



SECOND REPORT FROM
THE FOREIGN AFFAIRS COMMITTEE
SESSION 2008-09

FOREIGN AND COMMONWEALTH OFFICE
ANNUAL REPORT 2007-08

RESPONSE OF THE SECRETARY OF STATE
FOR FOREIGN AND
COMMONWEALTH AFFAIRS

*Presented to Parliament
by the Secretary of State for Foreign and Commonwealth Affairs
by Command of Her Majesty
April 2009*



SECOND REPORT FROM
THE FOREIGN AFFAIRS COMMITTEE
SESSION 2008-09

FOREIGN AND COMMONWEALTH OFFICE
ANNUAL REPORT 2007-08

RESPONSE OF THE SECRETARY OF STATE
FOR FOREIGN AND
COMMONWEALTH AFFAIRS

*Presented to Parliament
by the Secretary of State for Foreign and Commonwealth Affairs
by Command of Her Majesty
April 2009*

© Crown Copyright 2009

The text in this document (excluding the Royal Arms and other departmental or agency logos) may be reproduced free of charge in any format or medium providing it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

For any other use of this material please write to Office of Public Sector Information, Information Policy Team, Kew, Richmond, Surrey TW9 4DU or e-mail: licensing@opsi.gov.uk

ISBN: 978 0 10 175852 9

**SECOND REPORT FROM THE FOREIGN AFFAIRS COMMITTEE
SESSION 2008-09**

FOREIGN AND COMMONWEALTH OFFICE ANNUAL REPORT 2007-08

**RESPONSE OF THE SECRETARY OF STATE FOR FOREIGN AND
COMMONWEALTH AFFAIRS**

The Secretary of State for Foreign and Commonwealth Affairs welcomes the Second Report from the Foreign Affairs Committee in Session 2008-09 on the 2007-08 Annual Report of the Foreign and Commonwealth Office (FCO). This Command Paper sets out the Government's detailed response to the Report, in particular to the Committee's sixty-five specific conclusions and recommendations.

New Strategic Framework

1. We welcome the move towards a single conflict prevention pool of funding and the creation of the Stabilisation Aid Fund which we trust will reduce the risk that resources earmarked for longer-term projects to prevent conflict are siphoned off into crisis management. (Paragraph 20)

FCO Response: The Foreign Secretary issued a Written Ministerial Statement on 25 March, on behalf also of the Secretaries of State for International Development and Defence, which set out the arrangements for conflict funding in 2009/10. The changes to these arrangements are essential because of the rise in international peacekeeping costs, caused by an increase in peacekeeping activity and exchange rate changes. As also set out in that statement, DFID, MOD and FCO have allocated significant additional resources to conflict. With this additional money, we are confident that we will be able to meet our assessed contributions for international peacekeeping, and to fund essential conflict prevention activity in priority regions.

2. We are concerned that funding for the FCO's Drugs and Crime Programme is being progressively cut to fund new policy goals such as tackling climate change, without replacement funding having been identified from home Departments. We conclude that it is unacceptable that a shortfall of funding appears to have developed following the transfer of lead responsibility for these issues from the FCO to the Home Office. This is a far from auspicious start to more joint working. We recommend that in its response to this report, the FCO should set out what it is doing to address this issue with its partners across government. (Paragraph 25)

FCO Response: Current funding for the Drugs and Crime Programme does not come to an end until March 2011. Actual spend in 2007-08, the last year before the Strategy Refresh, was £5.7M; in the current financial year, projected spend is £4.0M, more than the original £3M budget because the programme has benefited from some savings found elsewhere. The FCO also contributes to the fight against drugs and crime with other programmes, for example through the Afghan Drugs Inter-Departmental Unit and our Embassies' bilateral funds.

We believe that policy work on international crime and drugs is now being coordinated effectively under Home Office lead. But we acknowledge that there is a question-mark over the future of the Drugs & Crime Programme (DCP) beyond March 2011 as a consequence of the decision to move FCO funds to deliver the FCO's highest priority objectives. We are currently reviewing options with the Home Office.

3. We recommend that in its response to our Report, the FCO should set out what progress it has made with its Whitehall partners on defining the threat from drugs and crime to the UK, and in deciding how and where it should be tackled overseas. We further recommend that in its response the FCO should also clarify whether it is still the UK lead department in discharging the UK's obligations under that part of the mandate of the United Nations Office on Drugs and Crime (UNODC) concerned with terrorism, and, if so, how the FCO is discharging those obligations. (Paragraph 29)

FCO Response: The Home Office has overall responsibility for cutting crime. Their overall strategy which contains all seven of their strategic objectives (including on drugs and crime) is set out in the document "Working Together to Protect the Public" 2008-2011. The Home Office also has a specific domestic drugs policy, set out in "Drugs: protecting families and communities" – 2008-2018. The FCO and other partners across Government contributed to this work, and cooperate closely with the Home Office. Our network of overseas Posts works on behalf of the Home Office and SOCA in delivering their drugs and crime objectives internationally.

We confirm that the UK's relations with UNODC on counter-terrorism are not affected by the transfer of lead responsibility for drugs and crime to the Home Office. We have continued to fund UNODC counter terrorism capacity building work to the tune of £544,000 in the current financial year and £407,000 in the previous year.

4. We regret that the FCO's ability to draw upon broad-based, in-house scientific support and advice has been decreased at a time when it is promoting action on climate change and a low-carbon, high-growth economy. We recommend that in its next Annual Report the FCO should clarify and justify the role of its new part-time scientific adviser. (Paragraph 34)

FCO Response: Following a review of the way in which other Whitehall departments use scientific advice to inform policy development, delivery and departmental decision-making, the FCO has begun the recruitment process for a Chief Scientific Adviser (CSA). It is envisaged the CSA will work 3 days per week. Their role will be to advise the Department and its Ministers, to ensure that science, technology and innovation are managed and used excellently throughout the department, and to work with the Government CSA and other departmental CSAs to advise the Government on cross-cutting issues. Since the CSA is expected to take up the position in summer 2009, an initial evaluation of the role will be included in the FCO's Departmental Report for 2009/10.

5. We conclude that it is not yet clear whether transferring responsibility for three policy areas to home Departments, deemed to be "better placed to direct HMG's international priorities", will be successful in practice. Clear lines of responsibility must be established, and changes should not marginalise the FCO's role abroad, lead to duplication of effort, or reduce overall government commitment in these three areas. We recommend that in its next Annual Report the FCO should provide a detailed assessment of how well the new arrangements are working. (Paragraph 37)

FCO Response: We welcome the Committee's support (paragraph 11 of their report) for the Foreign Secretary's decision to simplify and reduce our priorities. The aim of the new Strategic Framework is to inject a sharper and more strategic focus into the FCO's work and enhance the delivery of our top priorities. Successful strategy and delivery requires choice: deciding not to do some activities in order to put the maximum focus and resources behind the top priorities. That is why the FCO decided to transfer primary responsibility for the delivery and resourcing of three areas of activity in the old Strategic Priorities to the relevant lead department: organised international crime and counter-narcotics to the

Home Office/SOCA; sustainable development to DEFRA; and science and innovation to DIUS. At the same time we have been clear that our Heads of Mission and posts abroad will remain fully engaged in helping deliver these priorities overseas, with and on behalf of the relevant home departments. We think that the new arrangements are developing in well. The Home Office have taken up the task of coordinating cross-government efforts to reduce the harm to the UK from illegal drugs and international organised crime, (see the response to 2 above). Our Heads of Mission in key posts continue to support those operations through their diplomatic efforts. DEFRA have assumed the lead role on the international aspects of sustainable development, working closely with our posts and with the relevant FCO teams in London, including those leading on the promotion of a low carbon, high growth global economy (FCO Departmental Strategic Objective 7). DIUS have assumed joint ownership of the overseas Science and Innovation Network, whose staff play a full part in the work of our overseas posts, and the FCO is represented on the Board of DIUS' International Science and Innovation Unit.

The lines of responsibility are clear. The changes have not created duplication of effort: they have removed it. We do not believe the new arrangements will marginalise the FCO's role abroad. Our Posts abroad are leading work for the whole of Government. The new arrangements allow the FCO to focus on what it does best: understanding and influencing individuals, states, multilateral organisations and other international actors in order to deliver HMG's top priorities around the world. We will continue to work closely with all our partners across Whitehall to achieve this.

6. We welcome the FCO's continuing commitment to the Overseas Territories. It is important that this is emphasised, lest the omission of any mention of the Territories in the FCO's new statement of its priorities, the Strategic Framework, be taken as an indication of a lack of focus on them within Government. We reiterate the conclusion set out in our report on the Overseas Territories, published in July 2008, that the Government must take its oversight responsibility for the Territories more seriously. (Paragraph 40)

FCO Response: We share the Committee's view of the importance of work on the Overseas Territories. We reiterate the FCO's continuing commitment to the Overseas Territories. As we made clear in our response to the Committee's report on the Overseas Territories, the Government takes its oversight responsibility for the Territories extremely seriously.

Performance measurement

7. We recommend that in future the FCO should, where relevant, specify in the Annual Report why assessments of progress against targets have changed in the course of the reporting year. (Paragraph 43)

FCO Response: We accept the FAC's recommendation. Annexes to our Annual Reports showed where progress against targets had changed. In future Reports we shall specify where and why assessments of progress against targets have changed in the course of the reporting year.

8. We reiterate the conclusion in last year's Report that the system of performance targets used in the Spending Review 04 (SR04) period was less appropriate for the FCO than it was for other Departments where outcomes can be more easily measured. While we welcome the FCO's prompt acceptance of the National Audit Office recommendations in respect of the data systems which underpinned several of its SR04 PSA targets, we conclude that these failings significantly vitiated the usefulness of those targets and made it more difficult objectively to judge the FCO's performance. (Paragraph 48)

FCO Response: We agree with the FAC's conclusion that a number of our SR04 performance targets were difficult to measure, thus questioning the accuracy of target assessments given in the Annual Report. We continue to strengthen the data systems that measure our new Departmental Strategic Objectives, and the PSA on reducing the impact of conflict, on which the FCO leads. We await the findings of a recent National Audit Office review to determine progress made. We will share the findings of the review with the FAC.

9. We welcome the clear alignment between the FCO's new PSA target on reducing the impact of conflict, on which it takes the lead within government, and its Departmental Strategic Objective 6 on preventing and resolving conflict. We note that there is a high degree of dovetailing between most of the other new PSAs and the eight DSOs, which will assist the FCO in giving a clear sense of direction to its staff. (Paragraph 56)

FCO Response: We welcome the FAC's conclusion that our eight DSOs clearly dovetail with the new PSAs, and agree that this will provide a clear sense of direction to our staff.

10. We recommend that the FCO in its response to this report states whether its performance against PSA targets will be damaged by a depreciation of sterling and, if so, what mechanisms it has established, or is seeking to establish, to protect itself, or to be compensated for, a significant fall in sterling. (Paragraph 57)

FCO Response: It is too early to say what effect the fall in the value of sterling will have on performance against the PSA 30 targets. As the Committee is aware, HMG is billed by the UN, EU and OSCE in US dollars and EU euros and these costs have risen in sterling terms as a result of the pound's fall. The impact of this in financial year 08/09 has been partly offset by the forward purchase of foreign exchange.

There will also be an impact in 09/10 as a consequence of the fall in the value of sterling and of increased international peacekeeping activity. The FCO is therefore working with DFID, MOD, HMT and the Cabinet Office to ensure that HMG's conflict work is rigorously prioritised in the light of additional demands and our legal obligation to pay our share of the common costs of international peacekeeping activity, and that the shared conflict pools are structured in order to enable these strategic prioritisation decisions. The effect of this on our PSA targets will be measured over the remaining two years of the CSR period.

11. We welcome the progress that has been made on developing, on a cross-Departmental basis, indicators for the FCO's conflict prevention target. We recommend that in its response to this Report, the FCO should clarify which data systems and baselines are being used to measure whether the desired outcomes have been achieved, in respect of this and the FCO's other four main PSA targets. (Paragraph 62)

FCO Response: We welcome the FAC's recommendation. The baselines for PSA 30 are summarised below. The FCO's 2008 Autumn Performance Report and CSR07 Technical Notes, available at <http://www.fco.gov.uk/en/about-the-fco/publications/publications/annual-reports/autumn-performance1> provide a comprehensive list of data systems being used to measure our CSR07 targets for our DSOs and hence the PSA targets for which the FCO is a key delivery partner.

PSA 30 – Global Conflict

Indicator 1: A downward trend in the number of conflicts

A reduction in the number of world-wide conflicts (recorded as a starting number of 54) during the CSR period. Hard data provided by Uppsala/PRIO and the Human Security Report will determine whether there has been a downward trend.

Indicator 2: Reduced impact of conflict

Five quantitative/statistics-based measures (state effectiveness; numbers of refugees/IDPs; numbers of Battle Deaths; trends in Infant and Child Mortality; GDP per Capita Growth) being used for nine conflict countries/regions: Afghanistan, Iraq, the Balkans, the Middle East, Sierra Leone, DRC and the Great Lakes, the Horn of Africa, Nigeria and Sudan.

Indicator 3: More effective international institutions, better able to prevent, manage and resolve conflict and build peace

Internal assessments based on progress made against early response in order to prevent conflict; effective peace support operations; sustaining peace-building; use of a comprehensive approach; leadership capability; effective use of resources and performance management.

Indicator 4: More effective UK capability to prevent, manage and resolve conflict and build peace

Internal assessments based on progress made against new strategic approach to resources; increase in number/skills of civilians for deployment/clarity over tasks performed by Armed forces/reach of Stabilisation Unit database; early warning systems in place; recognition of link between poverty and conflict and need to address conflict at all stages; greater and more genuine involvement of NGO actors.

12. We recommend that in its response to this Report the Government should explain what progress has been made in ironing out the technical problems which prevented the full roll-out of new activity recording software, what feedback the FCO has received from staff on both the new and interim systems, what information has been gleaned about activity patterns and how this will feed into management decisionmaking. (Paragraph 66)

FCO Response: In quarter 1 we sought to collect activity recording data from Posts and Directorates using Oracle Financial Analyzer (OFA). We have successfully used this tool for a number of years to collect budget information. We successfully piloted the activity recording OFA solution across 15 Posts. However the worldwide rollout of this proved to be problematic, with a number of Posts reporting difficulty accessing the OFA tool and slow performance. The Quarter 1 return was incomplete and therefore trend analysis could not be undertaken.

In quarter 2, whilst technical experts investigated these issues, we collected the activity recording data from Posts using spreadsheets. We successfully received and validated 99% of all returns in quarter 2. The main conclusions coming from the quarter 2 analysis presented to the FCO Board on the 28th November 2008 were;

- evidence of the network shift moving staff out of European Posts towards new economic powers and conflict regions,
- evidence of the move of some staff from administrative and support to front line support.

Work undertaken by our expert advisers, identified and corrected the technical issues with OFA and we continue to use the tool to collect budget information. OFA will be replaced by Hyperion to collect budget data from December 2009. An implementation project is currently in progress (with the UK implementation in Quarter 3 2009 with Posts to follow thereafter).

A separate software solution will be implemented to collect activity recording data. We are currently analysing the activity recording data for Quarter 3 successfully collected using a spreadsheet. A project team has been mobilised to identify a longer term suitable replacement activity recording system. We will continue to collect activity recording data using spreadsheets until this software solution is available.

Global network

13. We conclude that the reasoning behind the shift of diplomatic staff away from European Posts to Asia, the Middle East, parts of Africa, and Russia is understandable, but we are concerned that the increased focus on climate change may overshadow other equally important aspects of FCO work. We recommend that, in its response to this Report, the FCO should give details of staff reductions in European Posts, post by post, with a brief account of the rationale behind each specific decision. (Paragraph 72)

FCO Response: We note the Committee's concern that the increased focus on climate change may overshadow other equally important aspects of FCO work. However, the aim of the new Strategic Framework is to inject a sharper and more strategic focus into all the FCO's work, including climate change, and so enhance the delivery of our biggest priorities. That is why the FCO decided to strengthen its presence in those countries outside Europe that are critical to the achievement of its current policy objectives: this required some staff reductions in Europe. This does not imply that Europe is less important, simply that we can now manage our relationship with European partners in different ways that do not require a heavy staff presence in all capitals.

These changes have resulted in the deletion of 77 policy jobs. Numbers and specific posts are listed in Annex A. Decisions on which individual jobs to cut have been taken on a case by case basis, taking account of local circumstances and our global needs. The savings have enabled us to create 172 new policy jobs elsewhere in the global network, focused in particular on our new policy goals in, and on, the Middle East, Africa and Asia.

14. Bearing in mind the FCO's tight financial situation, its desire to operate in particularly difficult places and the prospect of future staff reductions, we conclude that there is a serious risk of over-stretch in some areas. (Paragraph 75)

FCO Response: Our resources are indeed tightly stretched. But we are committed to maintaining global reach and the safety of our staff. That places a premium on efforts to find new ways to operate overseas, including in challenging places, for example by hub and spoke working, and by improving Corporate Services. We will continue to seek to innovate and ensure value for money for the taxpayer while preserving a global flexible network able to deliver for the whole of the British government and the UK citizen.

15. We welcome the FCO's desire to consider innovative approaches to diplomacy as exemplified by its 'unEmbassy' project. However, we recommend that future such initiatives should be subject to rigorous cost-benefit appraisal, to ensure that this mode of working does not become a conduit for diplomacy on the cheap or a means to avoid desirable longer-term capital investment projects in order to make shortterm savings. We conclude that staff welfare must also be a paramount consideration, particularly in the case of assignments to what the FCO describes as "difficult and dangerous places". (Paragraph 78)

FCO Response: Our innovative approaches to diplomacy such as the "unEmbassy" project are designed primarily to enhance our ability to deliver foreign policy abroad. They are not primarily cost cutting, though may also help us meet our objective to do more with less. The purpose of running small pilots is to test the viability and effectiveness of any idea. We would not adopt any new business model without proper consideration of the long term impact on both our existing means of operating and on our people. The safety of our staff is paramount.

16. We recommend that FCO Ministers should give greater priority to visiting Asian countries which are major trade and investment partners of the UK. (Paragraph 80)

FCO Response: Since January 2008, there have been extensive contacts between FCO ministers and their counterparts in ASEAN and East Asian countries. The Minister for Trade accompanied the Prime Minister to Beijing for the UK China Summit in January and during the Olympics in August, and Lord Davies visited China in February 2009. The Foreign Secretary visited China in February 2008 and Japan in June 2008. He also represented the UK at the ASEM summit in Beijing in October 2008 when he met with leaders of 16 Asian nations and throughout the year he has met his counterparts from the region in London and at the margins of international meetings. The Minister of State, Bill Rammell has already visited China and Indonesia this year. His predecessors visited Japan, Malaysia, Singapore, Thailand and the Philippines in 2008. Lord Malloch Brown visited China and Japan in February 2009. Lord Malloch Brown also visited India in October 2008 where he discussed aspects of the current global economic crisis with his counterpart. Most recently, the Foreign Secretary visited India on 13-15 January where he called on Prime Minister Singh and Foreign Minister Mukherjee in New Delhi, and met representatives of the Indian business community in Mumbai.

17. We conclude that the proposed deepening of the relationship between the FCO and other Departments, in particular DfID, and the ambitious plans now being implemented for co-location of FCO and DfID overseas offices, are to be welcomed. We are disappointed that it is not yet possible for the FCO to estimate the cost savings likely to accrue from the co-location programme. We recommend that the FCO should supply us with this estimate as soon as it is available. (Paragraph 88)

FCO Response: Various Partners Across Government (PAGs) co-locate with the Foreign and Commonwealth Office (FCO). These partners base their operations within FCO missions overseas and use the support of FCO staff in management and administrative positions. We have now concluded Service Level Agreements with the main Government Departments who base staff in our Embassies. This produces efficiency savings by avoiding duplication of support staff, and by the most efficient use of Embassy space. But to calculate a specific cost saving would require other Departments to calculate what they would have spent, had they not been co-located with the Embassy. Since Departments have no requirement for this information, and given the intrinsic difficulty of estimating hypothetical costs, they do not produce the data. It is also relevant that the benefits of co-location are not only financial: co-location enables much more effective joint working across Departments.

18. We conclude that the Treasury's decision to raise the FCO's revenue targets mid-year effectively amounts to a shifting of the goalposts and has the potential to undermine the FCO's commitment to consider the sale of each Estate asset on its merits. This could cause particular difficulties at a time of global economic downturn. (Paragraph 93)

FCO Response: The decision to increase the FCO sales target by £5m was taken by the FCO Board in July 2008 as one of a combination of measures to cover a potential shortfall in 2008/9 Capital funding to avoid a possible overspend of the HMT Control total. A shortfall was projected because it did not prove possible to drawdown End of Year Flexibility (EYF), the balance of an unspent FCO Capital reserve from 2007/8. The FCO revised the sales target in the Winter Supplementary to enable the additional income to be utilised.

19. We conclude that the housing construction project in Pakistan highlighted a series of regrettable failures in FCO processes and management. We welcome the FCO's acknowledgement that lessons must be learned and recommend that in its response to this Report it sets out what further progress it has made in implementing its action plan. (Paragraph 100)

FCO Response: The recommendations made in the independent report on the 2005- 2007 Islamabad and Karachi housing project continue to be central to our management of estate issues. Each is now standard practice in all appropriate new projects. In order to meet the Committee's request for an indication of further progress in the implementation of these recommendations, we provide details here of the specific way in which they are being implemented in an individual project. Following the attack on the Marriott Hotel in Islamabad in October 2008, we are providing a further 35 to 40 units of residential accommodation on the High Commission compound.

The new Islamabad project is being carried out by Mace Limited. Mace were appointed as the FCO's strategic construction partner in 2005 following a competition under OGC and EU procurement rules. Mace are responsible for delivering a number of projects in our current programme of capital expenditure. They are a successful construction company with a large portfolio of public sector work in both the UK and overseas. Their appointment facilitates the transfer of experience from one project to another. Mace are aware of the recommendations contained in the independent report.

Recommendations 3.1 and 3.9 in the action plan.

The Islamabad project is being planned, monitored and managed through the use of a Project Execution Plan (PEP) and regular meetings following the kick-off meeting (which follows Mace's standard agenda). The FCO have appointed an experienced estate professional as Senior Responsible Officer (SRO) to oversee the project in accordance with the OGC's Achieving Excellence in Construction initiative.

Recommendations 3.2, 3.7 and 3.15

Mace's sub-contractors on the Islamabad project will be selected through detailed pre-qualification checks which require sub-contractors to have satisfactory financial statements of at least three years. As the project moves into the construction stage, Mace will use industry leading edge procedures to invite bids and convene a workshop to evaluate tenders. The selection of sub-contractors will be recorded in Mace's Bid Placement report. Mace are currently pre-qualifying a number of prospective contractors, with previous experience of building in Pakistan, all of whom have passed their assessment criteria. Unsuccessful bidders will be offered a full de-brief.

Recommendations 3.3, 3.10, 3.11 3.12 and 3.13

To ensure the proper delivery of services, Mace use the OGC's preferred form of contract for construction procurement: NEC3. This requires parent company guarantees and performance bonds to safeguard any advance payments made to contractors. Payments to consultants and contractors working for Mace are fully verified by their quantity surveyors. The use of an NEC3 contract ensures the contractors' supply chains are fully visible to the client. Mace will ensure that all consultants and sub-contractors make available resources to fulfil their contractual obligations. A full peer review of design proposals will be conducted prior to any contracts being let.

Recommendations 3.4, 3.8, 3.14, 3.16 and 3.17

FCO Services have not been commissioned on the Islamabad project. Their performance on other FCO projects is benchmarked against the same common industry standards as Mace.

Recommendation 3.5

20. We are grateful to the FCO for supplying us with further information about the sale and repurchase of the British Ambassador's residence in Dublin. We conclude that this dispiriting saga must be brought to a swift conclusion, and we recommend that in its response to this Report, the FCO provides up-to-date details of the costs incurred since 1999 as well as an assessment of what lessons the FCO has learned. (Paragraph 105)

FCO Response: We share the Committee's wish to finalise the issue of our Dublin Ambassador's Residence. As the Committee will be aware from Sir Peter Ricketts letter of 20 November 2008, we continue to occupy Glencairn by mutual agreement, currently until 30 April 2010. Under these arrangements we pay no rent and the developer retains the final completion sum. With the sale of Marlay Grange achieved (before the recent drop in the Irish property market), the present arrangements provide value for money and fit for purpose accommodation for the Ambassador while we pursue a long term solution.

Full details of the costs incurred on the sale of Glencairn, the purchase of Marlay Grange, holding costs for Marlay Grange and sale costs for Marlay Grange, covering the period from 1999 to June 2008, were provided in Sir Peter Ricketts letter 22 July 2008. These costs will only change if we receive a refund of the VAT paid on the fees incurred in the sale of Marlay Grange. Our application is with the Irish authorities.

The lessons learned from the sale of Glencairn and purchase of Marlay Grange (as set out in the conclusion of the NAO's 2004 report) are now applied to all cases of re-provision, namely that we aim to have a suitable replacement available before disposing of a property; and that we should have satisfied ourselves of the general condition of any property before purchase.

Essential services

21. We conclude that it is vital that the merger of the FCO's overseas passport operation with the Home Office's Identity and Passport Service is carefully managed to ensure that neither the quality nor the scope of the existing service are compromised and that the FCO's reputation is not damaged. (Paragraph 109)

FCO Response: We agree with this recommendation. Customers remain at the forefront of our plans for the merger of our overseas passport operation with the Home Office's Identity and Passport Service. The creation of a single, unifying UK passport authority offers an opportunity to enhance the security of travel documents thus protecting the UK public from identity theft and fraud; and to improve consistency in the quality and delivery of UK passport services worldwide.

Following approval from the Home Office on 6 November 2008 for Integration to proceed, a joint IPS/FCO project team was set up to manage the merger of the UK and overseas passport businesses with minimum disruption to services, building on the close co-operation that already exists between the IPS and FCO in areas like passport design, policy and counter-fraud issues. A joint Transition Strategy is currently being drawn up to ensure that Integration meets the long term interests of the customer, IPS, FCO and UK Plc. A Memorandum of Understanding is due to be signed shortly, providing clarity and definition to the new joint IPS/FCO partnership. We plan to draw upon the experience of the UK Border Agency's integration of the FCO's overseas visa operation to ensure a smooth handover to the IPS, and to make full use of other synergies with UKBA that may be possible.

The Network Rationalisation project is already restructuring the overseas network to provide a streamlined and flexible platform designed to enable the FCO to concentrate upon its core competency of Consular Assistance and support IPS in delivering high quality, second generation passport services overseas.

22. We conclude that it remains a matter for concern that British citizens overseas may have to travel unacceptably long distances to supply biometric data and attend interviews. We recommend that in its response to this Report, the Government should detail the estimated numbers of overseas applicants who will be required to attend interviews, the criteria for selecting them, the countries which may be affected, and the steps it is proposing to take to alleviate potential problems. (Paragraph 114)

FCO Response: The FCO first introduced mandatory passport interviews in 2007 for adult first time applicants with paperwork originating from one of what was originally 17 high risk countries. Since 2007, this number has risen to 26. Applicants attend an interview to verify their identity and documents provided. This approach was designed to assist in reducing fraudulent passport applications; to help protect the UK public from identity theft; to ensure that the British passport stays one of the most secure and respected in the world and to align ourselves with IPS policy.

A risk managed approach was gradually introduced in 2008. The criteria for selecting applicants to attend mandatory interviews under the revised policy are where customers:

- Are applying for a passport for the first time and submit paperwork originating from one of 26 high risk countries, regardless of the country where the application is made.
- Are applying for a passport for the first time and submit paperwork originating from one of 17 medium risk countries, when applying from outside of one of the medium risk countries.
- Are applying for the replacement of a lost or stolen passport when the applicant has already reported 2 or more lost or stolen passports in the past 3 year period.
- Have a history of damaged and replaced passports.
- Are applying for a passport for the first time and obtained British nationality by Home Office Naturalisation or Registration and changed their name, or other personal details, from that shown on the nationality document. Exceptions apply where the name change is a result of a marriage, civil partnership, divorce (separation or dissolution order) or adoption.

- Are renewing an old blue passport where they are treated as first time applicants and therefore an interview is only required when their documentation is from one of the risk countries.
- Are renewing a passport issued by a British Overseas Territory (BOT) where the previous passport application form is unavailable. In such circumstances they are considered as first- time applicants and therefore an interview is only required when their documentation is from one of the risk countries. This category does not affect BOT passports issued by Gibraltar.
- Are renewing a non-machine-readable passport, where the previous passport application form is unavailable. In such circumstances they are considered as first-time applicants and therefore an interview is only required when their documentation is from one of the risk countries.
- Have not held a valid passport for over 10 years where they are treated as if they are applying for the first time and therefore an interview is only required when their documentation is from one of the risk countries.

The number of customers affected by the introduction of mandatory interviews will vary from country to country and is dependant on the numbers of applications received in each category. We believe the numbers to be relatively small and are asking posts to keep a record of the number of Authentication by Interviews conducted.

We are currently considering a variety of options to reduce the distances that British Citizens may have to travel to attend interviews. Two options which are currently available to posts include telephone interviews in a controlled environment or inviting customers to travel to another FCO mission which is within closer travelling distance but is not the passport processing centre. Over the coming year the Remote Interviewing Project will be looking at creating and deploying flexible interviewing solutions to support the risk based interviewing policy for full validity passports. This project will work closely with the Passport Network Rationalisation Project to ensure that the impact to the overseas network and our customers is minimised.

The requirement to supply biometric data for the production of passports is some way off in the future for the overseas network. This will be a matter for the IPS to take forward in light of their experience in rolling out biometric enrolment in the UK.

23. We conclude that, where the FCO has a continuing involvement with the work of the UK Border Agency, we will continue to scrutinise the FCO and question Ministers on this subject. (Paragraph 118)

FCO Response: We welcome the fact that the Committee will continue to scrutinise the FCO's involvement with the work of the UK Border Agency.

24. We conclude that the theft of a large quantity of blank passports and visas from a delivery van in July 2008 represented a worrying failure of the FCO's security arrangements. We recommend that in its response to this Report, the Government should supply us, if necessary on a confidential basis, with a further update on the results of the police investigation into the theft, and on the action being taken by the FCO to mitigate any adverse consequences arising from this particular criminal act and to improve future security of services. (Paragraph 121)

FCO Response: We have recently updated the FAC in writing on developments in the ongoing police investigation and will continue to do so. The two recent actions by the police leading to a number of arrests and the recovery of a number of the stolen passports is a matter of public record.

The number of passports recovered so far equates to 60% of those stolen.

We will also shortly be writing to the Committee about progress on the Implementation of the Whitehead Review following the theft of passports in July and the outcome of a Risk Assessment of our end-to-end transportation and delivery process of blank passport stock.

25. We recommend that in its next Annual Report, the FCO provides a clear picture of the extent to which having access to the full network of UKTI services has, or has not, bolstered the UK defence and security trade. (Paragraph 124)

FCO Response: We will as requested cover the issue in the next Annual Report. Bringing support under the umbrella of UKTI has enhanced DSO's efforts on behalf of the defence sector extending our reach and impact. This work has involved:

- the creation of a new Security Directorate to draw together the full range of UKTI and wider-government support to deliver a co-ordinated national effort.
- the establishment of a Key Account Management (KAM) unit which will provide DSO with the opportunity to develop our understanding, at a strategic level, of the campaign priorities for the major companies within the UK Defence and Security Sectors.

The impact of the DSO/UKTI integration is discussed regularly through meetings with the defence and security industry thorough the Defence Advisory Group and Security Sector Advisory Group. Feedback from these industry groups about the new arrangements has been overwhelmingly positive. "We are pleased to be working with UKTI's Security Directorate to help UK companies promote their globally renowned expertise to the continually expanding international security market." – British Security Industry Association.

We are already seeing benefits from closer integration with the wider UKTI network, for example:

- In Thailand the local Commercial Counsellor has identified a number of potentially lucrative areas of business, and created an environment which paves the way for significant new orders for British business.
- The Deputy High Commission team in Karachi provided organisational help with the UKTI DSO and UK industry presence at the IDEAS 2008 exhibition.
- The British Embassy Team in Dubai arranged meetings and facilitated introductions for RD Central and the Security Directorate when we were researching Security sector opportunities in Dubai.
- Head of Defence and Security Organisation was part of the UKTI team on the Prime Minister's visit to the Gulf in 2008.

- UKTI staff in London and Washington, together with staff from the Defence Trade Office, Washington) participated in joint briefings during AUSA in Washington in October and in a “Doing Business with the US” seminar at the Farnborough Airshow in July.
- In Romania the trade section and the defence equipment officer have worked closely together in organising a Population Security Seminar to be held later this year.

For financial year 2009/10 DSO will measure the impact of its services to SMEs under the UKTI Performance Impact and Monitoring Survey (PIMS). This will provide feedback on the quality of the services that we provide to UK defence and security companies and data on how DSO services help UK companies improve their business performance.

In addition, DSO will seek to develop a system to identify and track the benefits our activities generate for long term high-value campaigns.

FCO Services

26. We conclude that FCO Services’ existing target for measuring profitability is wholly inappropriate. We recommend that FCO Services sets itself an internal profitability target that is more suitable and challenging. (Paragraph 139)

FCO Response: The six external measures of performance proposed for 2009/2010 have been considered and tested by the FCO Services Board to ensure that they provide a balanced scorecard comprising transparent metrics of benefits and efficiency. The ROCE target of 3.5% forms part of this scorecard but other financially oriented targets are also included and the six external measures are already supplemented by a more extensive range of internal targets. Taken together these constitute a stretching framework calculated to encourage continuous performance improvement and growth by the business.

We understand that Treasury’s ROCE targets provide a useful cross departmental benchmark but we accept that the ROCE target of 3.5% (consistent with Treasury guidance) is not an appropriately stretching internal target for measuring the profitability of FCO Services. Given the service based, non capital intensive nature of the business, ROCE will normally be significantly higher than 3.5%. We will continue to use ROCE as a method of assessing performance because it provides a single combined measure of both profitability and the management of working capital, but for the 2009/10 year a more challenging internal target for ROCE will be set, based on the forecast net surplus expressed as a percentage of the forecast average net assets.

In addition to the internal ROCE target set for the business as a whole, the three individual business areas within FCO Services will each be set an individual profitability target: this will comprise a target net contribution (surplus before the allocation of corporate overheads) expressed as a percentage of revenue for each business area. The target contribution will be based on a challenging but achievable assessment of the potential surplus and revenue for each business area. This will help each business area focus on their trading performance.

At a corporate level, a target net surplus, expressed as a percentage of revenue, will be set which will implicitly drive control of the level of corporate overheads. The target will be set through agreement of the business plan and will take into account the track record of the business together with plans for future efficiency savings.

This combined approach creates a framework through which the performance of FCO Services can be assessed from a number of perspectives that are appropriate and tailored to the nature of the business.

27. We conclude that FCO Services has made a promising start following its transformation to a Trading Fund. However, it is still very early days, and there must be concerns about its ability to expand into wider markets under current economic conditions. We shall continue to monitor its performance. (Paragraph 141)

FCO Response: We welcome the Committee's continuing close monitoring of FCO Services. We agree that the Tracking Fund has made a promising start. FCO Services has made significant investment in developing a more commercial focus and increasing its ability to engage with the wider markets. It has in particular carried out a careful analysis of the markets in which it operates and has developed a carefully considered range of offerings designed to cater to customer needs. The strategy is already showing strength with significantly more rapid than expected revenue growth generated from wider markets during 2008/09, with a current forecast wider market turnover for the year of £23.5m (2007/08 – £12.5m).

The evolution of the business towards a more commercial mode of operation has required the development of new skills & capabilities in the workforce that enables FCO Services to engage with customers in a more commercial way. This has entailed investment in the Business Development function and FCO Services has put in place a team of specialist account managers. These managers are responsible for developing opportunities in their own specific sectors, in which they have senior level sales and account development experience. FCO Services has also developed new skills to enhance its ability to bid for competitive work, negotiate more commercially orientated contracts and develop products targeted at meeting customer needs.

The current economic conditions are indeed challenging, for FCO Services as for any other business. However we are confident that the specific focus by the business on potential customers with substantial needs in global security markets, in both IT and Estates environments, will enable the organisation to utilise fully its unique selling points and to grow the business.

28. We welcome FCO Services' commitment to reduce its reliance on external contractors and to focus on increasing the capabilities of its permanent staff. We recommend that in its next annual report, FCO Services should explain what progress it has made towards this goal. We also recommend that the FCO should take steps to ensure that the pressure on FCO Services to secure efficiency savings does not compromise the quality of the work it undertakes. (Paragraph 146)

FCO Response: FCO Services is committed to developing the core skills and capabilities of its permanent staff and a key element of its five year Corporate Plan is ongoing investment in programmes of training as well as recruitment and contractor substitution in key areas of expertise. For instance, as part of its 'Modern Apprenticeship Scheme', FCO Services has recruited 21 new apprentices in 2008/08 and is set to employ 20 additional new apprentices in 2009/10, with a further 10 in each subsequent year of the plan.

Our intention has been to create a framework which sets FCO Services challenging targets and allows FCO Services the autonomy to pursue those targets effectively. We recognise that we have a strong stake in the long-term success of FCO Services and both parties are committed to working in partnership to recognise the benefits of that success. Our interest in FCO Services goes far beyond simply the achievement of low prices: we have an ownership interest and, even as a customer, we focus on value for money, guaranteed supply and quality of delivery.

The governance arrangements reflect this intent and create an appropriate balance between our roles as customer and owner. Our ownership interest in FCO Services is defined by a Framework Agreement and sponsorship is provided by our Director General, Finance. The customer relationship is defined by a Terms of Business Agreement (“ToBA”) and sponsored by our Head of Procurement. Issues arising from the customer relationship can be handled at a granular level by our Customer Forum or at a more strategic level at our Partnership Board. These arrangements ensure that the consequences of the drive for efficiency are fully thought through, discussed and balanced against wider objectives in an appropriate way.

29. We welcome FCO Service’s recognition that staff engagement and satisfaction is crucial to the future success of the change process which is currently underway. We recommend that in its response to this Report the FCO provides us with an update on how FCO Services is addressing concerns identified in staff surveys. (Paragraph 149)

FCO Response: FCO Services understands that the buy-in of its staff to the changes taking place is indeed key to the success of the transformation process. As such, the organisation has taken a range of actions to ensure effective two-way communications so that the local implications of change are understood, staff views can be heard and individual contributions are recognised and rewarded.

In addition, FCO Services is actively seeking accreditation in its own right as an ‘Investors in People’ organisation. Inherent within the IiP standard is an acknowledgement of the importance of involving, valuing and engaging people in achieving business goals. Key areas of focus are on engaging people in the development of local business objectives and on reinforcing the role of managers in developing the capabilities of their teams and helping them understand the role they play.

Progress has been made as a result of the actions taken. Staff engagement in FCO Services, as measured in their own survey, rose by 8% between 2007 and 2008, to 61%, while in our latest employee survey, conducted in November 2008, FCO Services staff engagement stood at 71%. FCO Services is committed to raising engagement levels further and responding to the concerns raised by staff. Over the next few years FCO Services will invest in a range of initiatives (including the reduction of bureaucracy for operational staff, an improved approach to the development of technical officers and the provision of an enhanced working environment) in order to recruit and retain an engaged and motivated workforce.

Personnel issues

30. We accept that sometimes HR departments are a target for staff anger for no other reason than that they dispense bad news or implement unpopular policies. However, we conclude that the sheer scale of dissatisfaction revealed by the recent Cultural Audit of the FCO, as well as in other FCO-commissioned reports, suggests that something is genuinely amiss. It would appear that FCO that staff have substantive and deep-rooted concerns about the HR support they receive. We recommend that the FCO should reconsider its decision not to undertake the urgent and thorough review of HR that was recommended by the 2008 Cultural Audit. (Paragraph 159)

FCO Response: We do not accept that the Cultural Audit proves something is ‘genuinely amiss’ in the FCO’s HR Directorate. The sample for the audit was small and the focus was not on HR. But we are taking steps to address the problems identified. This work will focus on improving customer service and will include a thorough overhaul of our on-line HR work.

We have also restructured the HR team and appointed a new Assistant Director for Talent and Performance Management. This appointment is part of a drive to create a more strategic HR function, able to anticipate and respond to the needs of the organisation, while providing a flexible and professional service to all staff.

Other recent surveys of a wider range of staff confirm that there have been improvements in staff's assessment of the HR function. The 2008 staff survey (completed by more than 70% or 11,000 of our workforce, compared to the 60 people interviewed for the cultural audit) showed that staff believe that across the whole range of HR activity, we are doing better. There were significant improvements in the scores on the management of poor performance (up 13% to 46%), training and development, the quality of line management and flexible working opportunities (up 11% to 63%). The FAC noted that in the 2007 staff survey, published in February 2008 only 35% of staff who responded thought that promotion was based on merit. This figure has risen to 39% in this year's survey. The FAC also commented that feelings of job security had also dropped. This figure has now risen again – up 9% to 52%.

31. We understand that operational needs can necessitate changes to staff postings, often at short notice. However, the evidence we have received suggests that these may sometimes be poorly handled, and that staff and their dependents can occasionally be insensitively treated and materially inconvenienced. We recommend that in its response to this Report the FCO should set out the action it is taking, as a good employer, to minimise the likelihood of these unfortunate situations arising. (Paragraph 162)

FCO Response: We have to run the FCO in order to deliver our DSOs. Priorities can change, sometimes at short notice. There will inevitably be disruption. That is one of the consequences of having a more flexible and responsive organisation. Every effort is made to ensure that disruption is minimised, personal circumstances taken into account and staff have the support they need. We do not accept that there has been insensitive treatment of staff. And while we recognise that the more notice we can give to staff of changes affecting their careers, the better, the reality is that shifting priorities, changes in the government's agenda and crises of various sorts are not easy to predict. The vast majority of our overseas postings are determined twelve months ahead allowing staff to plan ahead.

Where staff have lost money (that they have already spent on accommodation for example) because of changes to planned postings which are beyond their control, we do offer financial compensation. Where staff have to be evacuated or short-toured with little notice we provide support and financial assistance for a transitional period.

32. We recommend that in its response to this Report, the Government should set out where greater alignment in the conditions offered to local staff and those for UKbased staff may be likely to occur, and what progress is being made towards achieving this. (Paragraph 165)

FCO Response: There will always be a difference between the terms and conditions on which we employ the two parts of our workforce. Diplomatic Service staff are recruited in the UK. They have a global mobility obligation; and their terms and conditions reflect this. The packages offered to local staff, who are recruited overseas, are determined by local employment conditions and the need to recruit, motivate and retain staff with the right skills and experience. But all Staff are entitled to the same high standards of management and equality of treatment.

We are also determined to make as full use of the skills and capabilities of our local as of our UK-based staff. A new Local Staff Strategy, designed to achieve this, was published in January 2009. It involves

major initiatives on: training; access to buildings and information; new working opportunities for local staff in the UK and elsewhere in the network; the flexi-grading of some jobs as between UK-based and local staff; and measures to boost “One Team”. Action will be completed by the end of the calendar year.

Peter Ricketts and DfID’s Permanent Secretary wrote jointly to all posts and DfID offices on 19 February 2009 to launch joint pay reviews where FCO and DfID are co-located, with a view to harmonising the pay and non-pay benefits for local staff (FCO) and staff appointed in country (DfID). Some posts are closer to alignment than others. Full harmonisation may take several years to realise; but the aim is to have achieved as much as possible by 2011.

33. We conclude that the affair of Mr McConnell’s two appointments has not been well handled by the Government. We further conclude that it is likely that the uncertainty and delay over the timing of Mr McConnell’s appointment as High Commissioner to Malawi, followed by the abrupt announcement that the appointment would not after all proceed, is regrettable, and is likely to have caused concern or even offence in Malawi. (Paragraph 171)

FCO Response: We do not accept that these issues have not been well handled. The Malawian authorities have been kept informed throughout by Lord Malloch Brown. The current High Commissioner will leave his post in May 2009. His successor will arrive in June.

34. We conclude that the appointment of non-diplomats to diplomatic posts is a matter which requires public and parliamentary scrutiny. We recommend that in its response to this Report, the Government should accept that “major diplomatic or consular appointments of a person from outside the diplomatic service” should in principle be subject to ‘pre-appointment hearings’ by this Committee. We further conclude that, irrespective of the Government’s response, such appointments undeniably fall within our area of responsibility, and we shall continue to exercise that responsibility. (Paragraph 173)

FCO Response: The Civil Service Bill, which will be introduced in June, as part of the Constitutional Renewal Bill, includes provision for Prime Ministerial appointments to diplomatic posts.

The Government is content to offer the Committee post-appointment hearings for these appointments.

35. We conclude that although the FCO feels it has acted conscientiously and effectively in its handling of recent allegations relating to the British Embassy in Baghdad, we do not believe that it is appropriate in such circumstances for the investigation of complaints against contractors’ staff to be entrusted solely to the contractors. We recommend that the Government should introduce more effective means of monitoring the behaviour of Embassy contractors including through the inclusion of relevant provisions in its contractual agreements with future suppliers of services. (Paragraph 180)

FCO Response: In relation to monitoring the behaviour of Embassy contractors in Baghdad, we already have robust processes for holding contractors to the expected standard of behaviour, including compliance with UK anti-discrimination legislation, and monitoring their performance and compliance. But we constantly look to improve our ability to ensure that contractor relationships work as well as possible. We have learned and implemented many lessons from our dealings with contractors in Iraq and Afghanistan over the years; and will consider the Committee’s recommendations in that spirit.

In relation to the latest allegations concerning staff of the contractor KBR working at the British Embassy in Baghdad, we have launched a joint FCO/KBR investigation. Two experienced FCO investigating officers are assisting senior UK-based KBR management personnel, and have been in Baghdad for some days interviewing Embassy and KBR staff.

We continue to believe that we dealt correctly with allegations relating to KBR in Baghdad in 2007 and have no plans at present to re-open a separate inquiry into those allegations. Unlike the 2007 allegations, the latest allegations do not concern sexual abuse or harassment.

On the wider aspects of FCO contracting policy the FCO accepts its responsibility for ensuring that necessary provisions are in place to effect a duty of care to all individuals involved in undertaking and receiving its services whether they be FCO staff, Contractors' staff or the general public. This duty of care encompasses the eradication of any inappropriate behaviour on the part of the FCO's staff and that of its Contractors. Although contracting out services allows the FCO to step back from day-to-day operations, we recognise that we cannot fully relinquish this duty of care, which is often entrusted to Contractors. The FCO is therefore accountable for ensuring that all Contractors operate in a manner by which its duty of care is delivered with the necessary degree of integrity.

The FCO will continue both during the procurement and contract letting, and during contract performance, to ensure that necessary provisions are in place for each Contractor to properly administer its duty of care by:

- Rigorously checking Contractors' corporate policies and processes prior to contract award to ascertain that appropriate governance infrastructure for the administration of duty of care and the resolution of related issues is in place and systematically operating. This will be achieved through continued application of the FCO's Procurement Policy which is currently being reviewed and strengthened accordingly.
- Agreeing a Contract Management Plan with the Contractor to ensure that a tailored approach to the provision of appropriate duty of care is developed and implemented in support of each contract, especially where the contract will entail the Contractor interfacing with individuals that are not members of their staff. The Contract Management Plan will detail an appropriate methodology for measuring the performance of the Contractor to this end. Again, this will be achieved through application of the FCO's Procurement Policy.
- Formally reviewing the Contractor's performance in accordance with the Contract Management Plan to ensure that the necessary duty of care provisions have been implemented and are operating satisfactorily. This will be achieved through application of the FCO's Contract Management Policy which is currently being reviewed and strengthened accordingly.
- Supervising the Contractor's investigation and resolution of all future issues pertaining to behaviour and duty of care, ensuring that all stakeholders are accurately and appropriately briefed. Again, this will be achieved through application of the FCO's Contract Management Policy.
- Managing any persistent behavioural issues using the FCO's Supplier Relationship Management protocol as a tool to drive the necessary developmental changes within the Contractor's organisation.

Transparency and openness

36. We welcome the FCO's decision to revise the wording of Diplomatic Service Rule 5 to ensure former diplomats are not prevented from making informed contributions to public debate on foreign policy issues. (Paragraph 185)

FCO Response: The FCO confirms that the changes to both the Civil Service Management Code and Diplomatic Service Regulation 5 have been published. They are fully in line with one another and incorporate the amendments to the rules agreed in the Government's response to the Public Administration Select Committee 2006 Report on the publication of political memoirs. In addition, DSR5 includes clearer guidance for former members of the Diplomatic Service.

37. We welcome the fact that the FCO continues to meet Freedom of Information requests in the vast majority of cases. We are also pleased to see that the number of referrals to the Information Commissioner's Office have reduced quite significantly. (Paragraph 189)

FCO Response: We are pleased that the FAC have acknowledged the FCO's performance on Freedom of Information. We are one of the top performing departments in Whitehall and will continue to look for ways to improve on our performance.

38. We recommend that in future the FCO adopts a more open and proactive approach to providing information to us on rendition and related matters. (Paragraph 192)

FCO Response: The FCO is committed to providing accurate and timely information to the Foreign Affairs Committee and to doing so proactively on issues which it knows to be of interest to the Committee. Over the past year this has included prior notice of the Ministerial Statements of 21 February and 3 July 2008 on rendition, as well as regular correspondence on questions posed by the Committee. There are, of course, limits to the information we are able to put before the Committee, particularly on the work of the intelligence and security services. The Committee and the Foreign Secretary are in separate correspondence about the role of the Intelligence and Security Committee.

39. We understand the sensitive nature of the material contained in the FCO's Top Risks Register and note the FCO's concern that disclosure could inhibit frank discussion in the FCO. For these reasons we recommend that the FCO should make a copy of the Register available to us in confidence, as was done in 2006. (Paragraph 195)

FCO Response: Both the Foreign Secretary's most recent letter to the FAC and the PUS's oral evidence to the Committee in October 2008 made clear the FCO's position. We are as transparent as possible and disclose as much as we can. The PUS continues to list the current top risks in his quarterly letters to the Committee. However we are not prepared to release the Top Risks Register given that it is a sensitive internal and operational document, as the Committee itself recognises and acknowledges.

Financial Management

40. We conclude that the changes that the FCO has introduced with a view to improving its financial management are to be welcomed. We commend the FCO for resisting the temptation to gild the lily when self-assessing its financial performance under the Five Star Finance programme. (Paragraph 202)

FCO Response: We welcome the Committee's commendation of the changes we have introduced to improve our financial management capability and performance.

We would like to bring to the Committee's attention that we have revised the target dates for progression to five star status. This follows a rigorous internal review and external assessments. We have put back the target date by several months to May 2010. Part of the rationale behind the revised date is to ensure that the criteria include an assessment of our production of the resource accounts for 2009-10.

41. We are deeply concerned that as a result of the Treasury's decision to withdraw its support for the Overseas Price Mechanism, the FCO may not be able to meet higher international subscriptions over the next two financial years unless it cuts its activities. We conclude that it is deplorable that the FCO should have to shoulder the financial burden from within its already tight budget to pay for subscriptions which also benefit other Government departments, and we recommend that additional non-discretionary costs should properly be met by the Treasury. (Paragraph 214)

FCO Response: We note the FAC's concern over HMT's decision to withdraw its support for the Overseas Price Movements mechanism and the recommendation that additional non-discretionary costs of international subscriptions which benefit wider HMG should be met by the Treasury. This will need to be considered in the next CSR. In the meantime we have put in place with HMT agreement on a number of mitigating measures. These include forward purchase of our foreign currency requirements and agreement that the costs of international subscriptions in excess of £102 million would be shared by the Treasury and FCO in the ratio 60:40.

42. We recommend that in its response to this Report the Government should set out what lessons it has learnt from the failure to implement a shared services programme, and what progress it has made on setting up its new corporate services programme. (Paragraph 218)

FCO Response: Key aims of the Shared Services programme were to improve the FCO's global teeth to tail ratio by creating global/regional Shared Services Centres, improve the FCO's Procurement capability and introduce the widespread use of Facilities Management contracts for its buildings at home and overseas. As the Shared Services Programme progressed, it became clear that the anticipated benefits of global shared services were not achievable in the timeframe initially envisaged. The main lesson was that in order to achieve the significant potential benefits from sharing services, more time had first to be spent in modernising and reforming our corporate policies, processes and tools. The FCO Board approved a strategic business case for the new Corporate Services Programme in December 2008 to do precisely that.

The new Programme will focus initially on improving business processes, policies and tools through simplification, standardisation and streamlining; consolidating corporate service transactions in a UK corporate services centre in Milton Keynes; and pursuing more regional forms of management – such as the facilities management contract (already in place for the UK and North West Europe), where it makes business sense to do so.

Public Diplomacy and Communication

43. We note the creation of a unified FCO Communications Directorate and recommend that in its next Annual Report, the FCO provides details as to how well this is working and what benefits, if any, it has led to. (Paragraph 225)

FCO Response: The FCO notes the Committee's recommendation and will include in its next Annual Report the details requested by the Committee.

44. We note that the FCO web project appears to have been delivered on time and to budget, and we recognise the valuable role that the website can play in helping to deliver the Department's policy goals and essential services. However, we conclude that increased interactivity and multimedia applications should not be achieved at the expense of the unglamorous but important function of information delivery, which is of particular value to researchers and policy professionals. We recommend that the FCO website should be modified to incorporate a chronological archive of press releases and an improved Search function. (Paragraph 230)

FCO Response: We agree. In March 2009 we started implementing enhanced search functionality on the FCO Web platform. It is already possible to find any news article since 2004 using the advanced search facility.

45. We recommend that in its next Annual Report the FCO explains what progress it has made towards creating and evaluating a new framework for evaluating public diplomacy efforts. (Paragraph 235)

FCO Response: We will set out the progress made in the next Annual Report.

Lord Carter of Coles' 2005 review recommended that the UK's public diplomacy should be:

- Strategic
- "... consistent with governmental medium and long term goals"
- Joined up between the PD partners, FCO, British Council and BBC World Service
- Demonstrate impact and value for money

In response to Lord Carter's recommendations, the newly-formed Public Diplomacy Board commissioned a report on evaluation of public diplomacy activity and asked the member organisations to develop and run two-year pilot projects in 8 countries and on three themes, based on jointly developed strategies. These pilots are coming to an end in March 2009 and are due for review.

The Minister for public diplomacy, Caroline Flint, and the Public Diplomacy Board agreed a joint review of these pilots by the FCO and the British Council (BC) to learn the lessons and make recommendations for the future. The final report will be submitted to ministers in the autumn (2009).

46. We conclude that the FCO's decision to end its funding of the Commonwealth Scholarship programme is regrettable. The ensuing saving of £2 million is very small in relation to the Department's overall funding, and has caused damage to the UK's reputation in the Commonwealth. (Paragraph 242)

FCO Response: We note the Committee's view but believe that the UK's relationship with the Commonwealth is sound and is deepening. The British Government's overall funding for the Commonwealth Scholarship and Fellowship Plan (CSFP) is more each year than it was in 2007-08 (£16.98 million) – £17.98 million in 2008-09, about £18 million in 2009-10 and over £17.5 million in 2010-11.

But the FCO is tightening the focus of its scholarship programmes around building relationships with the leaders of the future. To achieve this, the FCO's own scheme, the Chevening programme, is a better vehicle for FCO funding. The Chevening programme connects scholars and alumni much more directly to our network of diplomatic missions. It is considerably better value for money, student for student, for the FCO. And through Chevening the FCO can direct resources globally in a way which more accurately reflects its international priorities. Chevening remains a global scheme and through it the FCO will continue to provide scholarships to future leaders from developed Commonwealth countries.

Although the FCO will stop funding new Commonwealth scholarships for developed Commonwealth countries after 2008, it is not correct that "Commonwealth Scholarships in the UK will now be available only to developing Commonwealth countries through DfID." (Paragraph 236). As noted in the memorandum of 20 November from Sir Peter Ricketts and in the further information provided on 15 December (Ev 196), the Department for Innovation, Universities and Skills will provide funding in 2009-10 and 2010-11 (£400,000 each year) for PhD students from developed Commonwealth countries. The universities will contribute matching funding. Commonwealth scholarships in the UK will therefore continue to be available for all Commonwealth countries.

British Council

47. We note the view of the British Council that, at a time when it is undergoing a series of important changes, investing in a 'common customer relationship management tool' may not be the best use of its resources. We recommend that the Council should supply us with a summary of its assessment of its pilot projects in Hong Kong and elsewhere in China aimed at tracking how it engages with its customers. (Paragraph 255)

FCO Response: The British Council CRM pilot will have been implemented in all five of its China offices by the end of March 2009 on time and on budget. The Council will provide an assessment of the pilot to the Committee once it has been fully implemented.

48. We conclude that the British Council's commitment to provide in future reporting years fuller information about how it is performing against its customer satisfaction target is to be welcomed. (Paragraph 257)

FCO Response: We welcome the Committee's Conclusion.

49. We welcome the British Council's pilot programmes in India, aimed at developing new models of teaching provision. We recommend that in its response to this Report, the Government should inform us what steps the British Council is taking to assess the success of these programmes and to roll out similar schemes in other countries; and that in particular it should inform us of the extent to which this will enable an extension of the provision of cheap or free English language lessons in high-priority countries such as Afghanistan. (Paragraph 263)

FCO Response: The British Council's India projects are still at the pilot stage. We plan to roll out a minimum of ten new model teaching centres across India over the next five years. We believe it would be appropriate to provide the Committee with a full evaluation of the project once the pilot phase for the first teaching centre in Chennai has been completed in June 2010 but we would be happy to provide an interim update at our annual evidence session.

The success of the pilot project in India has in large part been due to freedom of movement and engagement, with the ability for partners and consultants to work directly on the project crucial to delivery. The security situation in Afghanistan is such that we would not be able to transfer this model to a country where we are operating under severe restrictions in order to maintain the safety of our staff.

However, despite the challenges of the ongoing security situation, we are implementing a project to improve both the English-language and the teaching skills of teachers in Afghanistan. In its first year, the project has reached more than 800 teachers of English in 12 provinces in Afghanistan. Through this work we seek to increase the provision of high-quality English-language learning and teaching in one of our highest priority countries.

50. We conclude that the British Council's continuing commitment to Bulgaria, Romania, Turkey and the Balkans, at a time of reduced spending elsewhere in Europe, is to be welcomed. (Paragraph 268)

FCO Response: We welcome the Committee's conclusion.

51. We conclude that the failure to reach agreement upon a Cultural Centres Agreement with Russia, largely as a result of Russian intransigence, is deeply regrettable. We note that this situation impacts most directly upon Russian people, a million of whom used British Council services in Russia in the course of the last year. We hope that recent tentative signs of a rapprochement in UK-Russian relations will lead to some easing of the pressures upon the British Council in that country. (Paragraph 275)

FCO Response: We note the Committee's conclusion.

52. We conclude that the British Council has had mixed fortunes during 2007-08 in its operations in China. We reiterate our recommendation in last year's Report that the Council should not neglect China when focusing on its high priority regions. (Paragraph 279)

FCO Response: We welcome the Committee's acknowledgement of the significant increase in audience engagement in China (from 1.3 to 3.6 million people), and the 25% growth in income in the region. China remains a high-priority for us. In 2008-09 we increased the amount of grant-in-aid we allocated there, from £5.9 million to £8.9 million, reflecting the importance we attach to the country.

53. We conclude that the drive to secure savings demanded under the current Comprehensive Spending Round combined with the removal of the Overseas Price Mechanism and increasing security costs could place the Council's future delivery of key activities at risk. We are concerned to hear that work in Europe is likely to be reduced as a consequence and that office closures are a possibility. We recommend that in its response to this Report the Government should supply us – if need be on a confidential basis – with information as to which Council operations in which countries are at risk of being curtailed as a consequence of the increasing costs of security coupled with the removal of the Overseas Price Mechanism. (Paragraph 285)

FCO Response: We are under significant financial pressure in 2009-10 as we manage the effects of a 15% reduction in the purchasing power of the grant owing to the devaluation of sterling. At the same time we have to find the savings required to manage within our flatcash CSR settlement; cover increased security costs; and manage the effects the recession might have on demand for our services in the countries in which we work.

We are doing all that we can to maintain our key activities. We have an ambitious savings programme focussed on support services; will continue to focus on increasing our earned income; are protecting activity in our highest priority countries and regions; and looking for alternative ways of reaching people including working with partner organisations.

At this time we cannot rule out office closures. However, no decision has been taken on any particular operation. We are reviewing the size and affordability of our overseas network and will alert the FCO and the Committee should we deem it necessary to close our operations.

54. We welcome the fact that the National Audit Office accepted our previous recommendation that an urgent value-for-money study be carried out into the work of the British Council. We note that the Council has accepted many of the NAO's criticisms of aspects of its administration. We recommend that the Council should report on its progress in implementing the reforms called for by the NAO in its next Annual Report. (Paragraph 294)

FCO Response: We welcome the Committee's comments and will report on progress in implementing the reforms in our next Annual Report.

55. We conclude that the British Council's change programme has had an extensive impact on staff, not all of which has been positive. We recommend that the Council should continue to track levels of staff satisfaction and should report the findings, together with any remedial action it has taken, in its annual report for 2008-09. (Paragraph 301)

FCO Response: We welcome the Committee's comments on our change programme and will report findings on staff satisfaction levels and any remedial action taken in our Annual Report.

BBC World Service

56. We conclude that during 2007-08 the World Service's performance was good, and in some cases very good, in respect of all its main PSA targets with the exception of that relating to audibility, where there were a series of problems largely arising from factors outside the BBC's control. We further conclude that the BBC's continuing capital investment in upgrading its distribution systems is to be commended. (Paragraph 314)

FCO Response: We conclude that during 2007-08 the World Service's performance was good, and in some cases very good, in respect of all its main PSA targets with the exception of that relating to audibility, where there were a series of problems largely arising from factors outside the BBC's control. We further conclude that the BBC's continuing capital investment in upgrading its distribution systems is to be commended.

57. We conclude that the jamming of BBC broadcasts to China, and the obstruction of internet access, are highly regrettable and detrimental to the Chinese people. It would be particularly unfortunate if the partial liberalisation of media access during the Olympic Games were to prove a temporary phenomenon. We recommend that the Government should continue to make strong representations to the Chinese authorities with a view to encouraging a less restrictive policy. (Paragraph 318)

FCO Response: BBC radio broadcasts in Mandarin continue to be jammed, although the Chinese government does not accept responsibility for this. Until July 2008 the BBC Mandarin website was blocked, but from July to the end of the Olympic Games in August it was fully accessible. The current situation regarding access to parts of the BBC website in China remains fluid and BBC World Service is continuing to monitor developments. We remain concerned that the Chinese government restricts access to information and we continue to raise these concerns, most recently at the UK-China Human Rights Dialogue on 12 January 2009.

58. We conclude that it is regrettable that the World Service's partnership with Voice of Russia to provide BBC Russian programmes on FM was forcibly terminated. However, we congratulate the BBC World Service on the success of its Russian website which is attracting some 3 million Russian users a week. We further conclude that, under current circumstances, refocusing effort onto medium wave and online services remains the best way to reach for the World Service to reach Russian audiences. (Paragraph 323)

FCO Response: The FCO and BBC have had lengthy discussions about the best way to achieve impact, and the FCO is supportive of the BBC's strategy in Russia.

59. We conclude that there are some encouraging signs of a lessening of restrictions on the work of the World Service in both India and Pakistan. (Paragraph 326)

FCO Response: The FCO is also encouraged by these signs and will ask the BBC to keep it abreast of any developments.

60. We conclude that the World Service can take pride in its contribution to stability and the dissemination of accurate news and information in Afghanistan. We will examine further its role in that country in our forthcoming inquiry into Global Security: Afghanistan. (Paragraph 328)

FCO Response: The FCO understands that the BBC has submitted written evidence to that report.

61. We are encouraged to hear that the World Service has plans in place to move quickly to reinforce its presence and increase its audibility in Zimbabwe, should a more favourable situation arise in that country. (Paragraph 333)

FCO Response: The FCO is also encouraged by these signs and will ask the BBC to keep it abreast of any developments.

62. We conclude that the development of the World Service's new BBC Arabic television service is strongly to be supported. We welcome the introduction of 24 hours a day/7 days a week coverage. We recommend that, in its response to this Report, the FCO should give us updated information on the expansion of BBC Arabic and on the response in the Arab world. (Paragraph 344)

FCO Response: The transition by BBC Arabic TV to a 24x7 channel in January 2009 went well and has included excellent coverage of both the mood and the substance of the Obama inauguration, as well as careful, dispassionate analysis and reporting of the Gaza conflict.

Initial audience research carried out in March 2008 suggests that BBC Arabic television has been welcomed in the region and has made a substantial impact on the TV news market – further research will be carried out following the 24 hour launch.

63. We welcome the launch of the BBC Persian service, which has great potential. We recommend that in its response to this Report, the FCO should update us on progress in developing the service. (Paragraph 348)

FCO Response: BBC Persian TV launched successfully on 14 January 2009. Building on its distinguished radio and online services, BBC Persian is setting new standards in Persian-language television and enabling hitherto unachievable standards of public debate in Iran. Broadcasting from London and with correspondents based in Beirut, Dushanbe, Islamabad, Istanbul, Jerusalem, Kabul and Washington, it draws upon the reportage of the BBC's 250 correspondents in more than 70 offices around the world. International and major regional issues are covered, and news also focuses on the role Iran plays in the world. There are multimedia discussion programmes and debates, as well as output on culture, science, business, economics, technology, social issues and the arts, alongside the best of the BBC's factual programmes.

Initial reactions, from viewers and in the Iranian press, have been overwhelmingly positive, and it is anticipated that the addition of this new channel will significantly increase the BBC's Persian language audience in Iran, Afghanistan and the wider region.

Audience surveys in Iran and Afghanistan will be carried out during 2009 and the BBC World Service is willing to share these with the Committee once they are completed.

64. We welcome the success thus far of the new Content Delivery Service that is being used by the World Service and are encouraged by the savings it appears to be providing. (Paragraph 353)

FCO Response: The FCO also welcomes the success of this programme, and receives regular updates from BBC WS on its progress.

65. We conclude that the closure of some existing BBC World Service services, although regrettable, may be necessary from time to time as a result of changing priorities. We recommend that, in its response to this Report, the FCO should update us on the state of its negotiations with staff in relation to enforced moves from London to South Asia and elsewhere; and inform us how it arrives at decisions as to the optimum balance between London-based and overseas-based staff. (Paragraph 362)

FCO Response: BBC World Service first proposed the proposals for restructuring for BBC Hindi, BBC Nepalese and BBC Urdu over a year ago, and consulted with staff and unions earlier in 2008. In December, Nigel Chapman held a final meeting with the unions in order to try to reach an agreement. However, the unions voted not to accept BBC World Service's revised proposals for the restructuring which include plans to relocate some production to South Asia. As a result of this, the BBC World Service's internal procedures for avoiding disputes has been exhausted.

Members of the joint unions voted to support industrial action which took place for 24 hours on Thursday 26 February, affecting the Hindi, Urdu and Nepali services only. The BBC ensured that there was no disruption to services to listeners and users of the website, and it remains open to further constructive dialogue with the joint unions.

BBC World Service was disappointed with this decision as they believe the proposals will create new opportunities for staff and greatly improve its service to audiences in the region. Individual discussions with staff have already significantly reduced the number of those potentially facing redeployment from more than 30 to 10.

The aim of the restructuring is to bring BBC World Service closer to both the stories and its audiences, allowing it to react more quickly to breaking news. This will also give the organisation a better understanding of the market, local competition and help forge stronger relationships with partners. Additionally, it will produce efficiency savings and essential investment in infrastructure, which needs to be achieved over the next few years. The BBC has already invested in excellent facilities in South Asia which will enable more staff to work there, and this type of investment will continue in the future.

In reviewing the balance between production in London and outside the UK, BBC World Service is continuing with policies introduced some years ago. Around 25% of staff in the 31 language services already work from modern facilities in the region to which they broadcast. Decisions are taken on operational need and effectiveness. It should be noted that a significant presence in all services will remain in London. These operational decisions are for the BBC World Service to decide. The FCO does not infringe on their editorial or operational independence.

ANNEX A

DELETED POSITIONS IN EUROPE

Twenty four A2 positions in Athens, Belgrade, Berne, Bratislava, Brussels Embassy (x2), Bucharest (x2), Budapest, Dublin, Gibraltar (x2), Helsinki, Ljubljana, Madrid, Paris, Prague, Rome, Sofia, Tirana, The Hague, Valletta (X2) and Vienna.

Nineteen B3 positions in Berne, Athens (x2), Brussels, Gibraltar, Lisbon, Luxembourg, Madrid, Oslo, Paris (x2), Riga, Rome (x2), Stockholm, Tallinn, the Hague, Warsaw, Zagreb.

Thirteen C4 positions in Athens, Berlin (x2), Bratislava, Bucharest, Copenhagen, Kiev, Lisbon, Oslo, Prague, Sofia, The Hague, Warsaw.

One C5 position in Berlin.

Fourteen D6 positions in Berlin (x2), Bratislava, Budapest, Dublin, Ljubljana, Madrid, Paris (x4), Rome, Sarajevo, Vilnius.

Two D7 positions in Brussels and Bucharest.

Four SMS positions in Prague, Rome, The Hague and Warsaw.



information & publishing solutions

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

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

General enquiries: 0870 600 5522

Order through the Parliamentary Hotline *Lo-call* 0845 7 023474

Fax orders: 0870 600 5533

Email: customer.services@tso.co.uk

Textphone: 0870 240 3701

The Parliamentary Bookshop

12 Bridge Street, Parliament Square

London SW1A 2JX

Telephone orders: 020 7219 3890

General enquiries: 020 7219 3890

Fax orders: 020 7219 3866

Email: bookshop@parliament.uk

Internet: <http://www.bookshop.parliament.uk>

TSO@Blackwell and other Accredited Agents

Customers can also order publications from:

TSO Ireland

16 Arthur Street, Belfast BT1 4GD

Tel 028 9023 8451 Fax 028 9023 5401

ISBN 978-0-10-175852-9



9 780101 758529