National Audit Office

Briefing
for the House of Commons
Foreign Affairs Committee

One HMG Overseas

MARCH 2015

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO, which employs some 820 employees. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £1.1 billion in 2013.

Contents

Summary 4

Part One
Aims, strategy and governance of One HMG Overseas 10

Part Two
Implementation of One HMG Overseas 19

Appendix One
Other UK public bodies co-located with FCO 32

Appendix Two
Permanent Secretaries' Concordat on HMG Overseas: Roles and Responsibilities, October 2013 34

The National Audit Office study team consisted of:
Marisa Chambers, Stephanie Woodrow, Peter McGrath and Oliver Simms under the direction of Tom McDonald.

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

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

Enquiries: www.nao.org.uk/contact-us

Website: www.nao.org.uk

Twitter: @NAOorguk

Summary

1 The One HMG Overseas agenda aims to remove barriers to joint working, so that all staff working for the UK government overseas can deliver the UK's objectives more effectively and efficiently. Given the many partners and disparate objectives of those involved, this has been and remains an ambitious agenda, requiring considerable culture change. We reviewed progress on One HMG Overseas. The briefing assesses progress on each of the five strands of work in One HMG Overseas:

- **Co-location**

  Bringing all UK government overseas personnel together into single buildings or compounds that are provided by the Foreign & Commonwealth Office (FCO) as the single provider of accommodation overseas.

- **Regionalisation**

  Gathering FCO's HR, finance and procurement functions into global and regional 'centres of excellence', in the UK and overseas.

- **Consolidation**

  Merging the remaining non-regionalised corporate services performed by FCO and UK government partners into single sections, with FCO as the single service provider.

- **Collaboration**

  Individual government departments overseas working effectively together as single teams including dovetailing their individual objectives into single country business plans.

- **Harmonisation**

  Working towards the same terms and conditions of service for all staff working for UK government overseas, depending on their cadre (UK civil servants based overseas or locally engaged).

2 We consider whether government departments are working in partnership to deliver the vision of One HMG Overseas effectively. We focused on strategy and governance, partner engagement and delivery of benefits.

Scope and structure of the report

3 This briefing draws on: interviews with key personnel involved in One HMG Overseas including strand leaders, network board members and government staff in 16 overseas locations;[1] review of relevant literature, including board minutes, business cases, strategy and planning documents; and submissions from partners across government which are co-located with FCO.[2] We have not audited the efficiency savings mentioned in the report; nor could we validate the co-location data that FCO provided.

4 The briefing is structured as follows:

- Part One reports on the strategy, governance arrangements and costs and benefits of One HMG Overseas; and summarises developments since 2010.
- Part Two gives more detail on the aims and progress of each of the five strands.

Key findings

5 Over the last four years, the departments and government bodies involved in One HMG Overseas have made good progress with co-location and regionalisation and reasonable progress with consolidation; but they have made limited progress with harmonisation and collaboration. If the goals of One HMG Overseas are to be realised, the departments need to focus on changing attitudes to collaboration and harmonisation. They need to decide whether the original objectives for these strands are achievable or whether the scope requires redefining.

6 Findings in specific areas are as follows:

Strategy

- The network board was set up in 2011 but did not agree the first One HMG Overseas strategy until January 2014. This document only covered one year and is more of a business plan than a strategy.

1 We interviewed staff about One HMG Overseas while on FCO, Department for International Development and British Council audit visits to Berlin, Brussels, Warsaw, Prague, New York, Mexico City, Delhi, Mumbai, Dhaka, Bangkok, Kathmandu, Beijing, Nairobi, Khartoum, Accra and Abuja.
2 We received submissions from the Ministry of Defence, Home Office and Department of Health; and met representatives from the British Council, Ministry of Defence, Department for International Development, and UK Trade and Investment.

Governance

- The high-level governance arrangements for One HMG Overseas as a whole are well defined and appear to be functioning well. However, by managing One HMG Overseas as five separate strands rather than as a single programme, the network board has missed the opportunity to identify and manage the dependencies between the strands. This has impacted negatively on progress in some instances.
- The governance of the individual strands varies from effective programme boards for regionalisation and consolidation, to arrangements with a lack of ownership and accountability for collaboration.

Costs, resources and benefits

- The total cost of running the government's overseas network is unknown. HM Treasury has asked departments to collate this information.
- While FCO and the Department for International Development (DFID) have staff working full-time on One HMG matters, there are no formal resources or budget dedicated to One HMG Overseas as an overarching programme.
- Many of the benefits of One HMG Overseas are implicit rather than explicit. It is expected to make efficiency savings but only one of the five strands has a measurable savings target.

Co-location

- Co-location is the most advanced of the five strands. FCO considers that the vast majority of economically and strategically viable co-locations are complete. The majority of government staff overseas now co-locate, but the data only record the number of staff from each partner located together. Since data do not record the number of staff who are not co-located we could not substantiate FCO's claim.
- There are still a few large and challenging building projects to complete overseas. Co-location will be an ongoing process as departmental requirements overseas are continually changing.

Regionalisation

- FCO has made good progress with gathering its HR, finance and procurement corporate service functions into global and regional hubs. However, it will miss its target to complete regionalisation by the end of March 2015 because of delays in the Middle East and North Africa region.
- Regionalisation is the only strand with a measurable savings target (£5 million a year for five years). FCO considers it is unlikely to meet the £5 million target for 2014 because of a £0.5 million cost overrun and a £0.1 million savings shortfall.
- Some government bodies receiving services from FCO overseas have expressed concerns about the impact of regionalisation on the quality of the services provided. FCO acknowledges the need to monitor the new network of regional hubs effectively.

Consolidation

- DFID announced its decision to hand over its remaining overseas corporate service functions to FCO in February 2014. DFID took this decision as a policy choice in the context of the move to shared services. It did not produce an overarching business case with anticipated costs and benefits, instead working through the costs and benefits on a country by country basis. In some cases, this has resulted in higher than anticipated transitional costs, particularly in modifying DFID's estate to bring it in line with FCO standards. The initial estimate for modifying DFID's estate is £8.5 million but both DFID and FCO consider that this figure is likely to change as more data become available. However, on current plans, the government expects the programme to save £5 million over five years from staff-costs savings.
- DFID and FCO addressed ongoing uncertainty about costs in November 2014 by producing an initial draft Financial Impact Assessment which included estimated costs and benefits. DFID resolved its concerns about the affordability of staff transfers from DFID to FCO in December 2014.

Collaboration

- This strand should be the foundation for all other One HMG Overseas activities as the success of the other strands depends on collaboration between all the departments and other government bodies involved. It is the least tangible and well defined of the five strands. There are no governance structures for collaboration and there are limited activities and outcomes for collaboration in the strategy. Of the three activities planned for 2014-15, one is complete, one is ongoing and one is still in the scoping phase.
- Following the introduction of joint business planning, partners bring together their individual business objectives into one document for each post called a 'country plan'. This aims to bring about a more collaborative approach overseas, in terms of discussing policy and programmes, and considering joint objectives. We found that country business plans varied in quality and detail. FCO aims to pilot integrated business planning which will be a further step towards collaboration. The pilot is at the scoping stage.
- We found good and poor examples of local collaboration during our audit visits overseas. Interviewees said the strength of collaboration often depends on individual personalities.

Harmonisation

- In 2007 FCO and DFID boards agreed an aspiration to harmonise the terms and conditions of staff working overseas and formalised this intention in 2009. However, the departments have made very slow progress, not helped by bodies claiming exceptions to harmonisation.
- This is the hardest of the five strands as it involves unpicking pay scales and allowances of different departments that have built up over several decades.

Recommendations

7 Based on the key findings above, we make the following recommendations:

a On completion of regionalisation and consolidation the network board should review the objectives of One HMG Overseas and consider whether they are still relevant and achievable. The network board should clearly articulate the future scope of the programme and the associated costs and benefits.

b The network board should define how it will monitor and evaluate the benefits of One HMG Overseas.

c The network board needs to decide the status of collaboration to determine whether it is a formal strand of activity or an underpinning principle.

d The network board should manage One HMG Overseas with the discipline of a single, formal programme rather than separate strands.

e The network board should complete its work to identify the total cost of running the platform and use these data as a baseline against which to measure future savings from One HMG Overseas. The network board should discourage exceptionalism by departments and exploit common factors to make progress on harmonisation.

Part One

Aims, strategy and governance of One HMG Overseas

1.1 One HMG Overseas aims to remove barriers to joint working, so that all staff working for the UK government overseas can deliver the UK's objectives more effectively and efficiently. Given the many partners and disparate objectives of those involved, this has been and remains an ambitious agenda, requiring considerable culture change. In this part we report on how the government's plans for One HMG Overseas have developed since 2010, looking in particular at:

- objectives;
- governance;
- strategy; and
- costs and benefits.

Objectives of One HMG Overseas

1.2 One HMG Overseas has five objectives which have developed into a single initiative over time:

- **Co-location**

  Bringing all UK government overseas personnel together into single buildings or compounds that are provided by Foreign & Commonwealth Office (FCO) as the single provider of accommodation overseas.

- **Regionalisation**

  Gathering FCO's HR, finance and procurement functions into global and regional 'centres of excellence', both in the UK and overseas.

- **Consolidation**

  Merging the remaining non-regionalised corporate services performed by FCO and UK government partners into single sections provided by FCO as the single service provider.

- **Collaboration**

  Individual government departments overseas working effectively together as single teams including dovetailing their individual objectives to single country business plans.

- **Harmonisation**

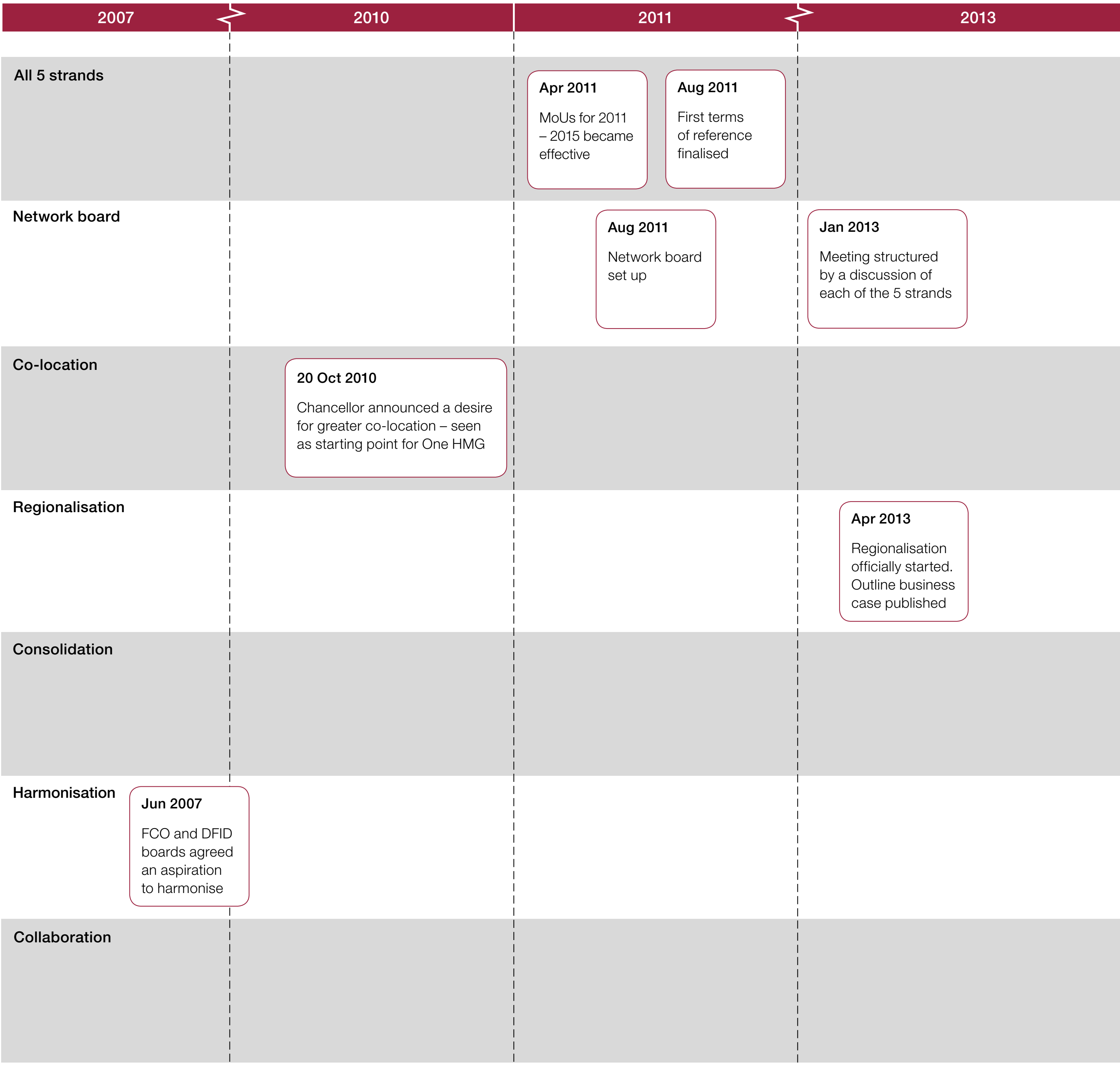
  Working towards the same terms and conditions of service for all staff working for UK government overseas, depending on their cadre (UK civil servants based overseas or locally engaged).

1.3 **Figure 1** on pages 12 and 13 summarises key events in the history of One HMG Overseas, from 2007 to 2015.

1.4 **Figure 2** on page 14 shows the spread of UK government staff overseas co-located with FCO as at November 2014. There were around 5,400 non-FCO staff co-located with FCO overseas, from 40 partners across government, of which around one-third were UK civil servants based overseas and around two-thirds were locally engaged staff.[3] UK Visas and Immigration has the largest presence followed by UK Trade & Investment (UKTI). At the smaller end of the scale, there are several partners with fewer than ten members of staff working and living abroad. Appendix One lists the partners co-located with FCO.

3 The partners are a mixture of government departments, non-departmental public bodies such as the British Council, devolved administrations, and so on.

Figure 1
One HMG Overseas key events



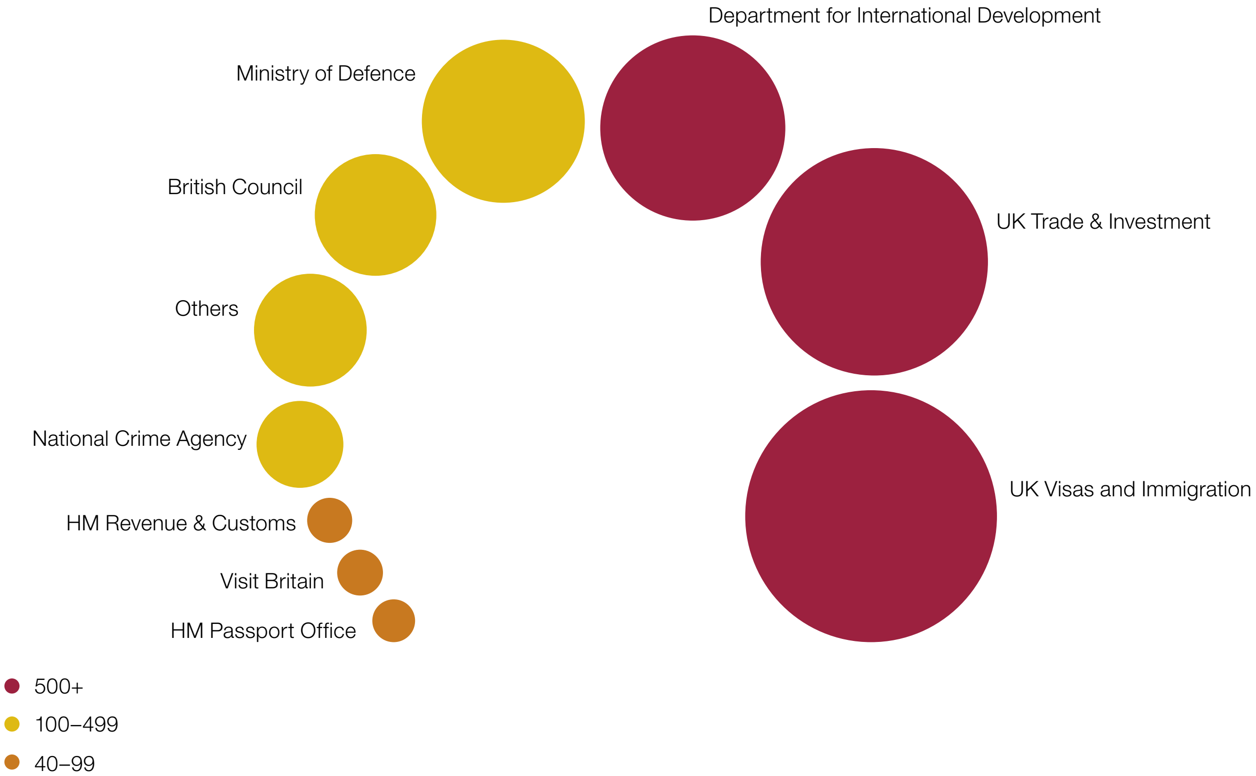
Note

1 MENAD is the Middle East and North Africa Directorate

Source: National Audit Office analysis

	2014	2015
	Jul 2014 First One HMG dashboard produced. First One HMG bulletin sent to all staff	**Jan 2015** Joint Spending Review Working Group to submit its preferred option to the network board; **Apr 2015** MoU for 2015-16 becomes effective
Oct 2013 *Revisited Roles and Responsibilities* paper approved by network board	**Oct 2014** Network board approves creation of people committee; **Nov 2014** Outline financial impact assessment approved by programme board	
Nov 2013 Full business case for regionalisation approved	**Jul 2014** 'Cut over' process began to transfer corporate services to hubs	**Feb 2015** MENAD[1] 'cut over' scheduled to start; **End Mar 2015** Target date for completion of regionalisation; **30 Jun 2015** Target for new teams to be operating effectively and performing to agreed service levels
	Feb 2014 DFID announced handover of overseas corporate services to FCO; **Sep 2014** Implementation stage officially started	**End Mar 2015** Target date for completion of handover to FCO; **31 Jul 2015** Consolidation of DFID assets into FCO asset register and accounts
	Apr 2014 Cost of living allowance harmonised; **May 2014** International HR teams established; **Nov 2014** 12 departments signed a contract with a single provider for healthcare overseas	**Apr 2015** Healthcare contract comes into force
		Jan 2015 Network board to receive papers on integrated business planning pilot and ideas for collaboration strand in 2015-16

Figure 2
Government staff co-located with FCO as at November 2014



Notes

1 This figure illustrates the distribution of the 5,400 or so government staff overseas co-located with FCO by organisation. Those organisations with fewer than 40 staff overseas are included within 'Others'.

2 FCO is unable to separate UKTI staff accurately from FCO staff numbers. The NAO has used UKTI data for this diagram.

3 In this diagram UKVI includes the 200 or so staff working for the Immigration Enforcement Network Overseas.

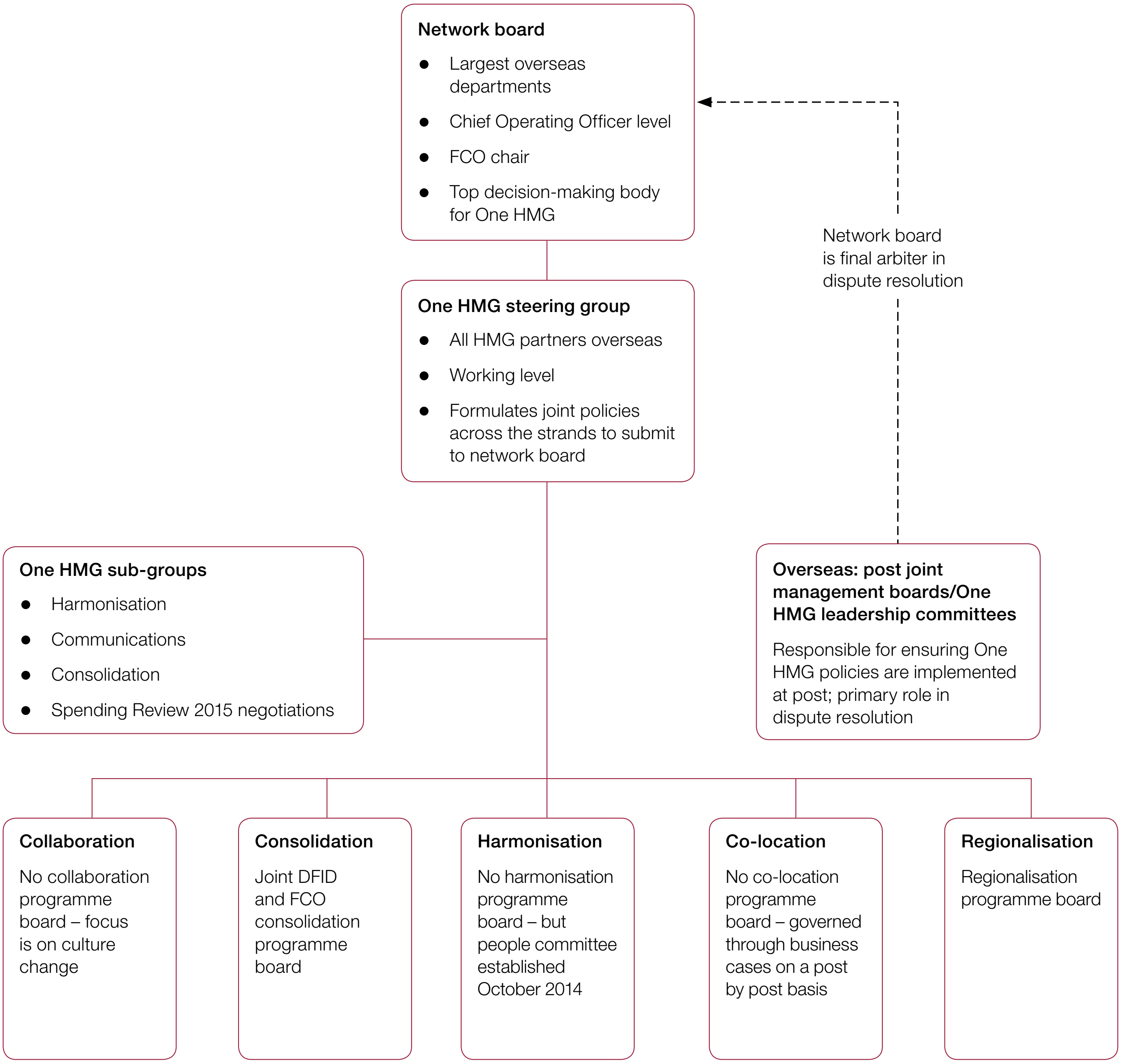
4 We have not audited the underlying data.

Source: Foreign & Commonwealth Office activity recording data

Governance

1.5 We summarise the overarching governance arrangements for One HMG Overseas in **Figure 3**. The governance arrangements for individual strands are discussed in more detail in Part Two.

Figure 3
Governance arrangements for One HMG Overseas



Source: Foreign & Commonwealth Office

1.6 Set up in August 2011, the network board has clear terms of reference and comprises the chief operating officers or their representatives from the main departments with staff based overseas.[4] The permanent secretaries of 12 departments defined the roles and responsibilities for One HMG Overseas in a concordat, which the network board agreed in October 2013 (Appendix Two).

1.7 The board meets quarterly and is chaired by FCO's chief operating officer. Our review of network board minutes from September 2011 to January 2014 showed good attendance at the quarterly meetings by all partners, except UKTI which was unrepresented in half of the meetings.

1.8 The network board has not assessed its own effectiveness to date. The board asked for a programme dashboard to aid its decision-making. First produced for the board's July 2014 meeting, the dashboard provides:

- an overall programme RAG rating;
- quarterly highlights of progress and performance;
- top strand risks; and
- issues and priorities for One HMG Overseas in the next quarter.

1.9 The introduction of the dashboard is the first formal evidence of One HMG Overseas being treated as a programme. The five strands have separate governance arrangements, so any interdependencies are only apparent when problems arise.

1.10 The network board gives strategic direction to the One HMG steering group, which supports the board's work in coordinating changes affecting the UK government's representation overseas. It has help from policy experts from FCO and other government departments and bodies with a presence overseas.

1.11 The One HMG leadership committee in each FCO location overseas is responsible for ensuring One HMG policies are implemented.[5] The leadership committee should be representative of government in that location and all other government departments and bodies co-located with FCO should have a voice on the committee. This is largely consistent with what we found on our overseas visits. The leadership committee is normally chaired by the most senior FCO officer at each location, known as the head of mission.

4 The government departments represented on the network board are: Foreign & Commonwealth Office, Department for International Development, UK Visas and Immigration, British Council, UK Trade & Investment, National Crime Agency, Ministry of Defence, HM Revenue & Customs and HM Treasury.

5 One HMG leadership committees were formerly known as joint management boards.

Strategy

1.12 One HMG Overseas has evolved over time on an iterative basis. While the network board has repeatedly stated the aims and ambitions of the One HMG Overseas programme in newsletters, bulletins and announcements, it did not agree a formal strategy document until January 2014. Unlike typical strategy documents which provide a clear vision for the next three to five years, the One HMG Overseas strategy is more like a business plan as it is short-term, with a programme of work for 2014, including specific objectives for each strand.[6]

1.13 Until the network board has a longer-term strategy which clearly establishes the purpose of One HMG Overseas and what it expects to deliver, it will not be possible to measure its success. The One HMG partners plan to develop an updated strategy for 2015-16, which will go to the board for approval at its next meeting in May 2015.

Costs and benefits

1.14 In September 2014, the FCO audit and risk committee expressed concern that there was no business case for One HMG Overseas. It identified a clear need for one, to outline costs, benefits, drawbacks, milestones, timelines and risks. Although there is no overall business case for One HMG Overseas, there is a full business case for the regionalisation programme and a draft financial impact assessment for the consolidation programme.

Costs

1.15 FCO estimates the total cost of running the overseas network for all partners to be about £600 million. HM Treasury asked departments to gather detailed information on the costs of all overseas government department operations to inform the autumn statement in November 2014. The departments could not give enough accurate data in time. They are continuing to refine the data and hope to have a clearer picture of costs by May 2015.

1.16 The amount FCO charges partners is calculated according to the cost sharing memorandum of understanding (MoU).

- From 2011-2015, FCO had separate MoUs with each partner organisation. Large partners paid a flat fee. Smaller partners paid £9,000 a person each year, regardless of location.
- Partners have agreed a new MoU for 2015-16 with a flat fee.
- Partners are looking to replace this with a cost-per-capita arrangement from 2016-17 onwards, in line with the new spending review period.

6 A strategic plan is typically focused on mid- to long-term goals and explains the basic strategies for achieving them. The level of ambition should be realistic and achievable. A business plan sets short- or mid-term goals and defines the steps to achieve them.

Resources

1.17 There is no dedicated budget for One HMG Overseas other than the costs of regionalisation approved by FCO's executive board. There are no dedicated One HMG Overseas resources other than the network board secretariat (staffed from FCO's operations unit), and two staff in DFID. The sub-committee members are drawn from the One HMG partner organisations. The subcommittees rely on the partners' goodwill to provide time and data.

1.18 Reliable management information is crucial to the success of several One HMG Overseas objectives. Accurate costs, headcount and other figures are essential for the negotiation and smooth operating of the MoU. Getting this information from departments is time consuming for UK and overseas staff. When partners are slow to respond to data requests, this impacts on the speed of progress. Wider engagement between departments to inform and facilitate the commissioning and provision of data should reduce delays.

Benefits

1.19 One of the stated expected benefits of One HMG Overseas is to make efficiency savings. FCO told the Foreign Affairs Committee that it is confident that One HMG Overseas is making savings for the UK government. However, it could not give the Committee figures as many savings accrue to departments other than FCO.[7] Of the five strands, only regionalisation has a stated savings target: £5 million a year for five years from 2014-15. FCO does not consider this target will be fully met in 2014-15 because of a £0.5 million cost overrun and a £0.1 million savings shortfall.

1.20 FCO gave us examples of savings from other strands, but these have not been systematically targeted, recorded or audited. The examples provided include:

- **Co-location savings**

  £91,000 a year rental costs saved by sharing premises in the British Centre in Shanghai.

- **Harmonisation savings**

  £200,000 a year for FCO from a five-year healthcare contract, negotiated on behalf of 12 government departments to deliver economies of scale.

7 Written evidence from the Foreign & Commonwealth Office (FPF0003): *FCO response to Foreign Affairs Committee questions on FCO Annual Accounts 2013-14*, Session 2014-15, November 2014.

Part Two

Implementation of One HMG Overseas

2.1 This part evaluates the strategy, governance, partner engagement and delivery of benefits for each of the five strands of One HMG Overseas:

- Co-location
- Regionalisation
- Consolidation
- Collaboration
- Harmonisation.

2.2 In evaluating the **strategy and governance** for each strand, we looked for evidence of clarity of purpose, in particular: a clear vision for what the partners want to achieve; agreed critical success factors; decisions about who would deliver the aims; and agreed targets and desired outcomes. We also considered the strength of the governance arrangements for delivering the strategy including: terms of reference for the governing body; making sure the right people were involved; clear decision-making and accountability and risk management.

2.3 In evaluating **partnership engagement** we looked for evidence of the partners working effectively together, in particular: developing a collaborative culture, building and maintaining trust, and establishing relationships to allow staff from all levels of the partner organisations to meet and work together.

2.4 In examining the **delivery of planned benefits** for each strand, we evaluated the resource management and performance management arrangements for each strand. We identified progress against targeted outcomes and timetables.

2.5 **Figure 4** overleaf summarises our evaluative criteria and red/amber/green (RAG) ratings for each strand. It shows that of the five strands in One HMG Overseas, the best performing strands are those with clear aims, robust governance and strong programme management.

Figure 4

Evaluation of One HMG Overseas strategy, partnership engagement and delivery of planned benefits

Overarching question	Criteria	Co-location	Regionalisation	Consolidation	Collaboration	Harmonisation
Is there a strategy for the strand?	Does the strand have a clear aim?	🟢	🟢	🟡	🔴	🟡
	Are suitable governance arrangements in place for the strand?	🟢	🟢	🟢	🔴	🟡
Are partners sufficiently engaged in One HMG Overseas?	Are partners sufficiently engaged in the strand?	🟢	🟡🟢	🟢	🟡	🔴
Is One HMG Overseas on track to deliver expected benefits against a well-founded schedule and budget?	Has good progress been made and is the strand likely to finish at its scheduled completion date?	🟢	🟡🟢	🟡	🔴	🔴
	Are the objectives of the strand (savings targets, improvement of services, greater communication etc ...) likely to be met?	🟡	🟡	🟡	🔴	🔴
Overall rating		🟢	🟡🟢	🟡	🔴	🔴

Source: National Audit Office analysis

Co-location

Strategy and governance

2.6 The aim of co-location is to bring all UK government personnel together into single buildings or compounds provided by the Foreign & Commonwealth Office (FCO) as the single accommodation provider overseas.

2.7 In April 2010, following a hearing on our report on FCO's estate, the Committee of Public Accounts recommended that FCO should:[8]

> "actively promote the use of spare space in its offices to other UK government organisations; and that the Treasury should require other government organisations that are considering opening new offices overseas to submit a business case showing the costs and benefits to the taxpayer of locating elsewhere compared with the costs and benefits of sharing with the Department."[9]

8 Comptroller and Auditor General, Foreign and Commonwealth Office, *Adapting the Foreign and Commonwealth Office's global estate to the modern world*, Session 2009-2010, HC 295, National Audit Office, February 2010.

9 HC Committee of Public Accounts, *Adapting the Foreign and Commonwealth Office's global estate to the modern world*, Twenty-fifth Report of Session 2009-2010, HC 417, April 2010.

2.8 In October 2010 the Chancellor announced that the government would look to co-locate UK government operations overseas in single embassies "except where good business reasons dictate otherwise". The default position is that all government departments overseas should be co-located. However, decisions are taken on a case by case basis with each affected department producing its own business case. Sometimes, this can result in the decision not to co-locate. For example, when the capital cost of extending FCO premises to accommodate staff from other departments outweighs the savings on those departments' rental costs elsewhere.

2.9 The practical implementation of this strand is led by the estates directorate in FCO. There is no programme board or other formal governance arrangement for co-location. The financial implications of co-location are governed by the HMG Overseas Joint Platform and Corporate Services Financing Model Memorandum of Understanding.

Partner engagement

2.10 Partners have been engaged in the co-location process, both in decision-making on a case by case basis, and in the cost sharing Memorandum of Understanding (MoU) negotiation process. The partners have expressed various concerns during the MoU renegotiation process including:

- being asked to pay for services they do not use;
- accountability of FCO, given that it is a monopoly supplier; and
- ensuring sufficient flexibility to respond to changes in departments' operational requirements overseas.

2.11 The British Council is not co-located with FCO to the same extent as other UK government organisations. The British Council has some 230 overseas offices and teaching centres in 110 countries but is only co-located with FCO in 40 locations. Its policy for co-location says it will actively review opportunities for co-location and shared services with other government bodies. Its preference is for co-location "where it is practical, affordable, in line with our purpose and mission and where there are no legal barriers[10] to doing so".[11]

Case example
British Council in Berlin

In Berlin, the British Council is not co-located with the FCO primarily because it believes its commercial activity is incompatible with a diplomatic mission. However, even if this were not an issue, it would prefer not to co-locate with the FCO as it considers the high-security embassy building does not suit the image it is trying to promote. Also, the FCO's rental charges are more expensive than its current offices.

10 Article 41 of the Vienna Convention on Diplomatic Relations 1961 states that: *"The premises of the mission must not be used in any manner incompatible with the functions of the mission as laid down in the present Convention or by other rules of general international law or by any special agreements in force between the sending and the receiving State."*

11 British Council Policy on co-location with FCO and other UK partners across government, March 2012.

Delivery of benefits

2.12 FCO describes co-location as essentially a 'done deal', as it considers that the vast majority of co-locations that are economically and strategically viable are complete and the majority of government staff overseas are now based together. The NAO was unable to substantiate FCO's claim as the data held by FCO only record the number of staff from each partner already co-located, not the total number of government staff who could be co-located. Information from the Department for International Development (DFID) notes that DFID is co-located with the FCO or another organisation in most countries in which it has a presence. DFID provided data on staff numbers that are and are not co-located with FCO but there are significant disparities with FCO data and so neither data set can be used with confidence.

2.13 In a few locations such as Kathmandu and Abuja, the UK government does not own premises large enough to accommodate co-location. The departments concerned have agreed to carry out major building projects.

2.14 FCO could not give us a savings figure from co-location as the savings may accrue to one or more departments and none have tried to collate the combined savings. For example, on moving its Bangladesh office into the British High Commission premises in Dhaka, DFID claimed the move would save over £500,000 a year in rent. FCO said that co-location has resulted in savings for FCO, providing the example of the British Centre in Shanghai (see case example below). However, these have been included within the overall £100 million FCO savings target for the current spending review period.

Case example
Savings from co-location

In Shanghai, four government organisations have recently moved to a 'British Centre' with each department holding a separate lease on their offices. The FCO holds the lease on the reception and other shared areas and charges the other departments a fixed proportion of the operating costs. This has led to savings of £91,000 and fits with the FCO's objectives in the country. This model is now scheduled to be rolled out to two further Chinese cities.

2.15 FCO considers co-location to be largely complete, but this work does not have an end date as circumstances change regularly. As building leases expire, or government bodies vary their headcount overseas, new opportunities for co-location may arise. The new MoU for 2015-16 recognises the likelihood of changing requirements by allowing FCO to charge partners an extra amount for any additional staff members co-located with FCO overseas.

Regionalisation

Strategy and governance

2.16 The aim of regionalisation is to gather the finance, HR and procurement corporate service functions into global and regional 'centres of excellence' (hubs) in the UK and overseas. The business case for the regionalisation programme proposed 2 transaction processing centres and 8 regional delivery hubs by March 2015, and identified the following benefits:

- A saving of at least £5 million a year compared with the financial year 2012-13 cost of providing HR, finance and procurement services in the overseas network.
- More consistent levels of service across the network and more standardised processes around them.
- Greater capabilities in the overseas network through increased professional HR, finance and procurement skills in regional hubs.

2.17 This strand is being run as a programme and is governed by a regionalisation programme board. The board meets monthly and monitors progress through a dashboard, risk register and issues log.

Partner engagement

2.18 As the regionalisation strand relates to FCO corporate services, other government departments have had limited involvement. Transferring FCO corporate services from local to regional offices has impacted on those government bodies that use FCO's corporate services abroad, as explained below.

Case example

UK Visas and Immigration view of regionalisation

UK Visas and Immigration said that as a result of regionalisation there is greater emphasis on self-service. This has pushed more of the administrative burden of corporate services onto staff. UK Visas and Immigration recognises that this meets the trend for self-service as part of modernising corporate services across government. However, it said that greater central consultation on the effect of these changes would have helped quantify the likely resource impact on its teams overseas.

Delivery of benefits

2.19 A total of 7 out of 8 regional hubs are expected to be operational on schedule by March 2015. The Middle East and North Africa directorate (MENAD) regional hub in Abu Dhabi is behind schedule.

2.20 Regionalisation has a gross savings target of £9 million a year for five years from 2015-16, with the cost of running the hubs budgeted at £4 million, leaving a net savings target of £5 million. The February 2015 savings update states that £8.9 million of FCO's targeted annual gross savings have been agreed or realised for 2014-15. Despite some regions exceeding their savings targets, the combined effect of £0.1 million savings shortfalls in other regions plus £0.5 million cost overrun on the hubs, means FCO is likely to be £0.6 million short of its net savings target of £5 million.

2.21 Interviewees on our overseas audit visits raised concerns about the quality of regionalised corporate services. Some FCO staff overseas were unsure whether regionalisation had improved services, as teams must still give the hubs information, despite having reduced manpower. The network board knows about the quality issues and acknowledges the need to monitor the new network of regional hubs effectively as they progress to business as usual.

2.22 The services FCO provides the partners are included in the draft service level agreement and key performance indicators submitted to the network board in January 2015, after consultation with One HMG partners and service users overseas. The board agreed to pilot the service level agreement and key performance indicators for 12 months from April 2015. At the October 2015 network board meeting, it also agreed to review them after six months.

Consolidation

Strategy and governance

2.23 The aim of consolidation is to replace separate, joint or duplicate provision of corporate services by multiple government bodies overseas with a single corporate service provider in each overseas office. This is typically FCO, as it has the most widespread global presence. Initial plans were for DFID to be the single service provider in six locations. However, DFID took the view that this was likely to introduce unnecessary complexity. In February 2014, DFID invited FCO to take over the provider role for DFID's overseas non-programme related corporate service functions in these six locations.

2.24 The consolidation programme involves merging those corporate services not included in the regionalisation programme. These are, for example, transport, security, IT and estates and accommodation services such as maintenance and building services, reception services and postal services.

2.25 The corporate services programme team within FCO is leading the consolidation of DFID's corporate services operations into those of FCO. The proposals involve transferring all of the assets, running costs, corporate services staff and some liabilities, such as future redundancy liabilities, of DFID overseas offices to FCO. FCO and DFID established a joint FCO/DFID consolidation board in May 2014 to govern the consolidation programme. The board meets about every four weeks and considers risks, issues, finance and communications.

Partner engagement

2.26 The current consolidation programme is solely concerned with bringing DFID into FCO's corporate services provision. The financial impact assessment for the programme states that the new corporate service teams are being designed to allow future consolidation of other parts of the UK government.

Delivery of benefits

2.27 DFID decided to hand over all its overseas corporate service functions to FCO as a policy choice in the context of the move to shared services, without producing an overarching business case with anticipated costs and benefits. However, all DFID country offices transitioning to FCO services have provided proposals with details on required staffing, anticipated redundancies and a cost–benefit analysis. These are reviewed and approved by both the DFID and FCO senior responsible owners and regional directors. The consolidation programme has experienced the following difficulties:

- The full scope of the programme was not clearly documented.
- Transition costs are much higher than anticipated, particularly for staff transfers.
- DFID and FCO agreed the process for allocating costs of staff and asset liabilities transferred to FCO, but have not finalised security and accommodation costs.
- DFID and FCO have faced challenges in aligning their asset management policies.
- Potential cost savings from consolidation were not identified at the start, which has meant a lack of focus on efficiencies.

2.28 The consolidation programme board and FCO's audit and risk committee have highlighted the issues described above and identified the need for a business case. In response, DFID and FCO produced an initial draft financial impact assessment in November 2014 designed to set out the programme's:

- geographic and functional scope;
- costs and benefits;
- scale of assets and liabilities that might be transferred;
- accounting treatment that should be applied; and
- timelines, milestones, dependencies, and risks involved.

2.29 FCO and DFID planned to complete consolidation by the end of March 2015. The departments have made progress with consolidation, as shown in the case example below. However, the February programme dashboard showed that five DFID country offices will miss this target, including two which will complete consolidation in April 2016, as they depend on co-location for full consolidation. A further four are uncertain due to reasons relating to HR, legal difficulties and conflict.

Case example

Successful consolidation in Khartoum

In Khartoum, DFID has a much smaller presence than the FCO and, here, consolidation is almost complete. The FCO now manages corporate services including estates, security and transport. DFID still pays its lease and rental costs but this will be handed over to the FCO on 1 April 2015.

2.30 The failure to identify costs upfront has meant that affordability of the consolidation programme has been an ongoing feature of the programme board discussions in the last eight months. The latest draft financial impact assessment shows a programme cost of between £9.59 million and £16.77 million to 2018-19, after netting off staff savings in-country. There are three main components to costs and savings:

- Anticipated savings of £4.75 million on staffing costs – this is the net saving on staffing costs over 5 years, after deducting the costs of termination payments.
- Costs of £8.5 million associated with property upgrades, most of which DFID considers might have been incurred regardless of progress with One HMG Overseas. This estimate was based on the modification costs of a small sample of DFID properties in one country. A more realistic estimate will not be available until FCO has surveyed the full estate during 2015-16. DFID and FCO cannot sign off the transfer of assets until the cost is agreed.
- Costs associated with additional security and estates provision (annual cost is £2.2 million from 2015-16) – however, these largely represent an increase in the service provision available to DFID staff, rather than increased costs for the same service

The programme dashboard for December 2014 states that affordability issues in 2014-15 are resolved.

Collaboration

Strategy and governance

2.31 The aim of collaboration is for government departments overseas to work effectively together as single teams. This includes dovetailing their individual objectives into single country business plans.

2.32 One HMG Overseas leadership committees are responsible for collaboration overseas. There are no governance arrangements for this strand in the UK and no overall strategy or structure to give the work context.

Partner engagement

2.33 FCO has worked alone on the UK based work on collaboration and acknowledges that input from other partners is essential in taking this strand forward.

Delivery of benefits

2.34 In the UK, some progress has been made in the strand since the start of One HMG Overseas with few concrete plans going forward. The three activities the network board agreed for collaboration in 2014-15 were:

- to review the roles and functions of joint management boards (renamed One HMG leadership committees) – **completed**;
- to incorporate training on One HMG into pre-posting packages for all One HMG partners – **ongoing**; and
- an integrated business planning pilot – **still in scoping phase**.

2.35 Following the introduction of joint business planning in 2010, for the first time partners bring together their individual business objectives into one document for each post called a 'country plan'. This is designed to increase collaboration overseas, in terms of discussing policy and programmes, and considering joint objectives. In our report *Supporting UK exporters overseas*, we found that country business plans varied in quality and detail.[12] FCO aims to pilot integrated business planning which will be a further step towards collaboration. The pilot is at the scoping stage.

12 Comptroller and Auditor General, UK Trade & Investment and Foreign & Commonwealth Office, *Supporting UK exporters overseas*, Session 2013-14, HC 732, National Audit Office, October 2013.

2.36 Collaboration between departments in the UK still has a long way to go. However, we found evidence of better progress with collaboration overseas in our overseas audit visits. The case example below shows collaboration overseas. However the degree of collaboration varied from country to country and we heard that it sometimes depends on the personalities involved.

Case example

Collaborative working between the FCO, Department for Work & Pensions and the Department of Health in Spain

A significant number of resident UK expats and tourists/visitors living in Spain have healthcare and benefits related issues. The FCO hosts a small team of Department of Health contractors who work on international healthcare agreements including access to healthcare for UK and EEA citizens within the EEA; and Department for Work & Pensions contractors, who work on similar ex-pat considerations relating to benefits.

The Department of Health told us that it puts significant value on this collaborative working approach that meets both FCO interests in supporting UK citizens in Spain, and Department of Health and Department for Work & Pension's interests in delivering policy objectives such as managing healthcare costs, complying with EU law and addressing benefits fraud.

Harmonisation

Strategy and governance

2.37 The aim of harmonisation is to work towards agreeing the same terms and conditions of service for all staff working for the UK government overseas. There are separate harmonisation principles for UK civil servants based overseas and for local staff. FCO and DFID boards agreed an aspiration to harmonise terms and conditions of staff working overseas in 2007 and formally launched harmonisation in February 2009.[13]

2.38 The objectives of harmonisation are:

- greater effectiveness and increased efficiency of government operations;
- better value for money for the UK;
- more cohesion and a more integrated 'one team' approach across all staff who work for the UK government overseas; and
- agreed guidelines on how far departments may apply flexible additional elements to their overall package in response to their particular business needs.

2.39 A subcommittee of the One HMG steering group oversees the work on harmonisation. From November 2014 the harmonisation subcommittee became the people committee, with an expanded remit to include healthcare and learning and development issues.

13 Joint letter to heads of mission and DFID overseas offices who are co-located from Peter Ricketts (Permanent Under Secretary, FCO) and Nemat (Minouche) Shafik (Permanent Secretary, DFID) 19 February 2009.

Partner engagement

2.40 In its 2012-13 review of FCO administration and finance, the Foreign Affairs Select Committee expressed concern about the barriers to harmonisation:

> "While we welcome the One HMG Overseas project as a good way of strengthening the UK's identity locally and synthesising the effort of the various arms of government overseas, FCO should not underestimate the scale of possible resistance to the harmonisation of terms and conditions for staff from different departments and agencies." [14]

2.41 Out of the five strands, the tendency of partners to claim exceptions is most marked in harmonisation. Some allowances, such as FCO's diplomatic service compensation allowance, are specifically tailored to particular departments' needs, and are excluded from harmonisation. Further examples of UK Trade and Investment (UKTI) and Ministry of Defence (MOD) exceptions are shown below.

UKTI	HM Treasury gave UKTI special dispensation to pay above UKTI's usual salary scales to locally engaged staff to attract staff with commercial skills. UKTI has used this flexibility to pay above the salary scale once, in the UKTI overseas network.
MOD	The One HMG Overseas network board agreed that MOD military staff will be excluded from the harmonisation work as the Armed Forces are not part of the Civil Service Reform Agenda and the associated harmonisation initiative.
	FCO accommodation policy recognises and refers to the distinct and unique employment terms and conditions of MOD military personnel.

Delivery of benefits

UK civil servants based overseas

2.42 Given that the aspiration to harmonise pay and allowances was first announced in 2007, progress to date has been disappointing. The network board accepts that it will not be possible to harmonise the pay of all UK civil servants based overseas until there is a cross-departmental review of UK staff salaries. For the time being the focus is on areas which all partners have in common, such as pre-posting administration and certain shared allowances. The partners have found harmonisation difficult, as it involves unpicking pay scales and allowances that have developed over decades.

2.43 Even where departments use the same methodology to calculate allowances, such as the cost of living allowance for UK civil servants, staff from different departments get different amounts as the methodology applies to different departmental pay scales.

14 HC Foreign Affairs Select Committee, *FCO Performance and Finances 2012-13*, Sixth Report of Session 2013-14, HC 696, January 2014.

2.44 In January 2014, the network board agreed to prioritise ‘quick wins’ for harmonisation. For example, a shared policy on heavy baggage, freight, and storage, and a single, harmonised package for new posts. The joint healthcare contract example below is an example of a ‘quick win’ already secured.

Case example

Joint healthcare contract

FCO recently procured a new healthcare contract, for UK civil servants working overseas and their families. It will come in to effect in April 2015 and increases the number of departments on the same healthcare contract from 6 to 12.

The number of staff covered will increase from around 14,500 to around 22,000. Per capita costs have dropped from £182 to £154 per year, meaning an overall saving for FCO of 10.7% to 12.7% (depending on medical needs of staff), plus savings for other departments.

Local staff

2.45 All non-FCO local staff working for UK government organisations overseas are on FCO local staff terms and conditions, except for DFID staff. DFID and FCO have been working towards harmonising the financial and non-financial package for local staff since 2008, with the aim of harmonising pay for local staff. As at January 2014, they had achieved this in 22 out of 27 DFID/FCO locations.

2.46 Despite this progress, several key terms and conditions such as pay progression have yet to be harmonised. In January 2014 the harmonisation subcommittee secured agreement from the network board to revise the existing harmonisation model for local staff to address affordability and flexibility issues. Non-corporate services staff pay and conditions will still need harmonising.

Savings

2.47 Greater value for money for the UK taxpayer is one of the main objectives of harmonisation. FCO could not provide us with a figure for savings from harmonisation as FCO and its partners did not baseline the cost of pay and allowances at the start of the process.

Appendix One

Other UK public bodies co-located with FCO

Number of staff co-located with FCO	Number of UK public bodies	Public bodies
>500	3	UK Visas and Immigration
		UK Trade & Investment
		Department for International Development
>100 <500	4	British Council
		Immigration Enforcement
		Ministry of Defence
		National Crime Agency
>10 <100	6	HM Revenue & Customs
		Visit Britain
		HM Passport Office
		Scottish Development International
		Crown Prosecution Service
		Metropolitan Police
10 or less	29	Department for Work & Pensions
		Home Office
		Invest Northern Ireland
		Research Councils UK
		Welsh Government
		Commonwealth War Graves Commission
		Department for Transport
		Department for Business, Innovation & Skills
		Ministry of Justice
		Border Force (Operation Airbridge)
		Ministry of Defence (not Attachés)

Number of staff co-located with FCO	Number of UK public bodies	Public bodies
		Department of Health
		UK Hydrographic Office
		High Tech Hub (Tel Aviv only)
		Scottish Government
		UK Film Council
		Defence Geographics Centre
		Department for Environment, Food & Rural Affairs
		HM Treasury
		Intellectual Property Office
		Northern Ireland Office
		Office of Government Commerce
		Scotland Office
		Scottish Enterprise
		Bank of England
		Food Standards Agency
		Ordnance Survey
		Royal British Legion
		Met Office

Appendix Two

Permanent Secretaries' Concordat on HMG Overseas: Roles and Responsibilities, October 2013

Our Goal

1 We want HMG's representatives and NDPBs abroad to work together with a collective purpose. We expect all our staff overseas to see themselves as one team, and to support each other in achieving both their own departmental objectives and those of the government as a whole.

FCO

2 Is responsible for leading the UK relationship with the host country and for ensuring a coherent cross-government approach through a single country business plan.

3 Normally provides overseas services and accommodation for the UK government as a whole, and is responsible for creating a simpler mechanism to allow other government departments and UK organisations to co-locate with FCO to increase efficiency and reduce costs for all partners.

Other government departments and NDPBs

4 Are responsible for setting their own departmental or organisational strategic and policy priorities in-country, and embedding them in the overall country strategy. They are also accountable for delivery of their objectives and the use of resources.

All departments and NDPBs

5 Are responsible for consulting each other on policy or operational issues which could have a wider impact on the UK government's activity in the country concerned.

FCO Head of Mission

6 Represents the UK government as a whole, and leads and coordinates the UK government's activity in-country. Supports the delivery of all government departments' priorities in-country and ensures that the country business plan reflects these. Ensures reporting takes stock of broader issues of interest to other government departments.

Other government departments and NDPB representatives overseas

7 Represent their department or organisation, and lead and are accountable for its activity in-country. Work with the Head of Mission and other government department colleagues to achieve the delivery of their own and UK government's other priorities in-country.

National Audit Office

Design and Production by NAO Communications
DP Ref: 10668-001