Oral evidence: The FCO's performance and finances in 2013-14, HC 605

Tuesday 25 November 2014

Ordered by the House of Commons to be published on 25 November 2014

Watch the meeting

Members present: Sir Richard Ottaway (Chair); Mr John Baron; Sir Menzies Campbell; Mike Gapes; Sandra Osborne; Andrew Rosindell; Mr Frank Roy; Sir John Stanley; Nadhim Zahawi

Questions 1-86

Witnesses: **Sir Simon Fraser KCMG**, Permanent Under-Secretary, Foreign and Commonwealth Office, **Deborah Bronnert CMG**, Chief Operating Officer, Foreign and Commonwealth Office, and **Iain Walker**, Director, Finance, Foreign and Commonwealth Office, gave evidence.

Q1 Chair: I welcome members of the public to this sitting of the Foreign Affairs Committee. This is the first of two sessions on the performance and finances of the Foreign and Commonwealth Office and its associated public bodies for the year 2013-14. A second session is planned with representatives from the British Council. Our witnesses today are Sir Simon Fraser, the permanent under-secretary of the Foreign Office, Deborah Bronnert, chief operating officer, and Ian Walker, the director of finance. I welcome you all.

Sir Simon, you told us back in July that you were on track to make the work force leaner and more affordable. Are you achieving that? Is leaner necessarily a desirable objective?

Sir Simon Fraser: Thank you, Chair. It is indeed our objective, which we set some time ago, to reduce the UK-based work force of the Foreign Office by 10%. We are aiming to do that and are on course to do that by the end of the financial year 2015-16. That has been part of the plans that we have had under our spending round settlement from 2010. Of course, as you know, a large component of our work force is locally engaged staff overseas. It is actually about two thirds of the work force. That work force is also stable or slightly reducing. So we are on course to have a leaner and more affordable work force over that time period.

Of course, there is a lot of pressure from international affairs and our staff are very busy; nevertheless, the objective of having a highly professional, slightly smaller, but well-focused work force is the correct objective, as well as the one that we are pursuing.

Q2 Chair: Will that not lead to overstretch? If you are maintaining your commitments on the world stage, but with a slightly smaller work force, will that not cause problems?

Sir Simon Fraser: Of course, we do have to make our share, with other Government Departments, of the savings that have had to be made in the public sector as a whole. Other Government Departments have been affected as we have, and more severely in some cases. It is also true that world events are pretty intense and that the pace is quite fierce.

There is a risk of considerable stretch in the Office, and staff feel that and tell us about it. We are conscious of that. As we manage our work force structure, we need to ensure that we have the right people with the right skills focused on doing the most important things, that we eliminate lower-priority activity and that by using new techniques and technologies we can actually be more efficient in the way that we do some of the things that we do. By those means, I hope we can minimise the stretch on the organisation, as well as reducing the burden of bureaucracy wherever we can.

Q3 Chair: On the other side of that coin, are some staff now getting overloaded? We have noticed that some posts are getting rather difficult to fill. Is that because people are shying away from what is becoming an increasingly demanding set of criteria?

Sir Simon Fraser: As I have said, there is a widespread sense across the Office that the load is high. It has been high over a sustained period of time, because it has been a period—certainly since I took up my position in 2010—of more or less continual crisis in world events and of great unpredictability. There is no doubt that staff are feeling that pressure.

It is also true that in some cases staff may be reluctant to put themselves forward for some of the positions that carry the heaviest stress and burden. We have to watch that very carefully. We have to try to create the right incentives. We also need to make sure that we have a pipeline of skilled people with the right expertise to take up the baton on those very important jobs. It is a management challenge. I accept that.

Q4 Chair: Might you consider more external appointments for mid-ranking or even senior posts?

Sir Simon Fraser: By "external", do you mean from outside the public service or from elsewhere?

Q5 Chair: Either. Would you consider perhaps more ad hoc appointments to fill gaps?

Sir Simon Fraser: We already advertise all our senior civil service positions across the whole of Whitehall and we are increasing the number of people we bring in from other parts of the public sector and other Government Departments at senior levels. Indeed, at the mid-ranking levels we have interchange from other Government Departments and we have also seen an increase in the number of people who have come to the Foreign Office to spend a period of time with us. We welcome that if they bring different expertise, which they do, to add to our skills. But at the same time it is very important for us to create training and development opportunities for our own staff within the organisations so that, first, we give staff a sense that they are being nurtured and that they can have an expectation of career development and, secondly, we are maintaining the skills base of the organisation as a whole. So, getting the balance right is the important thing.

Q6 Chair: Can I move to the question of pay and remuneration and whether people find it rewarding to work for the Foreign Office? You recognise that declining staff morale could pose a problem for the Foreign Office. It is interesting to note in the FCO's improvement plan that only 26% believed that their pay was reasonable compared with people doing a similar job in other organisations. Do you think your staff feel properly rewarded for what they are doing?

Sir Simon Fraser: People who work in the Foreign Office find their reward in many ways, and most people find it extremely rewarding, interesting and fulfilling to work with us. Indeed, our staff engagement scores in the civil service staff surveys consistently show that we are one of the top three Departments in terms of the attitudes of staff towards working for us. We welcome that very much. At the same time, it is true that, after a prolonged period of austerity, including a freeze or very limited increase in public sector pay, there is increasing concern in the Office about remuneration. In the latest staff survey, the headline results of which we have just received, only 27% of our staff believe that they are being remunerated in a way that is appropriate to the work they are doing. Now you may want to discount that slightly, because nobody ever feels perhaps that they are being paid enough, but it is a cause of some concern. It applies also to our locally engaged staff. We have had to impose a cap on the overall budget for paying our locally engaged staff around the world. We have to manage within that cap and we have to take account, for example, of the fact that some people are working in very high-inflation environments and we have to try to make sure that our local staff pay takes account of that. So they, too, are feeling some pressure.

Q7 Chair: Do you agree that the Foreign Office sets the Foreign Office pay grades and DFID sets the DFID pay grades?

Sir Simon Fraser: Well, different Departments have had historically different sorts of policy. There are different histories to the pay within the Departments. It is true that we recently conducted some research, done for us by an external researcher, on comparative pay between the Foreign Office and what you might call comparable Departments such as DFID and BIS. On the basis of that, we believe that in some key grades, particularly at HEO and grade 7, which we call band C and band D, the median of Foreign Office pay is somewhere in the region of 10% to 12% below median pay in those Departments. Now, there are historical reasons for that, the main one of which is that we moved very early to remove incremental pay increases when the Treasury asked Departments to do that—I think it was 2002. We moved faster than other Departments in implementing that. As a consequence, our staff have benefited less from incremental pay and have fallen behind others, comparatively. It is something I would like to look at further and would hope to be able to address.

Q8 Chair: We did not need to consult on this; I got this from the House of Commons Library. The minimum pay of a grade 7 employee in DFID in 2012 was £47,500, but it was £43,500 at the Foreign Office in 2013. The gap will be even bigger. Given that the Foreign Office is setting this and that embassies—particularly in areas of Africa where a lot of development is going on—have DFID staff sitting on one side of the table with Foreign Office staff sitting at the other side, you cannot wonder why Foreign Office staff's morale sags. Would it not make sense either for DFID to put their salaries on the same level as yours or for you to put yours on the same level as theirs?

Sir Simon Fraser: Well, I recognise that this is an important issue. I am very pleased to say that I do not think morale in the Foreign Office is sagging, but it is important that we do everything to maintain it.

Q9 Chair: It is a "static amber risk", according to your risk register.

Sir Simon Fraser: It is at risk, and it is true that staff engagement has gone down slightly overall, compared with last year, in our latest staff survey. I accept that it is an important challenge. I might ask Deborah to speak about this, because we have a network board and we try to work with other Government Departments that are working overseas to improve our co-ordination, under what we call our One HMG abroad policy, including on harmonisation of terms and conditions. While it is not within my power to unilaterally increase the pay of Foreign Office staff—I simply do not have the resources from the Treasury to do that—it is important that we seek to achieve harmonisation with others in the areas that we can. We are working on that.

Deborah Bronnert: The One HMG overseas approach is designed to ensure that we are more effective overseas, but also more efficient. One strand of activity, as the permanent under-secretary says, is on harmonisation. That is in two areas. It is looking at trying to bring rates of pay for our local staff into line for broadly similar kinds of work. There is a fair amount of progress there. We are also looking at broader harmonisation. That is more difficult, in part because of the different rates of pay for UK-based staff, but we are looking at allowances. For example, we have managed to harmonise the way that we approach medical care overseas. We have just signed a big five-year contract with Healix that saves the Foreign Office £200,000 a year. We will also standardise the access to health care that all our UK-based staff have overseas. We are working on it, but the pay issue in particular will be very hard to crack.

Q10 Chair: Sticking with this difference between DFID staff and Foreign Office staff, is DFID able to do this because they have a bigger budget and therefore spend less on aid and more on staff?

Sir Simon Fraser: No. There is a distinction between the administrative budget and the programme budget in DFID and elsewhere. This is a historical legacy. As I indicated, pay policies within the Departments have been different over time, which has meant that staff in DFID and other Departments—I don't want to make this a DFID/FCO issue—

Q11 Chair: But it is important because they sit next to each other.

Sir Simon Fraser: Staff there have been eligible, for example, for annual increments. We have removed those, because that was Treasury policy. Perhaps we were unwise to respond with such alacrity to the Treasury's urgings, but that is the past. It is an inherited situation that has built up. I absolutely agree that it is undesirable and illogical. The principle that we should be aspiring to achieve is the same pay for the same or similar work in the same or similar conditions overseas. As permanent secretary, there are limits to what I can do to remedy that, but I am talking to colleagues. We are talking through the network board, and I am also talking to colleagues in the Treasury about how this situation has arisen and what might be done to remedy it.

Q12 Chair: Are you planning any compulsory redundancies?

Sir Simon Fraser: We are not planning any compulsory redundancies among our UK-based staff. We decided that we could live within our spending round settlement 2010-14 without compulsory redundancy of UK-based staff. Because of the pressures on the organisation, we decided that it was important to seek to maintain the work force, except for the 10% long-term trajectory reduction. People are our most important asset, and when we have a shortage of resources, it is not usually money per se, as much as qualified people to do the job. That is very important. However, I have said that I do not exclude compulsory redundancies of UK-based staff during the period of the next pay round settlement. If the pressures continue, as I expect they will, on the public purse, I think it would be unwise to exclude that possibility.

The other thing I need to say is that among our locally engaged staff, employed by different embassies around the world, we have been making compulsory redundancies. For example, I am aware of at least 500 redundancies that have been made over the past year or so in the implementation of programmes around the world, such as regionalisation and the changes to our passport-issuing policy. That has meant that we have been laying off some staff, though we have been recruiting staff as well to do different jobs overseas in different functions. So, there have been some compulsory redundancies in that area.

Q13 Sir Menzies Campbell: As a result of the workload you have described, are you leaking staff you would have preferred to keep? As a rider to that, what attitude are the trade unions taking towards these matters?

Sir Simon Fraser: I might ask Deborah to talk about the trades unions, but the answer is that we are not really leaking staff. If you look at the churn rate in the Foreign Office it remains encouragingly low—if low churn is an indicator of loyalty and engagement with the organisation. We are not losing a lot of staff; in fact, sometimes it might, in the interests of the organisation, be better to have a bit more movement of staff and refreshment and flexibility. However, that is not the case.

People remain loyal, but we are seeing a slight change in attitudes. Our organisation depends very much on people's readiness to go above and beyond the call of duty. Sometimes now staff are saying, "Well, given the pressure and the rewards, I'm not going to put myself forward perhaps in the way that I would've done."

Q14 Sir Menzies Campbell: Is that for promotion, do you mean?

Sir Simon Fraser: No. For example, taking on the really difficult jobs.

Sir Menzies Campbell: I understand.

Sir Simon Fraser: Going back to the Chair's earlier point, perhaps people are less willing to put themselves forward for the jobs that involve unsociable hours, or where their ability to manage their child care requirements and so on are reduced. We are seeing slightly different attitudes and options being expressed by staff and we need to understand that and work out ways to manage it, so that the effectiveness of the organisation is not diminished. Would you like to say something on the trades unions?

Deborah Bronnert: Perhaps I could add that we continue to attract a lot of applications from other Whitehall Departments. When we advertise our jobs across Whitehall, we are still seeing a lot of applications from other Whitehall Departments.

In terms of the trade unions, I see them on a fairly regular basis. They are certainly concerned about pay and benefits. They feel quite strongly that over the course of the past few years take-home pay has suffered significantly because of inflation and increases in pension contributions and so on. They also recognise that we are working within a broader context of public service pay restraint and that we have to comply with the wider Government rules.

Q15 Sir John Stanley: How do you respond to the criticism that the financial pressures on your Department are such that the Department is willingly handing over senior posts in individual missions—say deputy head of mission posts—to DFID personnel, when such posts should be occupied by diplomatic personnel?

Sir Simon Fraser: I am not aware of that being a widespread issue, and certainly not linked to the financial consideration. We invite people from other Government Departments to apply for senior positions in the Foreign Office because we think we benefit from that. We feel that we need to be open to the rest of Whitehall and to draw on the skills and talents that are there. It helps us in a number of ways.

For example, as I said, all our senior civil service jobs—including most ambassadorships and many deputy head of mission jobs—would, in the normal course of events, be open to anybody from across the civil service to apply for. When people have applied, we look at the applicants, we shortlist and interview them and we appoint the best person. That policy has been in place for quite a while. So I do not see that as a challenge to the organisation; I think it is enriching for the organisation, provided that we are conscious, as I said, of nurturing and cultivating the skills and the people who are making a long-term contribution as British diplomats, and maintaining opportunity for them as well. In the end, we want to be a meritocracy and we want to appoint the best people from a broad pool to these jobs.

Q16 Sir John Stanley: I have one question on pay. Are you satisfied that there is complete equality on pay between women and men in the Foreign Office, at all levels, including the lower levels, and that women are paid identically at all levels for doing the same job as men in the same situation?

Sir Simon Fraser: I shall ask Deborah to comment on this as well, but the pay scales are identical for men and women. There are some discrepancies in what people are actually receiving, which is often linked to how long they have been in the job—seniority and so forth. We are conscious of that and we are working to make sure that there is no discrimination in the system.

Deborah Bronnert: We sent the Committee a copy of the equal pay audit. That indicates that there are some differences, but they work both ways. In our more junior grades, we often have more women than men. It is in our more senior grades that we have the challenge of trying to increase the number of women.

Q17 Sir John Stanley: I am not talking about numbers; I am talking about the principle of pay equality at all levels.

Deborah Bronnert: The audit indicates that there is broad pay equality. There are some differences, but it works both ways, and they are relatively small.

Iain Walker: On the number of people, because historically it has often been men who have been in those roles, and because they have been in that post for a long time, when you compare the difference statistically, there is a bigger gap at the more senior levels. It is not about the number of people, it is about their longevity in that post. That is changing and the equal pay audit highlights that as an area that is improving.

Sir Simon Fraser: I think we have sent the material, but I am very happy to send it again.

Q18 Mr Baron: You have probably picked up from the line of questioning that there is a real concern here about whether we are asking the FCO to do too much, relative to the finances available to it. I think we generally accept that the French spend twice as much on their diplomatic effort as we do. Some would argue that that is value for money. I would like to think that we all agree that money spent on diplomacy is money well spent when you compare it to the alternative of conflict and war. There are gaps: I think it is generally recognised that we had gaps in our Crimea coverage with regard to recent developments in Russia. The Secretary of State has been heard to say that he has had to call in experts in certain fields from outside the FCO to bolster the expertise. Some would suggest that our understanding of events in the Middle East has been found wanting. Would you accept that, if you had more money and resource, our understanding of some of these events would have been better?

Sir Simon Fraser: Clearly, if we had more resource we would be able to employ more people and have more in-depth consideration of some of the issues. That is a fact. That said, that is not the circumstance in which we are operating, so we do the very best we can to make sure that we are focusing what resource we have where it needs to be focused. It is a challenge, but we do our best.

Q19 Sandra Osborne: I have some questions about diversity at the FCO. You failed to meet the targets on diversity by the 2013 deadline. Given that this was six years after the targets were set, how do you account for that failure?

Sir Simon Fraser: Thank you for raising this. We are doing a lot of work on diversity issues. We set those "fairness for all" targets which were about the representation of identified under-represented groups, particularly in the senior parts of the Foreign Office: women, black and minority ethnic staff and disabled staff, in particular. In the latest figures that we have published, we have not reached those targets. So we are behind them by a couple of per cent. That is regrettable. I believe that we are making progress on this and I am pretty confident that we can attain those targets. Indeed, we have decided that we should set ourselves new targets for 2019 to increase the objectives we are seeking to achieve. We intend that by 2019, 39% of our senior civil servants in the Foreign Office will be women, 7% will be from black and minority ethnic groups and 7% will have a declared disability. Of course declaration is always an interesting point. Not everybody declares.

If you look further down the Foreign Office the figures are better. Overall, 43% of our staff now are women, which is a significant increase. We are doing relatively well on BME and declared disabled staff at about 13% or 14%, which is above the national average of the active work force. So we are making progress but there are two issues that we face in diversity. One is about recruitment and attracting diverse people to work for us and explaining to them that the Foreign Office is an option for them. The other is about progression and making sure that the diversity we bring in at the bottom rises. That means supporting people, understanding the barriers that they face and being more active in creating pipelines of talent. We have some very active policies in place on that which are aligned with the civil service talent action plan, which has just been published. By the way, I am the diversity champion for the whole of the civil service and so I have been working more broadly on this as well. We have some catching up still to do but we are extremely serious about that challenge and about the need to address it with practical measures.

Q20 Sandra Osborne: So you are saying yourself that most of the women in the management are at the lower levels. Why are you finding it so difficult to get women into the very highest levels?

Deborah Bronnert: With the Foreign Office in the 1970s we had a rule that meant if you were a woman diplomat and you got married you had to resign. That was removed a long time ago now, but it has quite a long shadow. Even when I was joining the Foreign Office there were very few senior women around because they had been affected by that rule. We have some catching up to do because we have not had women in many of those senior roles. So when we think about a senior ambassador we often think about a man because that is the tradition. One of the issues that has been highlighted in the research we have done is that that is a common misconception across the Office and it is holding women back themselves because they do not see themselves in an ambassador role. It is something we have done a lot of work on, both in terms of the appointments we have made but also in highlighting to women in the Foreign Office, but also across Whitehall who might want to come and join us, that they can succeed at senior levels in the Office. We have a very good pipeline now. When we looked at our new targets, we were confident that over the next few years we would see some appreciable further change. We have had some improvements over the last few years, but there would be significant further change which would mean that we could hit those targets in 2019.

Q21 Sandra Osborne: So the women are holding themselves back. But what about the men who are running the FCO? Do they still have that attitude that they had in the past?

Deborah Bronnert: The women are not holding themselves back. There is an issue about removing all the remaining barriers. That is part of the talent action plan that Sir Simon was referring to. We had already implemented some of the recommendations, but we are taking forward the other recommendations in the talent action plan. For example, we are asking all our staff to do unconscious bias training. We are trying to create a climate where nobody has any bias against them and where we can all fulfil our potential. We recognise that progress has been made and that there is some way to go, but that there is a pipeline there.

Sir Simon Fraser: May I just add one point about men running the Foreign Office? It is true that, historically, there has been a strong preponderance of men in senior roles. On our management board now we have six men and five women. On our senior appointments board, which makes recommendations for all ambassadorial appointments, we have four women and three men. I hope that some of the expectations can be changed about the way we are running ourselves and the way we are making decisions.

We now have 40 women who are either heads of mission or who have been appointed, but not yet taken up their positions, plus two governors of overseas territories who are women. We have 10 black and minority ethnic heads of mission or ambassadors, which is about 5% of our ambassadorial force. I think we really are beginning to make progress, but I fully accept that it takes time and we are not there yet.

Q22 Sandra Osborne: We will look forward to seeing the first female ambassador at, for example, the US embassy in that case.

The target of 28% is very low and even 39% is low. Why is it not 50%?

Sir Simon Fraser: Our long-term aspiration is that we should reflect the work force of the country as a whole. When you are setting targets it is important that you have an aspiration, but that it is an attainable one. We regard this as a step along a journey and 39% is not the final destination, but it is one that we believe, over a five-year period—which can be in sight and is the lifetime of the next Government—if we continue the sort of appointment ratios that we have been making recently, should be a stretching, but attainable objective. That is what we have decided to go for.

Q23 Sandra Osborne: You say you have a radical plan to improve this and you have told us about some of that, but you have also said that it means using "diversity factors as a legitimate consideration in appointment decisions". I do not think that is particularly radical—it has been happening for years in lots of different organisations. Why do you think that it is a big departure?

Sir Simon Fraser: The absolute principle of appointments has to be, in my view, the best person for the job. We believe that we can take positive action to support members of under-represented groups in the way that Deborah has described, such as mentoring, learning sets and encouraging them to have a correct appreciation of their own talents and abilities. However, we do not believe that that should go into positive discrimination in terms of actual appointments. To that extent, I do not think we should be radical if that is what radical means.

We asked staff for so-called radical ideas on how we could improve diversity in the Office. To be frank with you, I do not think that the ideas that came forward were particularly radical—I share your view there—but some of them were very useful and we are implementing them. They are part of a broad range of policies that we are putting in place.

I think the single biggest and most important achievement is about the shift of a culture of an organisation. What we have achieved in the Foreign Office in the past few years has been to take diversity away from being something that is seen purely in terms of numbers and perhaps some sort of sense of political correctness—if I might say that—and make it into something that the organisation genuinely understands is in the interests of the efficiency and high performance of the organisation. I believe that that is well entrenched and is what will drive real change in the years ahead.

Deborah Bronnert: In terms of radical, one area where we have been radical, for a diplomatic service, is our use and encouragement of job sharing in order to help not just women but parents with small children. We have one job-share ambassador couple, but we have had several. I am not aware of any other diplomatic service that has done that. We have job shares at a senior level in the Foreign Office, and that is something which we continue to encourage. It particularly helps women with younger children to remain in the workplace and continue with their careers. As I say, I am not aware of any other diplomatic service in the world that has done that. That is perhaps one area where we have been radical, certainly compared with other diplomatic services.

Q24 Mr Roy: The UK needs to double its exports in the next six years to meet its £1 trillion target. Does that target look at all realistic? Can it be achieved without a wholesale reprioritisation of FCO staff time and effort?

Sir Simon Fraser: As you know, we have significantly increased our focus on economic and commercial aspects of diplomacy over recent years. I believe that that has been the right thing to do. There has been occasional criticism of that, but the Foreign Office has to really play its part in supporting economic recovery and dynamism in this country, so I make no apology for that.

An ambitious target has been set. The £1 trillion export plan involves doubling our exports and, indeed, there are equally ambitious targets for inward investment. As things stand, exports in 2013 were only £506 billion, so there is a significant way to go. It is a challenging target and a real stretch, but it is a call to arms which we should respond to. We are working with UKTI and BIS, in particular, to ensure that we are contributing through our network and expertise in a complementary way that does not duplicate the work of other Departments but supports it.

Q25 Mr Roy: Is there not a danger that your diplomats become salespeople?

Sir Simon Fraser: I do not think that that is a risk. That is possibly a bit of a caricature of what we do. It is the job of UKTI to actively and directly promote trade, exports and investment. It is the job of the Foreign Office to support that but to also look at other ways in which we create the conditions for growth that enable exports to happen. For example, we have focused on opening market opportunities, on policy issues such as trade and trade deals that create bigger markets, on promoting our country’s reputation so that we are an attractive country to do business with and on the sustainability of our international economic engagement—for example, low-carbon trade. We have also focused on ambassadors, in particular, being actively involved in helping to get specific big deals over the line, as well as supporting small and medium-sized enterprises.

Q26 Mr Roy: Do you ever get complaints from ambassadors—

Sir Simon Fraser: No.

Q27 Mr Roy: Wait until you hear what my question is before you answer it. Do you ever get complaints from ambassadors that they feel their time is now more and more economic rather than diplomatic? That is the question.

Sir Simon Fraser: No. I think that our ambassadors fully accept that economic diplomacy and supporting our commercial interests is an integral part of the role of a head of mission representing this country around the world. If they did not think that in the past, that was wrong; where we are now is a healthier situation. Of course, ambassadors have a wide range of things to do. They have to be foreign policy experts. They have to engage politically at senior levels. They have to balance their activity. Part of that activity and engagement is about being credible and persuasive and having an impact on the economic and commercial agenda. That is the right thing and I think that most of our ambassadors actively welcome that.

Q28 Mr Roy: Has promoting the GREAT Britain campaign come at the cost of other FCO priorities?

Sir Simon Fraser: We work on that with the GREAT campaign management and leadership, which is central in Government, and also with UKTI and others. I do not think that it has. The Foreign Office has found the GREAT campaign to be an extremely useful vehicle for focusing our soft-power diplomacy of different types around the world. It is a tremendously useful framework, within which you can promote an awful lot of really imaginative and diverse activity. To give one example, three weeks ago I was in Singapore and I participated in a GREAT campaign sponsored digital fashion event that involved British designers. That was working with the British Council with a reception hosted by the High Commissioner under the GREAT banner. That all comes together in quite an impressive way.

It is a brand that has considerable global recognition. We are using it in 96% of our posts around the world, as the context for our economic and broader soft-power diplomacy. I think it has been a multiplier of that and a sort of vector for focusing it, which has been useful.

Q29 Mr Roy: I am not complaining about the campaign. I saw it first-hand in San Salvador, where it used to help young men play football in leagues at the weekend and it was absolutely superb. It has been stated that the Foreign Office has given £3 million as a contribution towards the cost. Does that include the labour and staff time and costs as well, or was it a one-off payment?

Sir Simon Fraser: As I understand the figures, the contribution the Foreign Office and UKTI have made in financial terms to the GREAT campaign is about £21 million. We calculate the return on that investment is likely to be more than £500 million over two years or so, which is a very good return on investment. I think it is working for the country.

As for the question of staff time, staff would be spending their time doing that sort of work anyway, because it is their job. The staff who work for the British Council or UKTI or work on soft-power aspects of our diplomacy would be doing that anyway. I think they are getting more bang for their buck in terms of visibility and impact through the GREAT campaign than would be the case with a rather more diffuse approach. It is a global branding but, provided we nurture it carefully and treat it well, it is working for the country in the way that I have described.

Q30 Mr Roy: May I go back to the economic diplomacy issue? I will quote from a letter that an ambassador sent to local companies about the Queen's birthday parties. It says, "Please consider possible sponsorship of the event, in cash or in kind. In return for your assistance, we will include your company name and/or logo in a list of sponsors sent out with all the invitations and display your logo discreetly at the celebration venue. I will also include a reference to the largest sponsors in my speech at the event. I would also be very pleased for the larger donors to invite four nominated guests for the evening. I hope you will be able to support this event and use it to promote your company."

That is the Queen's birthday bash in the embassy. Sir Simon, is that not cash for access? "Pay me money and you can come into our embassy and talk to our people and raise your company's profile." That is cash for access.

Sir Simon Fraser: All companies are always welcome to come into our embassies.

Q31 Mr Roy: But they are not paying for it. Sir Simon, that is the difference. They are paying to get in.

Sir Simon Fraser: They have the access. I do not accept that, because these people would of course have been invited to the Queen's birthday party in any case. The issue is a long-standing policy.

Q32 Mr Roy: What do you mean, they would be invited anyway? It says, "I would also be very pleased for the larger donors to invite four nominated guests for the evening." You do not know that they have been invited, Sir Simon.

Sir Simon Fraser: The companies would have been invited.

Q33 Mr Roy: But not the people.

Sir Simon Fraser: I do not know if those people would specifically, that is true. It is a long-standing policy that we have had, and I think it is practised by other diplomatic services, that we seek to defray the cost to the taxpayer of some of these major events that we host around the world, by seeking discreet—and I underline the word that was in the letter—commercial sponsorship. In return for that commercial sponsorship, we include very limited publicity for the sponsors.

Personally, I think this is appropriate provided it is done in a carefully managed way and does not lead to disproportionate publicity for the sponsors. Indeed, when we host events or major receptions in the Foreign Office in London, we seek commercial sponsorship also for those. There were a number of cases of that recently. To be honest with you, if we didn't do that, on our current budgets we would not be able to afford to represent the country around the world in many of the ways that we do at present. So I think we have to be realistic about this. It is absolutely incumbent on us to bear in mind the importance of discretion and of appropriate proportionality in this area, but I believe personally that it is an appropriate policy.

Q34 Mr Roy: How discreet do you think it was in the United Arab Emirates for Aston Martin to have sponsored the birthday party and to have their cars in the area? Was that discreet? Or in Bahrain, where British Airways, Standard Chartered and a Bahrainian company, Euro Motors, were asked to sponsor? How discreet was it in Kazakhstan, where Pernod, a French drinks company, which presumably gets lots and lots of competitors in the United Kingdom, were sponsors of a party, and in Honduras and Zambia, where local brewers were the sponsors?

Sir Simon Fraser: We make our premises available for companies to promote their goods.

Q35 Mr Roy: Foreign companies?

Sir Simon Fraser: Very frequently. I am talking about Aston Martin in the first case. It would be normal, and the Government would expect us, to use our presence abroad to promote exports of British-based vehicle manufacturers, for example, and we do that. Whether it is linked to the Queen's birthday party or another form of reception, I think that is an appropriate part of our activity.

Q36 Mr Roy: I never saw a discreet Aston Martin, Sir Simon.

Sir Simon Fraser: Would you expect me to say to one of our ambassadors, "You are not to promote a British car manufacturer at the British embassy"?

Q37 Mr Roy: That is what I am asking.

Sir Simon Fraser: Aston Martin employs a lot of people in this country and is a manufacturer in this country.

Q38 Mr Roy: Pernod doesn't.

Sir Simon Fraser: We have had another issue, which is about whether or not non-British firms should be invited to sponsor. The issue here is that, very often, those companies are creating employment and jobs in this country as well, so we need to think carefully about that. We have told our Heads of Mission that they are entitled to invite non-British companies to sponsor events if there is a commercial reason, in the British interest, to justify doing that. We are careful and conscious of that.

Q39 Mr Roy: Can you give certainty that the names of none of these companies who have ever been sponsors are ever raised at other meetings, for example with other Foreign Ministers, in order to get preferential treatment, at any point in time?

Sir Simon Fraser: The names of British exporters are frequently and constantly raised with Ministers because that is what we are instructed by the Government to do. For example, if the Foreign Secretary were to go for a meeting with the Foreign Minister of a country where Rolls-Royce or Jaguar Land Rover were seeking to win an export contract, of course it would be expected for Ministers to raise their name. We do work with British business in the interests of the British.

Q40 Mr Roy: I understand. But not because they were sponsors?

Sir Simon Fraser: No, not because they were sponsors—not directly linked to sponsorship. But we do work with British business to protect British industry and British exports.

Q41 Nadhim Zahawi: A large proportion of your spending is non-discretionary or ring-fenced. Given that and the substantial administrative savings that have already been made, how are you planning on working to a budget that is 6.3% lower in 2015-16?

Sir Simon Fraser: It is true that a large proportion of our budget is non-discretionary, because we have international subscriptions to pay. Of course, most of our expenditure is actually on people and buildings. So there is some programme spend. It depends also on how we deploy our resources and our people in order to have effect. We are constantly having to adjust—tailor our coat according to our cloth. We have had reductions throughout the spending round period 2010-14. The figure of £100 million was the headline figure and we sought to save that on a sustainable basis. We have made some further savings as a result of the 2013 additional spending round.

For the year 2015-16 we have had to make a further 8% cut in our administrative budget and I will ask Iain to talk a little bit about how we are achieving that. But at the same time we have been fortunate in that we have been able to get additional access to some of the overseas development allocated money, which has helped us to pursue new activities in the area where the Foreign Office can work in support of the ODA objective and also in maintaining some of our existing activity, which can be classified under OECD rules as ODA-eligible. So that has helped us to meet that pressure. But the pressure is very real.

Iain Walker: The point on making sure that we classify our spend correctly between ODA and non-ODA is essential for us and has become ever more important during this spending round.

Q42 Nadhim Zahawi: So you have a basic saving of £70 million? How much of that is through reclassification?

Iain Walker: At the start of the spending round or the year before the spending round we were spending about £100 million of ODA. By the end of this spending round—by the end of 2014-15—we will be spending about £350 million of ODA. Much of that is to do with making sure that where we are genuinely spending money to support ODA-eligible objectives we record it as such, so making sure that we do it properly, if I could put it that way.

With regard to SR 13 and the savings, you are right that much of our budget is quite fixed. It is challenging. But there are probably four main ways that we are trying to make those savings. The first is through prioritising quite rigorously. So, again, across 270 posts, all we need is to underspend by £20,000 on each post and £5 million is in the wrong place. So we have been working really hard to try to ensure that the money is going to the right place. That is a big focus on business planning which we have got quite a lot better at. Secondly, we have extended our 10% headcount reduction into next year and will make sure that that happens and it delivers savings. The third is around regionalisation. Sir Simon talked about how we are reforming our corporate services. So taking people out of post and delivering it from regional hubs will also make some savings. Lastly we will move out of the old Admiralty building so the whole of the London presence will be in King Charles Street, which will also make some savings. That is the main thrust of how we envisage living through SR 13. But we are under no illusions: it will be challenging.

Q43 Nadhim Zahawi: Just on the regionalisation of corporate service, that is the back office function.

Iain Walker: That is right, yes.

Q44 Nadhim Zahawi: Are you offshoring that? What are you doing with that? How does that work?

Sir Simon Fraser: We are hubbing it to a number of regional hubs. So corporate services and HR in the network are being hubbed. And our real back office financial transactions—invoice management and so on—are being hubbed into two global centres: one in Milton Keynes and one in Manila. So the whole of our network—real back office financial transactions—is being managed in that way. So we are streamlining those structures.

Q45 Nadhim Zahawi: Is the Manila one operational or is it planned?

Sir Simon Fraser: It is operational. In fact I visited it two weeks ago and I was very impressed by it.

Deborah Bronnert: We have taken the corporate services out of our individual posts. So we are not offshoring them in that sense. We are taking them from Harare and putting them into Pretoria, for example. We are saving money but also ending up with a better service, particularly on HR, finance and procurement.

Q46 Nadhim Zahawi: How many finance people have you got?

Iain Walker: As a consequence of regionalisation there will be a net reduction of about 200 people. So we are taking about—

Q47 Nadhim Zahawi: Out of finance?

Iain Walker: Out of finance, HR and procurement altogether. On finance itself, again it would depend on how you define it. We have about 380 in total, including in London and overseas supporting the finance of the whole Office.

Q48 Nadhim Zahawi: What will it be when the reduction is done?

Iain Walker: Gosh, I should give you some figures. I can come back to you in writing, if that would be helpful. I do not have the figures to hand.

Q49 Nadhim Zahawi: It gives us a hand on how well you are servicing the front line—the people we want to keep happy.

Sir Simon Fraser: This regionalisation in the network of the corporate services, which is not only finance but HR as well, has led to a saving of 230 jobs net in the network so far, according to the figures I have. That is not inconsiderable, but we need to keep on ensuring that we are being as efficient as we can.

Q50 Nadhim Zahawi: The reason I was asking is to work out how many people you have in finance and HR to service the front end—in other words, what is the optimal number? Is it 380 to service the top 1,000 at the front?

Iain Walker: What we are trying to do through the creation of our regional hubs, of which there will be eight—Deborah talked about Pretoria, which will be supporting Africa—is ensure that you centralise and, to a certain extent, make sure that you have real expertise in that hub. It is not about having less people in finance per se; it is about making sure that we have less people in the individual posts who are touching that activity. We are bringing that figure out by pulling out and looking across the network as a whole.

Q51 Nadhim Zahawi: How does the Foreign Office use its analysis of the average cost of a UK diplomatic mission? You have given us some numbers on that. What do you use that average cost for? Do you use it to benchmark and measure performance of the mission?

Iain Walker: One of the reasons that we produce it is for the quarterly data summary, which is a requirement from Treasury and the Cabinet Office. In truth, it is not incredibly valuable for that purpose alone because it is quite difficult to compare Washington with Rwanda. But we do that to make sure that we have that MI published. The reason that is important to us and what we use that information for is that we want to ensure that we are looking at the total cost of each mission. Being able to see it mission by mission enables us to undertake some analysis from London to make sure that we understand where and why there are particular outliers in that data.

Sir Simon Fraser: It helps us to look at what an average embassy costs to run, which is quite useful. We can then look at where embassies are costing a lot more than others, and if so, why. Very often, that is linked to security considerations, which push the prices up. It then helps us to make judgments about where we are getting the best value for money around the network. In that macro sense, it is very useful. But when you get into the micro—should we be spending *x* amount in post A or post B?—it is of limited value.

Q52 Mike Gapes: One of the ways in which there is supposedly an emphasis on making savings is to bring together into one premises or one location all the parts of the UK Government operation overseas—not just Government Departments but the British Council and others. You suggest in your annual report that you are confident that "real savings" are already being achieved through this programme, but you have not given us any figures for those. You also say that you are not in a position to tell us because the savings do not necessarily come back to the FCO. Is this just an assertion without any facts?

Sir Simon Fraser: To some extent this is an important issue, which we need to do more work on. For me, it must be true that it is good if the different parts of HMG that are represented overseas are collaborating as closely and efficiently as they can. A very welcome example of that is the decision that DFID have taken this year to withdraw from providing their own corporate services to their people overseas and rely on FCO corporate services. That must both eliminate potential duplication and support the policy of harmonisation that we discussed earlier.

Q53 Mike Gapes: Are DFID transferring money into your budget to pay for you running their corporate services?

Sir Simon Fraser: May I come back to that? This is a good thing. It is also true—perhaps Iain can give more detail on this—that a lot of the savings that come from this may accrue for other Departments. For example, I know that VisitBritain, another of our partners, have derived considerable savings from the fact that they have come on to FCO platforms. This is all good for the taxpayer, but from the perspective of the Foreign Office it means we have to continue our discussions to make sure that we are receiving the right compensation for the services we are providing.

Mike Gapes: Can I be clear? It is very easy to skirt around this. You are not getting any payment from Visit Britain or from DFID for taking over the responsibility for your platform?

Sir Simon Fraser: No, we are.

Mike Gapes: What are you getting?

Sir Simon Fraser: I'll ask Deborah, because she manages the network. We negotiate with all our partners. We have deals with them on the amount that they pay us. We are renegotiating some of those to reflect changes at the moment.

Deborah Bronnert: There are five strands to the One HMG approach, which is about bringing everyone together. We can tell you how much we are gaining from some of them.

Mike Gapes: It would be helpful, because we haven't been given any figures at all.

Deborah Bronnert: For example, on regionalisation, which is part of it, we will make £5 million of savings. I mentioned the Healix Healthcare project earlier. By coming together and bringing all the partners across Government on to the contract, we have saved £200,000 a year for the Foreign Office in management costs. They have made savings too; so the taxpayer has done quite well out of it, but we have made savings ourselves. With the single accommodation policy, we have also saved almost £7 million per year for the Foreign Office, but there are different elements that work for different Departments. I have just come back from being an ambassador in Harare—we consolidated with DFID. It reduced our costs for the embassy and DFID's costs as well, so we both gained from it. There is a service level agreement, which Iain leads on, but perhaps Iain can talk about that.

Iain Walker: First, DFID and others pay for the services they receive on our platform. We have service level agreements whereby all the 26 other Government Departments which reside on the platform pay us a prearranged fee. That comes to about £200 million of income, which is shown in our accounts. In many ways, we are funded partly by the Treasury and partly by income from partners which are on our premises.

Secondly, for particular investments where, say, DFID are going to be present, they share that cost with us. They would invest capital funds as part of that build. We are keen to make a big step forward by doing this in a much more joined-up, holistic way, so that we avoid the transfer of dollars between ourselves and other partners on the platform, which becomes another challenging negotiation rather than something that is jointly planned and executed. We will make £5 million of savings through regionalisation and around £6 million to £7 million of savings from the implementation of our accommodation policy. As Deborah said, we make savings on our joint health care contract; it is the first time we have done a joint health care contract for all our staff. So there are some very good savings, but we have more work to do.

Mike Gapes: What about corporate services? Are you going to make any money from DFID on that?

Iain Walker: We are not aiming to make money from DFID there. We have reduced the charge to DFID and all our partners on the platform over the four-year period of this spending round and, commensurately, we are looking to reduce running costs to provide that very service. So we have been reforming a lot of our corporate services to make sure that the reduced charge that we have given to our partners is met by reduced cost, by delivering our services much more efficiently.

Mike Gapes: We talked earlier about whether Heads of Mission might be non-FCO employees. You said that everybody was an FCO employee, but you might have somebody who was seconded to the FCO from another Department. If somebody was seconded from another Department, where they are on a different salary scale than the one the FCO had negotiated because of the changes you brought in years before, and you are picking up their salary, are you paying them FCO rates or what they would have got from the other Department?

Sir Simon Fraser: For Heads of Mission, as I say, we do bring in people. Recently, we appointed a new ambassador to Indonesia who came from DFID, for example. When they apply to the Foreign Office, if they get the job, they come on to our books and are paid at a Foreign Office rate. Those people are paid the salary that is appropriate and what a Foreign Office person would get.

Q54 Mike Gapes: But if, for example, they had previously been at a comparable level job in another Department, would they potentially be taking a pay cut?

Sir Simon Fraser: Yes. That can be the case.

Q55 Mike Gapes: And would there be compensation arrangements by their other Department? How would that be dealt with?

Sir Simon Fraser: Not in the case of Heads of Mission. We have to have a certain amount of flexibility, but if people apply to work for us—and I am very pleased that they do and that they are quite keen—then they accept that if they are coming in as a Head of Mission, they are coming in on a Foreign Office package. We have pay scales for the different jobs and grades that we have and we would look at their experience and their current remuneration. That would be a factor in the consideration, but it is often the case—

Q56 Mike Gapes: Not for Heads of Mission.

Sir Simon Fraser: But it is often the case that senior people that come in accept a reduction in their salary to work in the Foreign Office.

Q57 Mike Gapes: So if somebody comes as an HR specialist or has got a security background of some kind, they would not necessarily take a reduction—that would have to be compensated for—but a Head of Mission would. Is that what you're saying?

Sir Simon Fraser: No, that is not what I was saying. I was talking about Heads of Mission because that was the question that was posed. There is a separate issue if you want to bring in specialist skills from the private sector—

Q58 Mike Gapes: Or from other Government Departments, which was my question.

Sir Simon Fraser: Or indeed, potentially, from other Government Departments, if there is a specific skills issue, then I think there is a provision that would have to be discussed with the Cabinet Office and the Treasury about that. However, that is very seldom the case in the Foreign Office. For example, in my previous Department, when I was the permanent secretary at the Department for Business, Innovation and Skills, which is going back some years, it was often the case in that era, which was under a previous Government, that people were brought in on quite high salaries. Indeed, as permanent secretary I think there were six people on my board who earned more than me and I thought that was inappropriate. We have tried to address that and ensure that we exercise discipline in the salaries we pay. It is important that there is perceived fairness in remuneration.

Q59 Mike Gapes: As this One HMG programme develops, do you think there will come a point where a Head of Mission will not be employed by the FCO?

Sir Simon Fraser: I see no reason for that. The Foreign Office runs the overseas network and Heads of Mission and ambassadors report to the Foreign Office. That is their institutional home, so if people want to come in and take those jobs, they should come in and become part of the Foreign Office and report to it. There are a number of examples of people doing that, one of them is the current permanent representative in Brussels who had previously worked in the Treasury and in the Cabinet Office and who is now on the Foreign Office staff and within its line management in that position. I think that is the appropriate way to maintain the unity, discipline and sound management of the system.

Q60 Mike Gapes: Can I move on to capital spending and property sales? Without going into any of the confidential information that we have been given, I think I am able to refer to some of the sales that have taken place and that are on the public record. We have been selling Residences and other buildings all over the world for several years—Warsaw, Toronto and Melbourne to give three examples on different continents. There are many others planned and others that, for commercial reasons, I cannot give the amounts of. It does not appear that we have been purchasing many places to replace those that we have been selling. Is that because we cannot afford to? Are we moving towards a renting approach rather than a buying one?

Sir Simon Fraser: In some places it is true that we have downsized our estate and rationalised it, so we have sold some estate and we have not purchased alternatives. A good example is Brussels, where we have focused our senior representational work around one place and have been able to let go of some other properties, which I think is sound management of the estate. In other places we have been purchasing or constructing embassies. The most obvious case is Mogadishu, where we recently built a new embassy from scratch, but there are other cases in which we have moved our embassies. Sometimes we buy our Residences and sometimes we rent. We don't have a clear global policy in preference of rental over purchase. We adapt it according to different markets and different circumstances. Our objective is to maintain the flexibility of our estate and the appropriateness of the estate, in the best way, in each market.

Q61 Mike Gapes: But it would be fair to say that, on balance, we have been selling much more than we are buying.

Deborah Bronnert: No.

Iain Walker: It is pretty much in balance; that would be the summary. Further to Simon's example of Mogadishu, we have invested in a new embassy in Jakarta. We have invested significant amounts in Tel Aviv. We have a major UK estate reform programme under way at present; it covers this year and next year. We have a major build, worth over £50 million, in Abuja. We have bought a new Residence in Antananarivo. We have built a new language school in the UK. We have invested in housing for staff in Bangkok. It pretty much balances, because the nature of our settlement with the Treasury is that we can sell in each year but reinvest in that same year, and so far each year we have had only a very small underspend. Last year, we underspent by about £5.8 million, which highlights the fact that we have sold but have reinvested that money.

Q62 Mike Gapes: But presumably as we reduce the number of UK-based staff serving abroad and increase the number of locally engaged staff, there is a net reduction in the number of Residences in particular or flats or properties that we would require. Is that not the case?

Iain Walker: We have over 4,000 properties across our network, and part of our incentive to reform is to make sure that we use our global estate as well as we possibly can. That includes not just where we have excess stock, but where it is perhaps in the wrong part of town or where it needs to be significantly upgraded. To manage that, we have our global asset management plan, which is a big focus of the Office's investment plan.

Q63 Mike Gapes: I understand that, but would it not be true to say that we have fewer properties now, because there are fewer staff serving abroad? We need fewer—

Sir Simon Fraser: But many of those properties, Mr Gapes, would have been rented anyway. It is an important minor transaction to surrender a lease. One of the reasons—not the only reason—why we have reduced the number of overseas staff who are UK-based is indeed to drive down the overhead costs of postings, of which accommodation is one, but the important point that Iain is making is that where we are making savings on the capital budget, we are being very careful to try to reinvest in a way that gives us strategically a fit-for-purpose, good estate for the future, so we are reinvesting quite considerably in a number of projects. I hope that the stewardship of our estate, which was criticised in 2010 by the Public Accounts Committee, has since improved as a result of the changes we have made.

Q64 Mike Gapes: We might come back to these issues later, but this is my final question. We are not only paying out for our own properties. We sometimes also have to make contributions through international organisations, and I would like to raise the issue of the NATO Headquarters. I gather that there has been some settlement of the claim by contractors in relation to the new Headquarters in Brussels and there is a charge on the UK for that. I'm not going to go into the details, but perhaps you can update us on that and tell us what lessons have been learned from that whole episode.

Sir Simon Fraser: It is a regrettable episode. Of course, this is not a contract that we manage; it is a contract that NATO managed on behalf of the member states of NATO, and of course the contributions to this project are funded by the NATO member states. It is true that there was a big claim by the contractor, which has led to an additional charge. We have been informed that that charge is legally viable and will be upheld in law, so a decision has been made by the members of NATO that we should meet that claim. There is, as a consequence of that, an additional charge to the UK, which I think Mr Lidington has written to the Committee about. There will be an additional cost to us in the region of £10 million, which we will find from our budgets. As I say, that is regrettable. In agreeing to make our contribution, we have been clear with NATO that we expect to see a thorough examination of the history of the letting and management of this contract, so that, as you say, lessons can be learned from which we will all be wiser, albeit after the event.

Q65 Mike Gapes: Is it £10 million because of the percentage share that we pay to NATO's general budget, or is it worked out for some other reason?

Sir Simon Fraser: I don't want to go into the detail of the figure, if I can. It is an order of magnitude but it is to do with the contributions that member states make.

Q66 Chair: Can you clarify one thing on the property sales? You have sold Residences in Warsaw, Toronto and Melbourne. Have they been replaced?

Sir Simon Fraser: The Residence in Warsaw we have certainly replaced. We have moved to a new Residence. In that case, I am clear. Sometimes, in other places, we have sold and maybe rented somewhere else. We would have to look at each case by case. Of course, an ambassador has to have a Residence, a place to live. If, for example, we are reducing our presence in a certain secondary post or we have had surplus properties in some countries, we may downscale the estate in that area. If you want, we can provide specific answers on specific cases.

Q67 Chair: It is just those three. Warsaw has been replaced. Has Toronto been replaced?

Sir Simon Fraser: I am not sure what the situation is in Toronto. We still have a post in Toronto, so we will have somewhere. I need to know whether we have rented or purchased.

Q68 Chair: If you could let us know Toronto and Melbourne, unless you know the answer.

Sir Simon Fraser: And Melbourne as well.

Deborah Bronnert: On Toronto, we have decided to sell the main Residence but we are also going to purchase a replacement.

Q69 Chair: I am told it is sold.

Deborah Bronnert: It may be different. There may be more.

Q70 Chair: I am talking about the sale in November 2013 for £1.06 million.

Deborah Bronnert: Okay. That must not be for the Head of Mission then.

Sir Simon Fraser: Some of the residential properties that we mentioned are not necessarily Head of Mission Residences.

Q71 Chair: Melbourne is nearly £7 million and would go a long way towards your NATO contribution.

Sir Simon Fraser: We can answer you on the specific cases.

Q72 Sir Menzies Campbell: It is not all bad news. Mr Gapes and I visited the restored and much renovated Residence in The Hague on Friday evening. If I may say so, it is wonderful.

Chair: Nice party?

Mike Gapes: It was not a party; it was a working dinner.

Sir Menzies Campbell: From the point of view of encouraging trade with the United Kingdom and other things, it seemed an ideal arrangement, which has been beautifully restored and features a lot of the best exhibits from the Government art collection. It is a very good advertisement for the United Kingdom.

Sir Simon Fraser: Thank you. I personally feel strongly that we should cherish the assets we have in our diplomatic network, while being commercially hard-headed about which are the most important and valuable. Where we have those assets we should maintain them with care and attention so that they are impressive.

I recently came back from Singapore, where we have a similarly highly impressive asset, which is a tremendous draw to people and therefore very valuable in our diplomatic work. I hope the Committee will feel that we are striking the right balance in our estate management, between efficiency and appropriate austerity, but also maintaining the valuable instruments that help us to work around the world.

Q73 Sir Menzies Campbell: There has been a decision to break away from the tri-departmental workings in the Conflict Pool. What was the reason for that?

Sir Simon Fraser: I am sorry?

Sir Menzies Campbell: There has been a decision to break away from the tri-departmental workings of the Conflict Pool. What was the reason for that?

Sir Simon Fraser: The reason that the work of the Conflict Pool has been revisited and reorganised is to try to become more effective and joined up across Whitehall in the way in which different Departments contribute to our collective work on certain countries that are fragile, or certain areas of conflict, so that we can have a more strategic and co-ordinated approach. What this does—it is done under the auspices of the National Security Council in its ministerial and official manifestations—is to try to ensure that there is a shared understanding of where the most important priorities lie for our spending in this area, and then to bring together the different Departments to make sure that we get the best possible complementarity between the work that we are doing. This work is brought together under regional boards, chaired by the relevant geographical director in the Foreign Office, which gives the Foreign Office a good voice in making sure that there is Whitehall co-ordination in prioritisation. Then the work is approved under the auspices of the National Security Council.

Q74 Sir Menzies Campbell: Will there be any financial consequences for the Foreign Office? Will it lose any of its ownership of spending decisions over conflict prevention as a result of the arrangement?

Sir Simon Fraser: One of the financial consequences is that the amount of money available will be increased, which is good. On the other hand, I think it is right to point out that Departments will have to collaborate in deciding where money is spent and how. The Foreign Office will therefore have to demonstrate the value of its proposals against other Departments, which is healthy competition, but we have to take that seriously and make sure that we are being effective and professional in what we put forward.

Q75 Sir Menzies Campbell: Are you confident in that expectation?

Sir Simon Fraser: I am confident because I think that the underlying approach is one of collaboration and, as I said, the Foreign Office exercises a co-ordinating function in the chairmanship of the different regional boards, and therefore setting the priorities. I think that gives us a strong measure of influence and control in this whole process.

Q76 Sir Menzies Campbell: Is it a natural extension of the increased ambit of the National Security Council?

Sir Simon Fraser: I think it is, if you like, a consequence perhaps of the greater co-ordination that takes place through the mechanisms of the National Security Council between Departments in Whitehall. It is arguable, from the Foreign Office's perspective, that since other Departments have much larger programme resources than we do, if this helps us to harness their spending to our foreign policy priorities, it is to our advantage, but we need to make sure that we make that happen.

Q77 Sir Menzies Campbell: If not to harness it, at least to influence it.

Sir Simon Fraser: Yes.

Q78 Mr Baron: Sir Simon, can I return to the issues of dilution of skills, monetary pressures, priorities set and so forth, and particularly to language skills? It was absolutely the right decision to reopen the language school but it still seems that the attainment levels in two key regions, I think Russia, Crimea—or eastern Europe anyway—and the Middle East, are well below 30%. Why do we seem to be struggling to get our language skills up in these areas? You could argue that these are two areas which are quite busy at the moment.

Sir Simon Fraser: It is symptomatic of a broader issue. We have indeed opened this language centre. We have now put 175 full-time students through it since it opened, and 400 part-time students. I think it is being effective. Of course, it will take time for that to feed through into results. The target level attainments are unsatisfactory. The average target level attainment, which is the number of people passing the exam at the level we want them to before they take up a post, or in the early days of their posting, is only at 38%. You have identified some areas where it is lower. That is not acceptable and we are working on that. I have sent some very clear instructions to Heads of Mission and directors in the Foreign Office that they need to take responsibility for making sure that people are given time to do their language training and are given strong incentives, both carrots and sticks, in order to make them do it.

Q79 Mr Baron: Can I come back to incentives, if I may, Sir Simon? I am given to understand—correct me if I am wrong—that language allowances have not been revised, or revised upwards. Surely that is a pretty good incentive, isn't it?

Sir Simon Fraser: I will come to that, but I should like to finish my prior point. What I want to say is that two other things have affected that statistic of the attainment: first of all that we have upgraded some of the expectations—we have removed some of the lower, what we used to call confidence level, and we have raised some of the expectations, which means that more people have got to take exams to reach the target. Also, we are only beginning to see the results of major waves of examinees coming through now, so in May we had a set of exams and 94% of candidates succeeded in those exams. We have got another set coming through now in October-November. We expect that the target level of attainment will reach up to about 50% after those two waves of results come through. As they say, it is a journey, but I hope that we are moving in the right direction.

We have looked at the allowances because the Committee asked us to do that last time, as, indeed, the Committee asked us to look at the incentive that is in the competences that we require; and we looked at that as well. On allowances we have made some changes. Instead of paying a monthly allowance we now pay a single up-front allowance, which is worth four years of monthly payments. So we give people a strong incentive; when you pass your exam and take up your posting you get a considerable financial reward, and it is given to you in a lump sum.

We have also improved the continuity language allowance incentive, to make sure that people are maintaining their skills; and we are prepared to look again—without any commitment at the moment—at the level of those allowances, to see if there is more to be done, although I know this is something that Deborah is very keen on, so we will look at that.

Q80 Mr Baron: May I move on to the Diplomatic Academy—an intriguing initiative. One can see benefits on both sides of the equation, both for the academics and the officials and civil servants going through; but how will the Diplomatic Academy actually improve policy making? The cynics would suggest it is just trying to get information and expertise on the cheap, given the pressure on budgets. That is probably unfair, but put us right, Sir Simon.

Sir Simon Fraser: There is an important issue here, about what the concept of the Diplomatic Academy is. Our concept is not that we will open our doors to a lot of academics to give courses in the theory of international relations, for example, although that will be an important part of our outreach. The core concept is about the transmission of knowledge within the organisation; so it is about senior diplomats passing on their experience of how to be a diplomat, and their different areas of expertise, to others. That is, I think, quite an important point.

It is therefore relatively low-budget. I can talk about the costs if you wish, but the core concept is that we will be passing on through master-classes the expertise that we have in the system. We are doing that through 11 faculties in the academy; so there will be one, for example, on expertise in international law; one on multilateral negotiation; one on economics, one on understanding the treaties of the European Union—those sorts of things. They are core aspects of our work, where we are transmitting knowledge. We will make sure that there is a structured curriculum in each of those areas, offering teaching and courses at different levels—basic, intermediate and advanced. It will be a much more systematic and measurable way of making sure that we are improving the policy skills and the diplomatic skills of our staff.

After all, if you recall the discussions we have been having about our diplomatic excellence programme over the years, this is really at the heart of that whole programme. It is about making sure that our diplomatic service is of the highest possible quality. Part of that will be bringing in external expertise—external speakers; getting people to address our staff. I think that is absolutely right, and in the spirit of being open to the outside world. It will also involve, I hope, bringing diplomats from other countries to exchange their learning with us as well. I think we can benefit immensely from that. The other thing that I want to say is that it is not just about our UK-based staff. We are going to have digital approaches to this so that when we do these classes and courses, they will be recorded and made available through digital means to our staff around the world in posts both UK-based and local-based. Indeed, one of the faculties is about better understanding of the United Kingdom, so that our local-based staff around the world can learn about this country. In particular, a key component of that is working with Parliament and understanding Parliament.

Q81 Mr Baron: Can I be devil’s advocate very briefly? I do not think that we are properly addressing the real concern that some of us, if not the whole Committee, have about the fact that you are being asked to do too much with too few resources. You have had a quarter cut in your budget in real terms under five years of the coalition Government, and you are now being asked to focus on promoting trade within the nuances that you have described very well. The fact remains that there is deep criticism about the fact that the diplomats were looking the wrong way when you were confronted with the rise of Islamic extremism or indeed the Russian aggression towards Crimea. One or two of your own have pointed the finger a little bit.

Sir Nigel Sheinwald has said: “When the Ukraine crisis happened, there was a problem in the Foreign Office, the old Cold War cadre of people just wasn’t there.” He has also criticised the focus on trade. One accepts the case for trade, but one still struggles to get away from this impression that you are being asked to do too much with too little. Language schools are fine, and the diplomatic academy is fine, but let us be absolutely frank about this. This is not going to plug that knowledge gap—that deep knowledge about what is happening on the ground to help the FCO properly inform our foreign policy making.

Sir Simon Fraser: It is absolutely true, Mr Baron, that we have been asked to do more with less, as has the rest of the civil service. It is true that the world is in a particularly unpredictable, fluid and active state, and therefore the challenges to foreign policy are great. I would like to take this opportunity to pay tribute to our staff, because they are sometimes criticised, as indeed they were in the press coverage of the Committee’s consular report. I felt that was not actually a full reflection of the report itself, which was complimentary.

Chair: Not in the slightest.

Sir Simon Fraser: In many ways, around the world our people are doing tremendous work, often in dangerous and difficult circumstances. I think it is appropriate for me, as the permanent secretary, to draw attention to that in this context and to thank them for that work, and to recognise the pressures that they are under. It is also true—I think we will find this when we analyse our staff survey results—that there are three big concerns that are of particular interest to our staff at the moment. One of those is pay, which we have discussed. One of them is our provision of IT around the world, which I think is a challenge for us as well, and on which we are hoping to make good progress in the year ahead. The other is this sense of stretch in the organisation, which you allude to. The Foreign Secretary is conscious of this, and his view is that it is important to prioritise. I think that he is open to that discussion about where we should prioritise our work. He has been in the post for a relatively short period of time, but he has been open to that discussion, which I welcome.

With all due respect to Nigel Sheinwald, who is one of our most distinguished alumni, the fact is that the Cold War did end a while ago, and I would not necessarily expect to have a cadre of Cold War experts in the Office now in the way that we had then. We have had to re-deploy the focus of our resource, and I think it is true that probably we have less depth of Russia expertise in the Office now than we had then. I do not think that that is necessarily surprising, but I think we need to make sure that we address it, because clearly dealing with Russia is going to be one of the big strategic challenges in our foreign policy in the period ahead. We are looking at that and addressing that issue.

Q82 Mr Baron: We are running out of time, so I will ask one final question, if I may. One accepts all that, but it is not just Russia. You can perhaps understand the criticism that we were somewhat unsighted with regard to the rise of Islamic extremism in the Middle East, and one can point to various other examples where perhaps we were unsighted. One completely agrees about the staff. It is not their fault at the front line; they are doing a sterling job. It is our fault, if anything, for not committing adequate resources. We accept that, and that is why we are asking these questions. How can we get the message across that money spent on diplomacy can be money very well spent indeed when you consider the alternatives to diplomacy, which are conflict and war?

Sir Simon Fraser: I hope that that is self-evident, but it is a difficult case to make. As we have discussed in the past, we are making a big effort to measure the impact of our diplomacy, but in the end it is difficult to put a monetary value on it.

I would say two things. First, I absolutely accept what the Committee is saying, and I am not trying to defend the reduction of resources beyond an acceptable and manageable level. I believe that there is considerable resource pressure. If we had more resource, we could do a better job.

Secondly, we must make people understand that the absolute amounts of money that are spent on diplomacy are very small compared with other areas of Government expenditure. There is an awful lot of scrutiny of relatively small amounts of money, of which perhaps we could do with a little bit more. It would not have a huge impact across the board in government and we could perhaps disproportionately improve our performance with it. However, that is part of a broader discussion about public expenditure. It is important for the Foreign Office to accept that we have to take our fair share of austerity in Whitehall and make our contribution, and that is what we seek to do. At the same time, we are minimising the negative impact on our performance.

Q83 Andrew Rosindell: Briefly, Sir Simon, are you satisfied that a sufficient proportion of British diplomats are taking part in the European External Action Service compared with the proportion provided by other countries?

Sir Simon Fraser: I think the External Action Service is an important new development. I am pleased that we are engaging positively with it and that we have made available British diplomatic staff to join it. We currently have 27 British so-called temporary agents in the External Action Service, which is 7.1% of the total. Only France has more temporary agents in the External Action Service. We are doing quite well in getting our people into jobs there. That is important. We have a number of heads of post in the External Action Service and we have some people occupying key jobs in Brussels at the managing director level.

It is important that we maintain a clear focus on that and ensure that as the first generation of people come to the end of their nominally four-year period of attachment we have others going forward. At the same time, as we bring those people back we must benefit from their expertise in Whitehall. We are making progress. Our representation in the External Action Service is slightly better than our overall proportion of representation in other Brussels institutions at the moment.

Q84 Andrew Rosindell: Out of interest, when they join the External Action Service, do they retain their loyalty to the FCO or do they have to forget the fact that they are part of the FCO and are British diplomats and transfer their loyalty lock, stock and barrel to the EU?

Sir Simon Fraser: When they join the External Action Service they become employees of the External Action Service. They are no longer on the payroll of the Foreign Office and they owe their professional loyalty to the organisation for which they are working. Of course, they take with them their experience of British diplomacy and their understanding of British policy. It is helpful to us that that is expressed in the fabric of policy making in the

External Action Service. Similarly, I myself worked in the European Commission as a temporary agent for a number of years. When I did that, I was an employee of the European Commission and I worked for the Brussels institution.

Q85 Andrew Rosindell: So they take that with them to their job with the External Action Service. What do they bring back? What is their career path when they arrive home?

Sir Simon Fraser: So far, we haven't had much of that because we are in the early stages of it. When they come back it is important that we recognise the skills that they have attained there and seek to find positions for them in our diplomatic service. We value the experience that they gain in Brussels and their knowledge about how to operate in that environment. One of the issues that is important across Whitehall is that we maintain the practitioner skills of working in the European Union. I am setting aside the political debate about the European Union; it is just about the skills of the people operating in that context. That is something we have to think carefully about.

Q86 Andrew Rosindell: Do you see those coming back with the knowledge and experience that will benefit the UK, and therefore, how do you decide in advance who would be appropriate to go, in terms of the skills and knowledge you are hoping to pick up?

Sir Simon Fraser: We ask people to express an interest. We advertise the jobs—when the jobs become available in Brussels, we let our people know. We advertise them and encourage some people if we think it would be a good career move for them to apply. Other people apply spontaneously because they think it is an interesting next step for them. We look then across the board at the jobs and at our applicants and we try to prioritise certain objectives, because of course, we cannot guarantee which jobs we'll get and they are very competitive. So we are trying to be strategic in making sure that the right people are going into the right places and we are landing some of the high-priority slots that we want to get.

Chair: Sir Simon, Mr Walker, Ms Bronnert, thank you all very much indeed. That completes our questioning. It has been very useful to us, so thank you very much.