff and Other. Other relates to the salaries and related costs of Ministers and Special Advisors to the Department. The total number of local staff outnumbers the total number of UK staff by a ratio of nearly two to one. The drop in staff numbers between 2007-08 and 2008-09 was as a result of the transfer of the UK visas function from FCO to the UK Border Agency (UKBA) with effect from 1 April 2008.

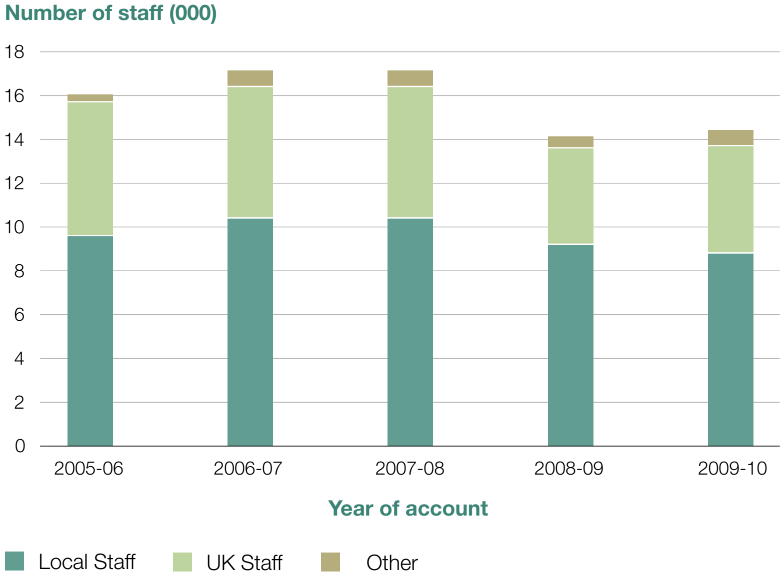
The Department's Administration costs

1.8 Administration costs reflect the costs of running the FCO. The Department reported net administrative expenditure of £446 million in 2009-10; around 37 per cent of total expenditure. Administrative expenditure is made up of Staff Costs of £461 million and Other Administration Costs of £89 million, offset by £104 million of operating income, largely made up of fees and charges received from other government departments occupying FCO property[19].

The Department's Programme costs

1.9 Programme costs reflect non-administration costs, including payments of grants and other disbursements by the FCO, as well as certain staff costs where they relate directly to service delivery. Net programme expenditure for the Department was £1,899 million in 2009-10, making up the remaining 63 per cent of total expenditure. Programme expenditure is made up of Programme Costs of £2,143 million, offset by £245 million of income made up of recharges to UKBA (£174 million) and consular fees (£69 million)[20].

Figure 4
Staff numbers at the Department



Source: Resource Accounts 2005-06 to 2009-10

Management of Exchange Rate risk

1.10 As noted in our briefing paper[21] to the Committee in December 2009, the withdrawal of the Overseas Pricing Mechanism (OPM) in 2007 and the subsequent fall in the value of Sterling has had a major impact on the Department's business worldwide and placed a considerable strain on the budgets of the Department and posts. After the abolition of OPM, the Department decided it had to acquire certainty in its budgeting. In order to do this, the Department bought forward contracts in dollars, euros and yen. These contracts gave the Department the ability to purchase the currencies a year in the future at the exchange rate on the date of purchase. These purchases gave the Department certainty when it came to budgeting, but they did not protect the Department against gains and losses as such.

1.11 In its Financial Review for 2009-10[22], the Department estimated that the in-year loss of purchasing power due to exchange rate fluctuations amounted to some £142 million as a result of Sterling's weakening. The FCO partially offset some of this loss of purchasing power through its ongoing strategy of forward purchasing of foreign currency. The Accounts disclose that during 2009-10 the Department bought 610 million of US dollars, 103 million of euros and 1,115 million of yen[23]. These purchases covered up to 90 per cent of the Department's exposure in these currencies. Due to the weakening of Sterling over the course of the year, the FCO made a realised gain of some £33 million[24] on forward contracts maturing in 2009-10 (2008-09: £43.6 million). The Operating Cost Statement was credited with an overall gain of some £31.1 million (2008-09 £40.8 million) after taking account of gains and losses on other currencies[25].

1.12 The Accounts also show forecast unrealised gains of £36.7 million and unrealised losses of £14.2 million[26] on forward purchases maturing after the balance sheet date during 2010-11 and 2011-12, based on the actual exchange rates as at 31 March 2010.

1.13 We noted in our briefing paper for the Committee in December 2009 that falls in the value of Sterling were leading to Posts reducing the working week to four days, asking locally employed staff to take compulsory unpaid leave, staff redundancies, reducing spend on security and reducing provision for health and safety overseas. To stay within budget the Department reported that it had been forced to 'rein back or delay delivery of planned programme spend including Counter Narcotics, Stabilisation Unit and Strategic and Bilateral Programmes, and cut back on operational travel'[27].

1.14 In February 2010, the Department announced in a written ministerial statement that it had agreed with HM Treasury to a number of further measures to manage the pressures resulting from fluctuation in the exchange rate which included: recycling an additional £25 million for asset sales into the FCO budget and receiving an additional £50 million from the Treasury. Taken together with contributions from other parts of the FCO family: including the British Council; BBC World Service; and FCO Services Trading Fund, these measures enabled FCO to remain within its overall budget for 2009-10.[28]

1.15 For 2010-11, FCO has introduced new measures to control the exchange rate risk, including setting all Post budgets in local currency and introducing a system to manage foreign exchange risk centrally[29]. As part of the Spending Review in October 2010, covering the four years from April 2011, the Treasury announced that a new Foreign Currency Mechanism will be introduced to enable the FCO to better manage exchange rate pressures and allow for better planning[30]. Under this system, the FCO will be compensated for falls in the value of Sterling, but will return money to the Treasury when the value of Sterling rises, giving the Department certainty over the value of its budget[31]. The creation of this new Foreign Currency Mechanism replaces the old Overseas Pricing Mechanism.

The Department's 2010-11 budget

1.16 Following the Emergency Budget in June 2010, the Department announced that it would make £55 million in-year savings in 2010-11. The initial £18 million of savings identified included the following[32]:

- decreasing the programme of scholarships to bring future decision takers to the UK by £10 million;
- cutting spend on Low Carbon High Growth programme by approximately £3 million in the 2010-11 financial year;
- reducing by £1.6 million in 2010-11 expenditure on public diplomacy programmes;
- decreasing spend on Drugs and Crime programme by £1 million in the 2010-11 financial year;

- £630,000 reduction in support to Overseas Territories;
- £560,000 reduction on programmes on Human Rights and Democracy, Reuniting Europe and Westminster Foundation for Democracy;
- £300,000 cut on support of Counter Proliferation; and
- adjusting spend on international institutions to save £250,000 in 2010-11.

1.17 The remaining £37 million of savings to be made in 2010-11 are from reduced or cancelled spend on advertising, consultancy, procurement and capital items, cuts in spending by the British Council and the BBC World Service, and income from assets sales.

Impact of the Spending Review

1.18 The Departmental budget for 2011-12 to 2014-15 was announced in the Spending Review on 20 October 2010. It is outlined below in **Figure 5**.

Figure 5
Spending Review 2010 – FCO settlement

			£ billion		
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Resource DEL	1.4	1.5	1.5	1.4	1.2
Capital DEL	0.2	0.1	0.1	0.1	0.1
Total DEL	**1.6**	**1.6**	**1.6**	**1.5**	**1.3**

NOTE

1 Resource Departmental Expenditure Limit (DEL) excludes depreciation.

Source: Spending Review, October 2010, CM 7942

1.19 These figures represent a reduction of 24 per cent in real terms in the resource budget, and a 55 per cent real terms reduction in capital spending. The Department's budget for administrative expenditure will be reduced by 33 per cent. The key implications of the FCO's Spending Review settlement are that:

- the FCO will increase its focus on championing British companies to win exports and secure jobs at home, working closely with UKTI to increase business links and market information for UK exporters and to attract significant investment into the UK;
- FCO's contribution to UK Overseas Development Assistance (ODA) spending is currently around 2 per cent of ODA and will remain around this figure for the period of Spending Review 2010;
- moving the Peacekeeping budget from the FCO baseline removes a substantial risk for the FCO budget;

- as part of the capital settlement, the Treasury has given FCO authority to recycle, in any one year, up to some £100 million from FCO's own assets; and
- the British Council and BBC World Service will make savings by finding greater efficiencies and enhancing the commercialisation of their operations. The grant given to the British Council will reduce by 25 per cent in real terms over the next four years, which reflects the Council's projected doubling of income by 2014-15. There will be a 16 per cent real terms cut in the FCO's grant to the World Service for financial years 2011-12 to 2013-14. From April 2014, responsibility for funding the BBC World Service will transfer to the BBC as part of the licence fee, but the Foreign Secretary will retain his veto over any decision to curtail language services. This transfer accounts for some 14 per cent of FCO's total 24 per cent resource budget reduction in real terms over the Spending Review period.

1.20 The FCO aims to manage these reductions by:

- continuing to simplify, standardise and streamline support and corporate functions to reduce the burden on frontline activities, through increased outsourcing, an increase in tasks carried out by local staff, and a consolidation of financial, human resources, procurement and other activities regionally or within the UK;
- as part of its current Workforce Strategy, continuing to reduce the overall size of the workforce by a reduction of UK-based headcount of 10 per cent over five years;
- reducing the cost of the Overseas Estate and looking for opportunities to reduce the estate in London, including looking to co-locate and rationalise the Government's different operations overseas;
- looking for savings through improved procurement practice including, where appropriate, co-procuring with other Departments and greater use of central framework contracts; and
- reviewing the FCO's global and programme expenditure to ensure it is in line with the Foreign Secretary's three priorities of safeguarding Britain's national security, Building Britain's prosperity and Supporting British nationals around the world. We understand that this includes undertaking a zero-based review of the FCO's global network.[33]

1.21 A separate settlement has been reached for the Conflict Pool, a tri-Departmental fund with the Department for International Development and the Ministry of Defence, to help prevent conflict and support post-conflict stabilisation, which will grow to £309 million in 2014-15 from £229 million in 2010-11. The peacekeeping budget, which pays the UK contribution to multilateral actions abroad, will continue to receive funding centrally from the Treasury.

FCO Five Star Finance Programme

1.22 In our Financial Management Review[34] in 2009 we found that the Department had done well in developing its capability, showing strong leadership in raising the profile of good financial management across the organisation. The Department introduced its Five Star Finance Programme in 2007 to improve processes, IT systems, management information and financial skills for staff. The project has been the basis for the significant improvement which the Department has made in managing resources. Whilst recognising the progress made, we also pointed out that more needed to be done across a range of areas in order to embed strong financial management and build upon the progress already made.

1.23 We noted that the Department rated itself at three and a half of the maximum five stars in August 2008. We concluded in our review that this was a reasonable assessment against the targets set within the original project plan. The Department has since, in December 2009, assessed itself at four stars and aimed to achieve four and a half by July 2010.

1.24 At Annex C to the 2009-10 Resource Accounts, the Department provides a status report setting out the progress made in implementing the Committee of Public Accounts' recommendations arising from the NAO Financial Management Review. The Department notes that it has introduced a raft of measures to improve financial management processes and practices which include:

- improving financial skills with a marked increase in qualified accountants, trainee accountants and widespread financial training within and outside the UK;
- introducing new Financial Management information tools in the UK and extending them to the overseas network;
- examining a more workable costing system that includes use of objectives to make informed decisions about operational priorities in a tight fiscal environment; and
- improving Management Information data on management support costs on behalf of Partners Across Government (PAGs), which will lead to a charging framework in line with Treasury guidance, as well as providing value for money to PAGs[35].

1.25 We have agreed with the Department that we will assess whether it is operating at the four and a half star level, and report our findings to the Department by the end of 2010. The Department intends to design the next phase of financial management improvements on the basis of its own assessment findings and our recommendations.

Internal Controls

1.26 Statements on Internal Control (SICs) are an important accountability document, but they often fail to provide a transparent and accountable report of the control issues and risks faced by central government organisations. To promote greater accountability and transparency the NAO reviewed a wide range of central government bodies to establish the assurances supporting the Accounting Officer's assessment of the effectiveness of internal controls and the processes and governance arrangements underlying the production of SICs[36].

1.27 As part of this exercise across central government, in spring 2010, we reviewed the FCO's arrangements underlying the production of its SIC. We concluded that the FCO had a solid framework in place to oversee the production of the SIC, but we made some recommendations to strengthen the governance arrangements. We also recommended that steps were taken to ensure that the risk management process is further embedded within all levels of FCO. The Department is continuing to review its risk management framework. We concluded that the FCO SIC was honest and transparent and, although we identified some areas where processes could be improved, we concluded overall that the SIC is supported by evidence-based assurances and provides a full and open account of the system of internal control.

1.28 The Accounting Officer's 2009-10 Statement on Internal Control[37] set out the approach to managing security risk, including physical security measures, information security and financial risk, and included an update on progress towards the Five Star Finance programme and handling foreign currency risk. The Accounting Officer made reference to several areas where the FCO needed to improve its compliance with established procedures, specifically:

- Passport stock control and Health and Safety;
- Estate Management; and
- IT related risks, including controls surrounding satellite phones.

Part Two

Performance

Departmental Performance

2.1 The Comprehensive Spending Review 2007 established the priority outcomes of the previous Government over the period 2008-09 to 2010-11 in the form of Public Service Agreements (PSAs). The Department had lead responsibility for one Public Service Agreement, PSA 30 – Reduce the Impact of Conflict[38]. FCO reported on performance against this PSA in the Core Tables published with the Resource Accounts[39]. Our June 2010 report on the data and systems underlying reporting of performance against the PSA rated all four data systems as Green. Further details, including definitions of NAO traffic light ratings used, are at Appendix 1[40].

2.2 For 2009-10, the Department agreed with the Treasury eight Departmental Strategic Objectives (DSO). **Figure 6** sets out the amounts spent against these objectives in 2009-10, along with the number of staff devoted to each objective.

Figure 6
The Department's Strategic Objectives in 2009-10

Departmental Strategic Objectives		Gross expenditure £m	Total staff (FTE)
DSO 1	A flexible global network serving the whole of the British Government	1,054	4,941
DSO 2	Supporting the British Economy	209	3,025
DSO 3	Supporting British Nationals Abroad	145	2,392
DSO 4	Supporting Managed Migration for Britain	42	211
DSO 5	Countering Terrorism, Weapons Proliferation and their causes	152	878
DSO 6	Preventing and Resolving Conflict	621	937
DSO 7	Promoting a low carbon high growth global economy	155	1,067
DSO 8	Developing effective international institutions above all the UN and EU	291	924

Source: Resource Accounts 2009-10

New Performance Framework

2.3 The Coalition Government has signalled that for the Spending Review period 2011-12 to 2014-15, new measures of performance will be established. Future departmental business plans are to include data that the public can use to hold departments to account. The FCO has agreed the following new Foreign Policy Priorities:

- **safeguard Britain's national security** by countering terrorism and weapons proliferation, and working to reduce conflict;
- **build Britain's prosperity** by increasing exports and investment, opening markets, ensuring access to resources, and promoting sustainable global growth; and
- **support British nationals around the world** through modern and efficient consular services.

2.4 The Department's Business Plan and Structural Reform Plan was published on 8 November 2010.

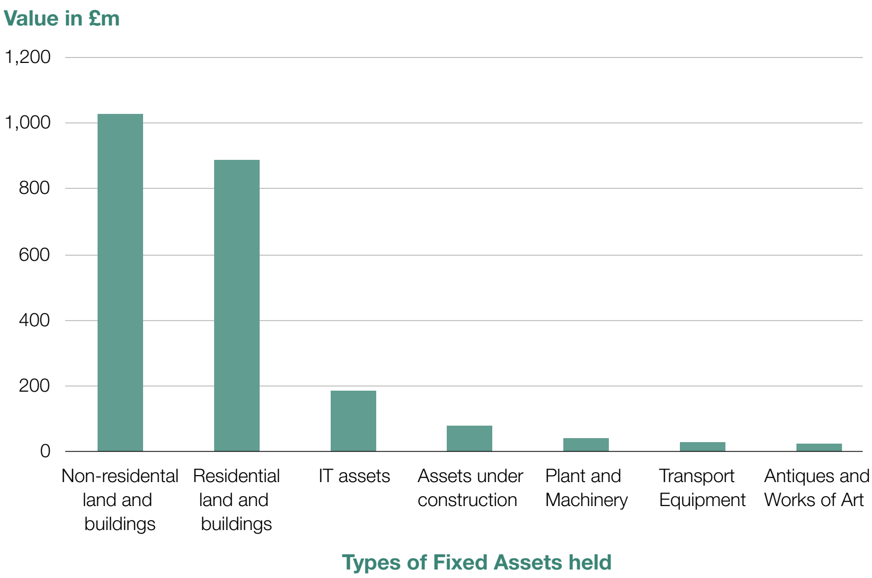
Estates

2.5 The FCO has an estate that accounts for 84 per cent of its assets[41]. The current overseas estate consists of some 5,000 properties including embassy buildings, individual and family accommodation, along with other facilities. Approximately 55 per cent of properties are leased and 45 per cent are owned[42].

2.6 The overseas estate accommodates FCO staff, staff from other government departments and staff from public sector organisations. **Figure 7** shows the categories and value of assets held by the FCO as at 31 March 2010. Total fixed assets (also known as Non-Current Assets) for 2009-10 were valued at £2.3 billion[43].

2.7 In February 2010, we published our report on the Department's Estate entitled "Adapting the Foreign and Commonwealth Office's Global Estate to the Modern World". Our review noted that 59 per cent of Posts reported unused office space and 121 posts had more space per person than would be expected in UK government offices. We recommended that the Department could encourage more co-location with other departments, and noted that there were 'gaps and weaknesses in estate information' which 'hinder the FCO's ability to assess estate efficiency and effectiveness accurately'[44].

Figure 7
Types and value of assets held by FCO as at 31 March 2010



Source: Resource Accounts 2009-10

2.8 Following the recommendations from the NAO report and subsequent Committee of Public Accounts report[45], the Department has:

- reprioritised estates expenditure;
- developed an estates strategy;
- recruited more qualified estates specialists;
- improved processes around management information and risk assessment;
- developed a new charging framework for other government departments;
- strengthened the Major Projects team with more rigorous controls;
- introduced new working practices; and
- recruited a specialist with experience of construction to lead the team[46].

2.9 As part of the Spending Review announcement in October 2010, the Government announced that FCO's approach to managing the reductions in its budget would include looking to co-locate and rationalise the Government's different operations overseas.

Working with other Government Departments

2.10 There are 91 organisations that use or operate from FCO accommodation overseas[47] covering approximately 1,450 individuals. Some of the organisations that the FCO shares its office space with are the British Council, HM Revenue and Customs, the Serious Organised Crime Agency, and UKTI. Our report noted that other government organisations do not always make full use of FCO accommodation.

2.11 Use of the FCO estate may not always be appropriate for other organisations, for example, an environment suitable for diplomatic functions may not provide appropriate facilities or the secure environment may not provide the public accessibility required[48]. Where other government organisations do occupy FCO property overseas, over one-third of these stakeholders reported that they were dissatisfied with charging arrangements because using FCO property was costly, there was poor communication of these arrangements and a lack of understanding of the recharge process[49].

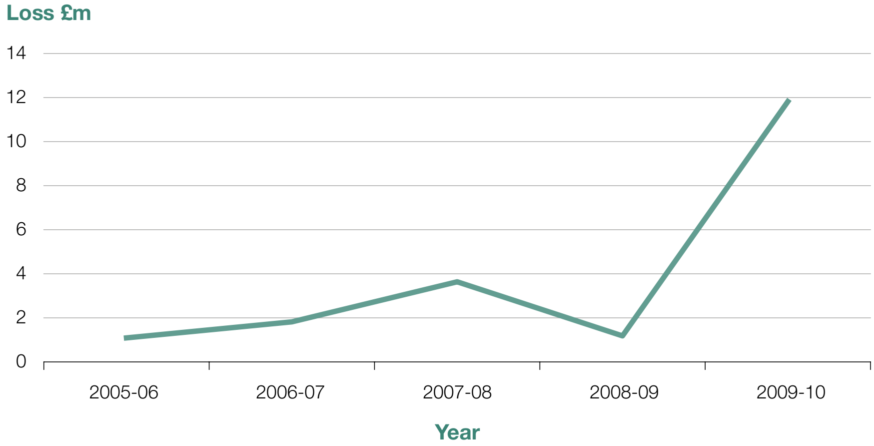
2.12 In its subsequent report, the Committee of Public Accounts noted that, to reflect Treasury requirements, the Department charges other users of its estate full costs even when space would otherwise remain empty and this deters other potential users, some of whom find it prohibitively expensive to use the Department's office accommodation. In its response, the Department reported that officials have been working with Treasury and other government departments to improve the method of charging to ensure a fairer reflection of the actual cost to the Department to provide an overseas platform for the Government.

2.13 Having completed its initial consultations with stakeholders, the Department has selected a preferred option for the new charging framework and is consulting with government departments. The proposed revised charging framework will be based on a fair and proportionate share of relevant fixed costs of occupying property overseas, such as rent and utilities[50].

Losses and the Estate

2.14 **Figure 8** shows the total departmental losses disclosed by the FCO in its accounts from 2005 to 2010. In 2009-10 the Department incurred losses of some £11.5 million, mostly due to the abandonment of an Embassy building project in Damascus (£10.4 million in total, comprising project write-off of £7.1 million and dilapidations of £3.3 million). The Department cancelled the Damascus project due to security concerns, the relocation of the proposed diplomatic enclave by Syria, and prospects of a better value for money site becoming available[51].

Figure 8
Departmental Losses 2005-06 to 2009-10



Source: Resource Accounts 2005-06 to 2009-10

2.15 In March 2010, the Permanent Under-Secretary wrote to the Chairman of the Committee of Public Accounts outlining in more detail the reasons for the abandonment of the Damascus project and the action taken by the FCO to prevent a re-occurrence. The FCO Financial Compliance Unit investigated the project and identified a series of failures with the management of the project, centring on the failure by FCO's employees to comply with FCO procedures. The FCO took this seriously and has taken appropriate disciplinary action[52].

2.16 In its Report, the Committee of Public Accounts concluded that the Department was not taking sufficient account of particular difficulties when undertaking projects overseas. The Committee recommended that the Department should implement rigorous risk assessment when planning such projects so that it sets more realistic timetables and budgets and makes more systematic use of post-project reviews to learn lessons for the future[53]. The Department agreed with the Committee's conclusion and the need to improve delivery of construction projects overseas.

2.17 In July 2010, the Department reported that its Estates Committee had been charged with exercising greater rigour in the area of risk assessment. It now reviews on a regular basis all active projects to check that they are on schedule and on budget and has promulgated new terms of reference for Senior Responsible Owners and Project Sponsors. The Estates Committee was to carry out an assessment of post-project reviews in September 2010. The Department has improved how budgetary information is presented to the Estates Committee to ensure proper oversight of budgets and deadlines[54].

FCO Efficiencies

2.18 The Treasury's Value for Money savings programme aimed to achieve government-wide annual savings of £35 billion from 2008-09 to 2010-11. In July 2010 the NAO published a report on the progress with VFM savings across Government and concluded that it was unlikely that departments would achieve the government-wide target of £35 billion annual savings, which fully meet the Comprehensive Spending Review criteria, in 2010-11. To date the NAO has reviewed reported savings amounting to £2.8 billion from five major departments, which are to deliver around 40 per cent of the government-wide total. We concluded that 38 per cent fairly represented sustainable savings; 44 per cent may represent savings but with some uncertainty; and 18 per cent do not represent, or significantly overstate, savings[55].

2.19 The Comprehensive Spending Review 2007 set FCO a target equivalent to £144 million cash-releasing savings by 2010-11. An additional saving of £20 million was required in 2010-11 for the Operational Efficiency Programme. We do not plan to review FCO's savings as its target represents less than one per cent of the cross-government target. The core tables published alongside the Resource Accounts show that FCO have reported actual savings of £148.23 million by the end of 2009-10 and they forecast that total savings will reach £186.72 by the end of 2010-11.[56]

Appendix One

NAO Review of the data systems for PSA 30 led by the FCO

Indicator	NAO rating 2009	NAO rating 2010	Comments
1 A downward trend in the number of conflicts globally, in particular in sub-Saharan Africa, Europe, Central and South Asia and the Middle East and North Africa.	Green Disclosure	Green Disclosure	The Department improved disclosure in its Autumn Performance Report 2009 to highlight the delay in public availability of data.
2 Reduced impact of conflict in Afghanistan, Iraq, Balkans, Middle East, Sierra Leone, DRC and the Great Lakes, Horn of Africa, Nigeria, and Sudan.	Amber Disclosure	Green Disclosure	We had concerns about data limitations and timeliness in 2009. The Department disclosed timing issues and the use of proxy data in its Autumn Performance Report.
3 More effective international institutions better able to tackle conflict – UN, NATO, EU, AU.	Amber Systems	Green Fit for purpose	We expressed concern about the accuracy of subjective views from Posts and the Department introduced a monitoring and moderating process for Posts.
4 More effective UK capability to prevent, manage and resolve conflict and build peace.	Amber Systems	Green Disclosure	Following our recommendations in 2009, the Department added additional milestones, including cross-governmental assessments, and improved disclosure of changing priorities.

Figure 9
Key to traffic light ratings

Rating	Meaning...
Green (Fit for Purpose)	The data system is fit for purpose of measuring and reporting performance against the indicator.
Green (Disclosure)	The data system is appropriate for the indicator and the Department has explained fully the implications of limitations that cannot be cost-effectively controlled.
Amber (Systems)	Broadly appropriate, but need strengthening to ensure that remaining risks are adequately controlled.
Amber (Disclosure)	Broadly appropriate but includes limitations that cannot be cost-effectively controlled; the Department should explain the implications of these.
Red (Systems)	The data system does not permit reliable measurement and reporting of performance against the indicator.
Red (Not Established)	The Department has not yet put in place a system to measure performance against the indicator.

Source: Review of the data systems for public service agreement 30 led by the Foreign and Commonwealth Office, June 2010

Appendix Two

Abbreviations

AU	Africa Union
DSO	Departmental Strategic Objective
EU	European Union
FCO	Foreign and Commonwealth Office
NAO	National Audit Office
NATO	North Atlantic Treaty Organisation
ODA	Overseas Development Assistance
OPM	Overseas Pricing Mechanism
PAG	Partners Across Government
PSA	Public Service Agreements
SIC	Statement on Internal Control
UKBA	UK Border Agency
UKTI	UK Trade and Industry
UN	United Nations

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