HOUSE OF COMMONS

Oral evidence: FCO budget and capacity, HC 467

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Watch the meeting

Members present: Crispin Blunt (Chair); Ann Clwyd; Mike Gapes; Mr Mark Hendrick; Daniel Kawczynski; Yasmin Qureshi; Andrew Rosindell; Nadhim Zahawi

Questions 1-117

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

Chair: Welcome to this session of the Foreign Affairs Select Committee. We are going to take evidence on the budget and capacity of the Foreign and Commonwealth Office. I am delighted to welcome you, Sir Simon. Perhaps you would like to introduce yourself and your team for the record.

Sir Simon McDonald: I am Simon McDonald, celebrating my second week today as Permanent Under-Secretary at the Foreign and Commonwealth Office. On my right I have Deb Bronnert, who is the chief operations officer at the Foreign and Commonwealth Office, and on my left, I have Iain Walker, who is the director of finance at the FCO.

Q1 Chair: I hope that, with the wealth of experience behind you before these past two weeks, you will be able to manage some of the policy questions in your assessment. The first one I want to ask you is: if more resources were given to the Foreign Office, what would you want to do with them?

Sir Simon McDonald: Even though the focus in this spending round is on reducing non-protected Departments, we in the FCO are looking at what we would do if we had more, and we are looking particularly at the Russia part of our policy—strengthening our efforts in eastern Europe and in Russia. We are looking at the CT agenda, which is part of a cross-Whitehall agenda, and at how we manage our soft power. They are the things I know about, but I will turn to Deb to supplement.

Deborah Bronnert: We are also, obviously, looking at the relationship we have with the European Union and the very busy agenda that the Government has on the EU, both in the short term and looking forward to the UK's presidency of the European Union in 2017. That will be a short-term pressure, but a significant one. We are also looking at how we invest in the long term: for example, improving our IT capability and how we continue to invest in the diplomatic academy, languages—the things that help to equip our staff to conduct diplomacy.

Q2 Chair: But of course, tragically, that is not the situation you are in. I understand that you are being invited to look at cuts in the order of 25%. What would the Foreign Office look like in 2020 if its budget had been reduced by 25%?

Sir Simon McDonald: As you know, Mr Chairman, we are at the beginning of the negotiation with the Treasury. The Foreign Secretary submitted his letter to the Chief Secretary on 4 September, and in that letter we are modelling cuts. Because this is a negotiation, I am not assuming a gloomy outcome.

Chair: That's what the Prime Minister says about the EU.

Sir Simon McDonald: The main reason is that the FCO is operating in the overseas policy space, and in the overseas policy space there are two other big players: DFID and the MOD. Both of them have protected budgets, so in a budget of £50 billion per year, it is our contention that it is illogical to focus fire on the FCO, which is the smallest element. As part of our negotiation with the Treasury, we will have to agree the baseline to be addressed. As you know, in our report our budget is £1.3 billion, but that is not addressable because part of that is ODA and part is UKTI's budget, which is taken separately. The two main figures under discussion are £682 million, which includes £77 million of non-ODA international subscriptions, and £605 million, which removes those international subscriptions. If we are looking to reduce, it is on one of those two figures. If it were a blunt 25%, the operations of my Department would be smaller in 2020 but I hope that we can negotiate better than that.

Q3 Chair: Since the Foreign Secretary told us last week that he wanted to preserve both the network and the policy brain, what does that leave to cut?

Sir Simon McDonald: First, as in every SR, we are looking at efficiencies. In any big budget, there is money still to be found that could be more efficiently used, and that is part of our process; but if it goes beyond that, again we will look in particular at support functions in the FCO, which are still a substantial part of our business.

Q4 Chair: I have been offered a commentary that what has now happened with our embassies abroad is that they are so poor in terms of money that they have no entertainment budget and there is very little that they can do to cultivate all the relationships that you would expect part of the network to being doing as part of its normal activity—that, indeed, what I would call the craft of the Foreign Office, simply no longer really have the ability to carry out their craft. If you are proposing yet further cuts to that, what is the point of the network if it is not able to exercise its craft?

Sir Simon McDonald: If that were true, you would have a good point, Mr Chairman. I have just come from Berlin, where I was ambassador for five years. My lived experience is different from that. We were able to entertain and develop our networks. I had an embassy, fit for purpose, on Wilhelmstrasse, right in the centre of town, which attracted the people we needed, and a residence in Grünewald where we regularly had Cabinet Ministers, CEOs and senior Government officials. My personal experience is different from the one that you are describing, and very recent.

Q5 Chair: So how would like to see your embassies operating in terms of the craft that they should be fulfilling on site? You have begun to give us a bit of a description about how your embassy operated in Berlin but Berlin is obviously a rather high-profile embassy and not necessarily quite the same as the couple of hundred different missions in other parts of the world that might not be resourced in quite that way.

Sir Simon McDonald: I agree that Berlin is relatively higher profile, but I think that the fundamentals are the same across the network. British ambassadors should be in touch with the top of all parts of the society of the country to which they are posted—politics, the Administration, business, culture and education. They need the facilities to do that—principally a residence and/or a chancery building. As I look at my priorities in the years ahead, protecting the essential infrastructure is at the top of the list.

Q6 Chair: Do you recognise that there are concerns that the budget simply to do the cultivation of relationships is now dangerously low?

Sir Simon McDonald: It is under pressure, but I think that we are still able to do the job around the world. I am sure that people could do more if they had more money, but the evidence I see for myself and from the reports I have received is that we are still able to do the key job.

Q7 Ann Clwyd: Simon Fraser told us last month: "I think we have got to make some clear evidence-based decisions about what it is that adds the core value that the Foreign Office is seeking to deliver." What is that core value?

Sir Simon McDonald: Part of the core value is local knowledge and local networks. Information is not the challenge in the 21st century; everyone has access to very good information—sometimes we are overwhelmed by the quantity of information—but decent analysis of that information and knowing what to do with it and when to do it are skills that the Foreign Office should and does have. So, when the Committee or Ministers are visiting countries overseas, you can plug into that expertise and meet the people you need to and extract the information and analysis you need in order to do your job—in order for us to protect and promote British interests.

Q8 Ann Clwyd: The Foreign Secretary has said that the FCO will need to make "clear evidence-based decisions" about what areas of activity to prioritise and where to scale back in the light of probable forthcoming budget reductions. How is the FCO leadership gathering that evidence—what is the process?

Sir Simon McDonald: We have a board and an executive committee. The board is composed of the directors general in the Foreign Office, we have three non-execs and we also have the CEO of UKTI on our board. ExCo, the executive committee, is myself and the directors general with the communication director, the strategy director, the personnel director and the finance director. Collectively, we make the recommendations for the strategic direction of the Foreign Office, which Ministers then decide.

Deborah Bronnert: Perhaps I can add to that. Finding efficiencies and reductions is clearly not a new task for us; we have been doing it for a while. Under the 2010 spending round, we found £100 million out of our annual savings; we found another £20-odd million this year as part of SR13; and we have also had a £20 million in-year cut from the Budget before the summer. So we have quite a lot of experience about how you can take money out of the system and do things more efficiently. We have also learned that some things work better than others. We are using all that experience to talk to the network about how we particularly bear down on what we call the operations side—the side of the operation I run. We are trying to protect the policy frontline in both the network and London. That is also the approach we have followed in the previous spending reviews.

Q9 Ann Clwyd: Would you say that human rights is now one of the lower-priority activities?

Sir Simon McDonald: Human rights are still covered by the Foreign Office, and your interest and the interest of other hon. Members is an important part of maintaining our interest in human rights.

Q10 Chair: That wasn't the question. The question was about where it sits in the priority list.

Sir Simon McDonald: Well, answering as Permanent Secretary, I say that although it is one of the things we follow, it is not one of our top priorities. In a more constrained environment, the need to concentrate on Europe, Eastern Europe and Russia, and the Middle East has supplanted it to an extent, but in the work I am describing human rights is an integral element. Although, as a Department, it may not have the profile it had in the past, it is still an integral part of our work.

Q11 Ann Clwyd: Those sound like warm words, but I must press you, because it seems to those of us who follow human rights closely that trade and industry is a much higher priority and human rights comes pretty low down the list.

Sir Simon McDonald: I would dispute that it is low down, but I would not dispute that right now the prosperity agenda is further up the list.

Chair: Sir Simon, you have been immensely candid. Thank you for that answer.

Q12 Nadhim Zahawi: Before I start, I should declare an outside interest: I am the chief strategy officer for Gulf Keystone Petroleum, a company quoted on the London stock exchange.

Sir Simon, will there be compulsory redundancies for UK-based staff if the FCO is required to make additional budget cuts of 25% or higher?

Sir Simon McDonald: I do not know, but I cannot rule out compulsory redundancies if we suffer a cut of the magnitude being discussed. It is not something we want. We would work to avoid it, but I cannot rule it out.

Q13 Nadhim Zahawi: But you have made your submission already.

Sir Simon McDonald: I regard that as the beginning of the process, Mr Zahawi.

Q14 Nadhim Zahawi: But in your submission, do you envisage compulsory redundancies?

Sir Simon McDonald: It is not formally part of the submission, no.

Q15 Nadhim Zahawi: You look to your right.

Sir Simon McDonald: Merely for confirmation.

Deborah Bronnert: We are on track to meet our headcount reductions under the current spending round—10% reductions by the end of March this year. We will have to see what the overall settlement is, what the pressure is and what further reductions we are asked to make. We will then work out exactly how we will do it. This time round, we have done two voluntary exit schemes, we have reduced interchange at some grades and used natural wastage. We will have to see what we do. Obviously, we have had to make quite a large number of our local staff redundant in the course of this set of efficiencies.

Q16 Nadhim Zahawi: I asked specifically about the UK-based staff. The Foreign Secretary told us last week that the FCO could not reduce the number of UK-based staff in posts abroad any further. If more staff cuts are required—you are clearly keeping your options open—whether they are compulsory or not, does it mean that posts could be closed?

Sir Simon McDonald: No. There is an important difference between people and slots. As the Foreign Secretary said last week, he wants to protect and prioritise the network. If we are seeking to reduce UK-based staff, it would not be in the network but at home. It is not necessarily the same people occupying the slots. That would be a separate exercise.

Iain Walker: About 40% of our UK-based staff operate overseas and 60% operate in the UK. To build on Deb's point, exactly how we would achieve a reduction in our workforce over the next four to five years is to be worked through in detail. At this stage we would expect our workforce to reduce, but there are other means of doing that, whether it is through natural wastage or other such things.

Q17 Nadhim Zahawi: What I am hearing is that you will be cutting FCO staff operating in the UK. That will be the focus.

Iain Walker: The Foreign Secretary said that he regards the network as the Foreign Office's most valuable asset in our international efforts, so we would expect the overseas network to be the priority. Does that mean there will be reductions in the UK? I think it will need to be worked through. As Simon said, we have put in a bid, as it were, to the Treasury. The realisation of that bid will not come until the end of November, so we do not actually know the answer to what it will mean to our workforce until that point.

Sir Simon McDonald: But the logical conclusion of protecting the network and having to reduce is that such reductions that have to take place will be at home.

Q18 Nadhim Zahawi: On the networks, the Foreign Secretary indicated that consulates in some countries may be facing closure as a result of the projected budget reductions. Can you give us more detail about where you think those closures will take place? Can you give us an indication of which geographies you think consulates will be closed in?

Sir Simon McDonald: I was sitting next to the Foreign Secretary, and I think he was indicating, under pressure, that part of the network would have to be looked at first, but I don't think he was in any way offering it up.

Q19 Nadhim Zahawi: But you are under pressure, so you must be looking at it.

Sir Simon McDonald: Looking at the network, the consulates and consulates general in the relatively smaller advanced countries would be the first to be examined.

Q20 Nadhim Zahawi: Thank you for that. Are you confident that those closures will not affect the ability of British citizens overseas in those advanced countries, where they tend to go for holidays and so on, to access consular services?

Sir Simon McDonald: I am confident that we could still make a comprehensive consular offer. In western Europe that is generally now the case. A lot of our services are online and across border, so people are able to get consular assistance, even if there is not a building within an hour's drive.

Q21 Chair: But you said at the beginning that, if you had extra expenditure, you would be looking at IT, the EU and Russia. As part of the prosperity agenda, there has been a move—a rather successful move, some might say—into supporting emerging markets. The Committee has had evidence that that is now at risk, that you will not be able to support the prosperity agenda by reinforcing representation within emerging markets.

Sir Simon McDonald: We have done that over the past several years. We have opened subordinate posts in China, India and Brazil in particular. The latest will be opened this month in Belo Horizonte in Brazil. They are recently opened and we do not want to sacrifice those new posts in important emerging markets.

Chair: I know you don't want to.

Deborah Bronnert: If I might come in, our non-ODA budget is under particular pressure. We obviously have an obligation to ensure that we spend ODA funds in a proper way, too, but it is our non-ODA budget that is under particular pressure. Emerging markets in general score against the ODA budget, as opposed to the non-ODA, which is why it has developed country subordinate posts that we would look to first, if we are in that scenario.

Chair: I am about to turn to Andrew Rosindell and questions about where the money is coming from.

Q22 Andrew Rosindell: The 2015 FCO annual report identified management of programme funds, such as the Conflict, Stability and Security Fund, as a new operational risk. What are the risks involved in managing those funds?

Sir Simon McDonald: The Conflict, Stability and Security Fund is a new and very big fund. It is more than £1 billion, and more than £700 million is FCO money, so one of the risks is the size of the fund. It is taxpayers' money and it is vital to us that it is properly spent and accounted for. I think we are acknowledging that with a big new task we have a job of work to do.

Q23 Chair: Hang on a minute: £700 million of that fund is your money, but we are talking about £600 million in terms of where the targeted cuts are. Could you explain all that to us?

Sir Simon McDonald: Iain will explain.

Iain Walker: The CSSF is a tri-departmental fund, which is distinct from our core FCO baseline. Through the spending round, each Department will bid for funding that the Department itself requires. For us, that was the number—

Q24 Andrew Rosindell: Can you explain what you mean by tri-departmental?

Iain Walker: It is a fund that is delivered through the National Security Council and is overseen by DFID. It goes on to DFID's baseline and is almost exclusively ODA funding. Of that £1 billion, £700 million is either transferred to the MOD or to the Foreign Office or stays with DFID. That is distinct from the core funding for the Departments. The core funding for the Department that we receive is the funding for diplomacy, our overseas network, our work in the UK and core departmental programme funding. The CSSF is a distinct fund of which we receive a part, and that is the part that has grown.

To expand on that briefly: within that £1 billion, £400 million, for example, is peacekeeping funding that goes to the UN. That is an example. That is predominantly ODA funding.

Q25 Chair: Sorry, perhaps I am confused. Perhaps Mr Rosindell will allow me to understand these numbers, because I am getting confused now. This fund is £1billion. Does that come from the reserve or as identified money out of the budgets?

Sir Simon McDonald: It is mostly DFID money.

Q26 Chair: It's all DFID money? In terms of the estimates voted by the House of Commons? Where is that money coming from?

Iain Walker: It is predominantly allocated out of ODA funding. It sits on DFID's baseline, I believe, but it comes through a separate settlement letter. The settlement letters that come from Treasury that allocate all of government spending, there is a distinct, separate settlement letter for the conflict and stability fund, which is a distinct, pooled, cross-Government fund, subject to a separate settlement letter. It is distinct from the core budgets, which is—

Q27 Chair: It is distinct from that, so you are fighting the Treasury over this £600 million or so core budget and then you mentioned a figure of £700 million, which will be FCO expenditure out of the this pool.

Iain Walker: Correct. So of that £1 billion which is the conflict and stability fund, to break that down a little bit, £700 million of it comes to the Foreign Office, and, of that, £440 million is paid to the UN for peacekeeping, £230 million of it is for programmes run through the CSSF across our global network and the remainder is a contingency fund that is held back during the year.

Chair: Let me go to Mike Gapes, because he is always desperate to get in. With his experience, this is bound to be on the money.

Q28 Mike Gapes: On the reference you made to UN peacekeeping, this is not the UN regular contribution.

Sir Simon McDonald: No.

Iain Walker: No.

Q29 Mike Gapes: This is an additional payment, voluntarily given, which is not an assessed contribution and we are not required to pay it? It is something we have decided to pay because we are a permanent member of the Security Council and we are a good UN member—correct?

Iain Walker: Yes.

Q30 Mike Gapes: Right. Prior to the establishment of this fund, presumably that figure would also have been paid, but that would have been out of your regular budget rather than out of this pool. Is that correct?

Iain Walker: That is not quite correct, sorry. The peacekeeping amount was paid through what was previously called the conflict pool, which was a distinct budget that was also set to pay for those peacekeeping funds.

Q31 Mike Gapes: So the pool has been rebadged?

Iain Walker: That part of the conflict pool has been subsumed by the new conflict and stability fund, yes. And the UN regular budget payment, which you referred to earlier, is paid for directly by the Foreign Office.

Q32 Mike Gapes: So this payment to UN peacekeeping was previously FCO money paid into one conflict pool and it is now FCO money paid into another conflict pool?

Iain Walker: It has been pooled together under the auspices of the NSC, such that the totality of that £1 billion for conflict and stability funding, part of it is made up of what was previously conflict funding.

Q33 Mike Gapes: Is any of this money going to UN peacekeeping coming from money that was MOD money or DFID money, or is it entirely a rebadging of FCO money?

Iain Walker: I am very happy to write on this if it would be helpful to the Committee. I do not think it is a rebadging of what was hitherto Foreign Office money; it was always a distinct, separately identified conflict pool amount. It was previously shown that way and it is now part of the conflict pool, which is a bigger programme to bring—

Q34 Mike Gapes: The previous conflict pool was also funded from money coming from different Departments.

Iain Walker: That's right.

Q35 Mike Gapes: What I am trying to get to is whether there has been a shift in that, which is to either the detriment or the help of the FCO overall or whether it makes no difference.

Iain Walker: I believe it makes no difference to the Foreign Office's funding for that aspect of it, no difference.

Q36 Chair: But we vote money for the estimates to particular Departments. You are telling us that the source of the £1 billion conflict, stability and security fund is from the money voted by Parliament for DFID, out of the 0.7% of GDP we give to the DFID budget.

Iain Walker: I would like to give this in writing just to make sure I get this absolutely clear. My understanding is that it is on DFID's baseline, but the funding is through a distinct settlement letter which is managed under the control of the NSC. I think the mechanics of it are that it comes through DFID, but I could helpfully clarify that if that would be useful.

Chair: Please do, if you can.

Sir Simon McDonald: The one-word answer to your question is yes. If we need to clarify, you will get a letter.

Mike Gapes: I think we should get a letter anyway, Chairman, because I do not understand.

Q37 Chair: Yes. If you could give us chapter and verse on that, and a link between what Parliament votes and how it is spent in particular in relation to this fund. The implication behind what Sir Simon told us was that £700 million of FCO expenditure was dependent on this fund, as the source of the fund, separate from the £600 million that is now the subject of a battle with the Treasury, which suggests that rather more than half your people are dependent on this fund. Would that be correct?

Sir Simon McDonald: I don't know if there is such a crude link between people and money spent because, as Iain explained, over £400 million is going to the United Nations. We just need to monitor that. There are no British people employed as a consequence of that. The way to look at the £700 million is that it is coming from the CSSF for primary FCO purposes, to which we attach particular priority. Peacekeeping is the biggest element.

Q38 Chair: Some of us think it would be intelligent to actually have defence, diplomacy and development all within one heading, and then priorities allocated through the national security strategy. Some think that we are in an incredibly unintelligent position of protected budgets for development and defence and an unprotected budget for diplomacy, which is, after all, the function that directs all that expenditure, and that you are under the cosh, and defence and development are not.

There will be others who think that what we are hearing about is basically a racket in order to move the money from the 0.7% for development into what would be, in that sense, non-ODA or non-development expenditure. Some will think that a rather sizeable proportion of the Foreign Office is now receiving this smoke-and-mirrors subsidy out of the development budget, because we have put ourselves in this position, and that because of the overall policy of the Government, we are driving you to fund the Department in this somewhat less than transparent way.

Sir Simon McDonald: Your characterisation is your own, Mr Chairman, but I must point out that it is vital to success that all the money that goes through this budget as ODA money is kosher ODA money. There are mechanisms to ensure, and players outside

Government who monitor very closely, the purposes to which ODA money is put, so what goes through this budget as ODA money I can assure you is proper ODA money validated by OECD processes, and is not smoke and mirrors.

Q39 Chair: Before Mr Rosindell asks a question, I have a question on the consequences of that. Could you write to us and tell us roughly your sense of what proportion of your people owe their employment to the funding coming from the conflict stability and security fund, just so that we get a sense of that. I realise this might not be an entirely straightforward exercise. I do not necessarily need a precise number, but an indication.

Sir Simon McDonald: We will do that.

Q40 Andrew Rosindell: Isn't the whole problem that the 0.7% has to go to DFID? You have seen the FCO budget slashed over the years. It has now got to almost a humiliating level while, at the same time, DFID is able to spend a colossal sum of money. Much of the time it does not quite know what to do with that money. Is it not a bit galling for you to see the FCO being decimated in this way and having to find all sorts of other means to get the money in so that you can carry out the basic functions for which the FCO has always been so brilliant at doing?

Sir Simon McDonald: The 0.7% is clearly for overseas development assistance. The main vehicle for that is indeed DFID, but a lot of the work that the FCO does counts as ODA, legitimately. The work that we do in Africa, in south Asia and in parts of south-east Asia can legitimately be counted as overseas development assistance, so there has been some recategorisation of existing work, and that was done in a systematic way over the last Parliament. But you are right, we are looking to make the best use of the 0.7% and the FCO is a key player in making best use of the 0.7%.

Q41 Andrew Rosindell: How can you assure the Committee that the decisions made were based on policy rather than on the need to tick the boxes in order to use the ODA money? Also, how can we be assured that developed countries that we need to work with will not suffer because you are having to do more in the less developed countries in order to attract this funding?

Sir Simon McDonald: I would say that the money we are using as ODA money is legitimately used. This is a time of pressure and it means that we are able to use the stretched resource for non-ODA work and to protect the European part of our network, because other parts of our business are legitimately coded to ODA. There is a sort of trade-off, yes, Mr Rosindell, but I think that the way in which it has worked so far has been that ODA pays for substantial work in parts of the world in order for us to protect the core in other parts of the world.

Q42 Andrew Rosindell: Presumably, Sir Simon, you can also reassure me that, because ODA money can be spent in our overseas territories, then in fact the overseas territories will not be suffering as a result of these expenditure reductions.

Sir Simon McDonald: The overseas territories are subject to their own settlement. The Foreign Secretary has written in the last fortnight about the overseas territories. Yes, they are part of our duty, and we are looking after them.

Deborah Bronnert: Some of the money spent there can score, but some does not.

May I add that this—Foreign Ministries spending ODA money—is very typical? We are not the only the Foreign Ministry in the world that is spending money that scores against ODA. If anything, we were perhaps unusual before in that we were not scoring, and we are now perhaps more in keeping with what some of our direct counterparts have been doing for a while.

Q43 Chair: Would you describe the allocation of resources between defence, diplomacy and development in the United Kingdom as rational or irrational? A one-word answer will do. [Interruption.]

Sir Simon McDonald: Maybe I will let my hesitation speak for me. I would need to give you an essay under each heading. I understand the rationality—

Q44 Chair: Understand the rationality? You might understand why, but it is the politics, and the politics in this instance produces a wholly irrational way of carrying out the business, does it not?

Sir Simon McDonald: We are still able to carry out our core business—

Chair: That wasn't the question.

Sir Simon McDonald: I know.

Q45 Chair: It is your Department that leads on policy. You have presented to us this convoluted way. These questions are rather straightforward. Even an untutored Committee can ask you these things and point out the contradictions in how we are trying to pursue a national security strategy—a strategy that addresses security and conflict that has to come out of the development budget.

Sir Simon McDonald: In part.

Q46 Chair: The entire pool comes out of the development budget.

Sir Simon McDonald: But that is not all that we do in the national security space. Yes, the CSSF is a major part, but it is not the whole part of our national security work.

Q47 Chair: So we then get drawn into definitions like that. This is not rational, is it? This is not the best way for our nation to proceed in order to advance our national objectives between the three Departments, is it?

Sir Simon McDonald: That could be the Committee's conclusion.

Q48 Mr Hendrick: Clearly, post-1997, the Government of the time decided to set up a specific Department for International Development. Obviously, what is happening at the moment is a consequence of that. Ms Bronnert, you mentioned the fact that it is not unusual for other Foreign Ministries elsewhere to spend development aid money in this way. Can you tell me how many other countries like that have a separate Government Department similar to our Department for International Development? If the old pre-1997 model is the norm, then it would be unusual to have what we have now, hence the questions of certain members of the Committee.

Sir Simon McDonald: Around the world, there are several different models. Before ’97, although the Foreign and Commonwealth Secretary was responsible in Cabinet, there was a separate overseas development administration.

Q49 Mr Hendrick: But it was within the Foreign Office.

Sir Simon McDonald: Administratively it was, but physically it was in a separate place and they had their own Minister of State. So although it all came together in the person of the Foreign Secretary, there was a different administration even then.

As I say, around the world—looking particularly at foreign policy, development assistance and trade promotion—there are different ways that different countries slice and dice. In Germany, the model is the same as the UK. The Bundesministerium für Zusammenarbeit is the equivalent of DFID, and the Auswärtiges Amt is the equivalent of the FCO. In Australia, they stir in trade promotion as well. Different countries have different traditions. If you would like more detail, we can follow up on that.

Q50 Mr Hendrick: My point is that the characterisation of how the different Departments work together, as if it is something unusual or not properly workable, is not necessarily a fair one because other countries find the same problems.

Sir Simon McDonald: Yes.

Q51 Mr Hendrick: Changing tack, could you explain to us how you are boosting pay for policy delivery grades? Could you give some sort of indication of the average increase in pay for those grades?

Sir Simon McDonald: We had a pay settlement this month, or we are just distributing at the end of this month a new pay deal affecting these grades. Deborah will be able to give chapter and verse.

Deborah Bronnert: The pay settlement is within the overall 1% cap, but we have been able to do some redistribution within that to focus an additional 10% increase for staff in bands C4 and D6—some of our core policy grades—and who are performing well but have been in the grade for at least two years, to bring them up to at least 10% above the minimum. As I think the Committee is aware, that is in part because of concerns that the pay among some of our grades had fallen behind some of our Whitehall comparators. So we have been able to do that this month. I cannot remember the precise numbers.

Q52 Mr Hendrick: And that is at the expense of whom?

Deborah Bronnert: What we did this year was implement central guidance on changes in our performance-related pay for those grades—sorry, it is a little bit technical. We restricted that in line with central guidance, which meant that we had some funds we could devote to this within the 1% pay cap, exceptionally—we would not normally have been allowed to do that, but the Treasury and Ministers agreed that we were allowed to, so we were able to re-divert money within the pay cap.

Q53 Mr Hendrick: But where was the money diverted from? Was it at the expense of other staff who were not performing very well, or did it come from somewhere else?

Deborah Bronnert: We implemented changes to the performance-related pay for those grades, which was in line with what we were told to do centrally. That meant we had some money that I guess we could have given back to the centre, but we were allowed by the Treasury to use that money to uplift the pay for these two particular grades. Sorry, it is a bit complicated. Is that clear?

Mr Hendrick: It is a bit clearer.

Sir Simon McDonald: Only staff in those grades who got "exceeded assessment" got the performance-related pay.

Deborah Bronnert: Before, we would have given it to a broader range of staff, but the central Government guidance now is that you only give it to the 25%.

Q54 Mr Hendrick: So you are saying that most staff got the 1%, but those who had performed really well got up to 10%.

Deborah Bronnert: No. Obviously, the pay settlement is fairly complex, even within the 1%. Our staff who were at C4 and D6, and had been in the grade for two years and were performing well, were given a 10% uplift to take them to at least 10% above the minimum. That money came from funds that in previous years we would have paid under performance-related pay, which is a slightly different thing—that is the kind of bonus money—and which we would have paid to a broader group of staff in those grades. But under the current guidance, we were not allowed to do that, so we had some excess. In previous years it would have gone to different staff. We were not allowed to do that this year anyway but we were allowed to give this uplift.

Q55 Mr Hendrick: How are you making pay rates for low locally engaged staff more affordable and sustainable for the long term? Many of us on the Committee feel that locally engaged staff get a bit of a poor deal really.

Deborah Bronnert: The policy that we try to pursue globally is that we benchmark our local staff pay rates across the local market in the different countries in which we are operating. We try to be broadly in the middle—between the 40th and 60th percentile. We are not trying to pay more than the market. We are trying not to pay less than the market. We are trying to be in the middle.

With budgetary constraints and the shift to having more local staff overseas, which I know the Committee is interested in—of course, the local staff pay bill has increased because we have had more people—we have tried to keep a cap overall. We have had a 1% limit on locally engaged staff. We have had variations within that and we do our best to fund increases so that staff can be within that 40th to 60th percentile. It's true that there are some cases where we are struggling to do that.

Q56 Mr Hendrick: How does that affect recruitment and retention? One of the things that the Foreign Secretary raised last week was the fact that many of these staff are British and just happen to be living overseas. Many of these staff who are British might one day want to come back to the UK and enjoy a similar lifestyle and pension to staff who may have been UK-based in the past. Now, if you believe in the principle of equal pay for equal work how will you address that problem?

Deborah Bronnert: We are not trying to pay people top rates. This is all British taxpayers' money so we are trying to be in the middle of the market. As with our UK-based staff, we try to give a total package around learning and development, flexible working and all the other things that staff tell us that they value. We find, in most places, that we do not have a retention problem but there are some places, particularly high inflation places—some emerging markets—where there are issues with retention. Those are the places that I alluded to. We are finding it challenging in some of these places to try to keep up, but it is not everywhere. I was serving in Zimbabwe most recently. Most of our staff had been there for 10 years; retention was not at all an issue. That is true in many places.

Sir Simon McDonald: Can I give an example from Germany? More than 75% of the staff were LE. More than half of those who were LE were British but they were Brits who had made their lives in Germany. They were not people who had gone to Berlin to work for the British embassy with a view to coming back to the UK. They were permanent residents of Germany, usually because they had married a German. Their future was in the city where they were settled.

Q57 Mr Hendrick: But Germany is a western developed country. Many places where we have outposts are places where, if you are paying local rates, the amount that is likely to go into a pension scheme or the amount that they are likely to be living on will be pitiful by the time that they get back to the UK. I am thinking about those British people overseas.

Iain Walker: One of the things that we successfully agreed with the Treasury in the one-year spending round—SR 13, which we are currently living through—is the protection for overseas inflation. Some of the cost pressure that is arising is because, in many of these developing countries, inflation is at a higher rate than in the UK. In particular, wage inflation is higher than that. We have agreed some protection with the Treasury in this year. Going back to one of your earlier questions, it is something that we would look to extend into the next spending round to ensure that we have the funding cover to meet that.

To go back to Deb's main points, we have a policy that we try to stick to, which is to pay at mid-market and we benchmark that regularly. That information comes back to the board to ensure that we are doing that. In many cases, we are, and in some cases, we are off the market, which we are trying to rectify.

Q58 Mr Hendrick: What happens with pensions?

Iain Walker: It varies from country to country. We kind of comply with local law in each of those individual countries. We do not have a global rule. We apply different rules in different countries subject to local labour law in that location.

Q59 Ann Clwyd: What about duty of care in the sensitive posts around the world? Could it not end up costing the FCO more in the longer term?

Sir Simon McDonald: Duty of care is an essential duty of all employers and the FCO is no exception. An obvious consequence of that is our security spend. Our security spend last year was about £185 million, and we do that in order to protect our staff, as we must. The need is widely recognised, although it is a lot of money. That is not the point: we must protect our people around the world.

Q60 Ann Clwyd: I was thinking of a particular case in Iran, where one of the FCO's Iranian employees was imprisoned for about two years. The implications of that seem quite extreme.

Sir Simon McDonald: I'm afraid, Ms Clwyd, I do not know the individual case. I will look into it. As an employer, we look after our own. I hope that, when I do investigate, we will find that the FCO at home and in the region was working to protect our locally employed member of staff.

Q61 Nadhim Zahawi: Very briefly, we have heard in the past that one of the challenges is staff pay, that levels of pay for similar grades of staff between FCO and DFID are vastly different—DFID staff get more money. Does that cause you problems? Does it worry you?

Deborah Bronnert: As we discussed with the Committee last November, we did a study which, though it did not benchmark us specifically against DFID but against other Departments working in the international area, showed that at some of our grades—not all—our pay had fallen behind by up to about 10%. It varied a bit. One reason we took the action I referred to earlier with the band C4 and D6 staff was in order to start closing that gap. That has closed that gap for those grades, although it is still there. There is still a gap, as I say, not at all grades.

Q62 Nadhim Zahawi: So DFID is throwing the money around in salaries and you can't do the same thing.

Deborah Bronnert: No, no. I would never characterise that in terms of DFID's pay policy.

Q63 Nadhim Zahawi: But the answer is yes.

Deborah Bronnert: The evidence indicates that we have fallen behind the international—

Q64 Nadhim Zahawi: That was evident to us from the network when we go out on our visits.

Deborah Bronnert: That is divisive. Obviously, overseas we are working together as one Government, representing the British Government, and if you have people paid different things for doing the same job, that is an issue.

Nadhim Zahawi: That's very candid.

Q65 Chair: Can I put a point to you that has been put to me? One of the consequences of this much greater reliance on locally employed staff is the quality of briefs, written by locally employed staff, now coming back to people in London. The briefs are not as well written as they used to be, the English is poorer, and they do not carry an understanding of what a London-based policy maker actually needs. Is that the price we are paying for this policy?

Sir Simon McDonald: I am going to offer unashamedly personal experience about this. It is vital to have a mix. The LE staff, in my view, need a UK-based direction at some point, because the UK-based staff clearly understand the London networks and background better because they are posted from the UK. In Germany, we achieved the mix. We had more than 75% LE staff. They were great people; they knew their portfolio inside out; they were experts inside the city, not just inside the embassy. When they produced work for a London audience they did it in consultation and collaboration with UK-based colleagues, so that the product did not suffer from the weaknesses your source identified. The product was authoritative and well presented and was achieved by LE staff and UK-based staff working in tandem.

Q66 Chair: Other than the brilliant direction of our Berlin embassy recently—

Sir Simon McDonald: I am not in any way claiming to be unique.

Q67 Chair: But do you recognise that commentary?

Sir Simon McDonald: Debs served in Zimbabwe until 18 months ago.

Deborah Bronnert: A year ago. I think our locally engaged staff make a huge contribution to the work we do.

Chair: No, I accept all that.

Deborah Bronnert: Including by extending our networks and understanding the countries in which we are working, but you need a mix. One of the reasons why the Foreign Secretary said to the Committee last week that we think we have got to the right point and we wouldn’t want to go further down the path of localisation is that we have brought in some fantastic skills from local staff, but we need to maintain the balance with UK-based diplomats. There may be cases that would comply with what you described, but that is not our general view of what is happening. The contribution they have brought to us has been hugely beneficial to the Foreign Office and the British Government.

Iain Walker: A large number of our locally engaged staff work on the operations side as well as the policy side. In my part of the Foreign Office—finance—we have hubs that operate on a regional basis, rather than just at posts. We have hired genuinely excellent LE staff.

Q68 Chair: No, that wasn’t the point I was making. I was drawing attention to a particular problem. There may be particular strengths, but I was asking whether you would accept that the quality of the policy paper output to London-based policy makers has begun to drop because of our over-reliance, in some people’s eyes—or our reliance, unpejoratively—on an increasing proportion of locally employed staff.

Sir Simon McDonald: I do not recognise that. But it is essential that there is UK in the mix. What you describe is more likely if the LE are operating entirely by themselves, but that is not the general model.

Q69 Mike Gapes: May I begin with a series of questions about your resource expenditure? The documents I have seen indicate that in line A of your resource expenditure—your administration and programme expenditure—you had a 10%, or about £90 million, overspend last year. Why was that, what caused it and was it avoidable?

Iain Walker: So this is in relation to the—

Q70 Mike Gapes: Administration and programme expenditure, which is on page 68 of your accounts booklet.

Iain Walker: For this table, it is very important that we look at line A and line B together, so the net—

Q71 Mike Gapes: I've got questions about line B. I'd rather you answer questions about line A first.

Iain Walker: First of all, our control total with regard to the Treasury is about the total at the bottom. We are well within our—

Q72 Mike Gapes: I understand that. I am asking you about line A, the resource expenditure—the administration and programme expenditure. The estimate voted by Parliament was £943,424,000 and the outturn in 2013-14 was £1,114,389,000.

Iain Walker: The reason for it is because we overspent on one line and underspend on the other.

Q73 Mike Gapes: I understand that. I am asking you why you overspent on that particular line. I will come on to the other line in a moment.

Iain Walker: Principally, it is how we report on grant expenditure. That is the reason for the difference. But we have never regarded that as an issue because we look at the control total of the table as a whole.

Q74 Mike Gapes: No, I'm sorry, Mr Walker. I'd rather you answer my question, rather than link it in with the control expenditure total. I want a specific answer on what caused the 10% overspend on line A—administration and programme expenditure.

Iain Walker: I am trying to answer that. It is basically because on line A we underspent on administrative expenditure and overspent on programme expenditure. It was because some grants have been scored under line B, when the budget would appear to be set in line A. That's the reason for it.

Q75 Mike Gapes: In other words, the way in which you designed your accounts and applied for money was not accurate.

Iain Walker: I guess, it is certainly different by £90 million for the reasons that you have said.

Q76 Mike Gapes: I am still none the wiser. Perhaps you can send us a note. On line B, you were voted £245 million of resource expenditure to cover subscriptions to international bodies, but you only spent £148.6 million. Can you explain why there is a substantial underspend there? Is that to do with the fact that the exchange rate between the dollar and the pound varied, or is it for other reasons?

Iain Walker: No. The reason for the exchange rate difference is in line J.

Q77 Mike Gapes: Okay. So what is the reason for the underspend in line B?

Iain Walker: The expenditure you refer to of £148 million is, as you say, what we spent on international subscriptions. It is very similar to what we spent in previous years. That is principally UN, NATO, Council of Europe—that kind of thing. In terms of why it was set at £245 million, I am afraid I do not have such a good answer for that. I suspect there was an assumption that some grant payments would also be included in that, but not for international subscriptions. It would be for third-party-type activity, with, say, programme expenditure through our strategic programme funds. I am very happy to write on that, but there has been no reduction in any spending on international subscriptions.

Q78 Mike Gapes: So what you are saying is that, together, A and B cancel each other out.

Iain Walker: Yes.

Mike Gapes: So either when the bid was made for the estimate it was done in the wrong way, not specifying accurately, or alternatively circumstances have changed in how you have allocated spending afterwards, or perhaps both.

Iain Walker: I think probably more of the former. I think the original bid for that funding looks like it is in the wrong place. That is the conclusion I draw from this year end.

Mike Gapes: Right. Perhaps we will have a note on that.

Q79 Chair: Yes, please. Parliament's consideration of the estimates is probably one of the weaker areas of our performance. We tend to vote the numbers the Government present to us and this is £100 million that is then largely misallocated between functions, which is a reasonable amount of money. Could you give us an explanation as to why you have asked for money in the wrong column?

Iain Walker: I would be very happy to. If I may, we underspent by £8 million over a budget of £1.3 billion, so I just want to draw attention that this is a distinction between different line items and of course we all would like to—

Chair: I do not think Parliament quite gives you the flexibility—

Q80 Mike Gapes: It is a 10% overspend on line A.

Sir Simon McDonald: We understand the point and we will write.

Q81 Mike Gapes: The British Council is listed here at £150 million. In the discussion we had last week with the Foreign Secretary, I got the distinct impression that you were hoping that, somehow or other, the British Council would take on more of its own expenditure and you might then be able to make some of your £600 million savings by getting rid of some of the spending that you currently give as a grant in aid to the British Council. Is that correct?

Sir Simon McDonald: I think the verb, Mr Gapes, is yours, but I think the Foreign Secretary could envisage the development that you sketch.

Q82 Mike Gapes: In other words, that is a yes. Okay.

On exchange rate fluctuations, clearly you have a problem with them because you are paying international subscriptions in currencies other than sterling. I understand that that generated an outturn under annually managed expenditure £152 million below the amount authorised by Parliament in the estimates. Was this a one-off windfall, or might there be a similar benefit in the current financial year?

Iain Walker: I will try to keep this as straightforward as I can, because the way we manage foreign exchange is relatively complicated—

Mike Gapes: You buy it in advance, I know that.

Iain Walker: No, we don't, actually. We—

Mike Gapes: You used to.

Iain Walker: Yes, we used to, but under this spending round, for our core spending, we have an agreement with the Treasury, which is called a foreign currency mechanism, and that is what we manage our routine spending through. So Treasury manage the foreign exchange for us.

What you are rightly drawing attention to is that we do buy forward contracts—not under the arrangement that I just described—for our peacekeeping expenditure. It was on that peacekeeping expenditure that you see the difference in the numbers that you just set out. It was principally because sterling weakened against the dollar during the period. So in essence, what it is showing is that it would have cost an awful lot more had we not had that contract in place. So it is not a real loss, it is not a real gain. These are accounting adjustments to show what would have happened had we not had a forward contract in place. In this case it is "a good thing". By buying a forward contract, the weakening of sterling brought the Government and taxpayer better value.

Q83 Mike Gapes: And the current year? Is it likely to be a similar situation?

Iain Walker: In the current year I think it probably would be for the same forward contracts. We buy forward contracts deliberately to buy certainty. In the case of currency payments, we want to make sure that we know and can budget appropriately for how much we will pay at that future point in time.

The foreign currency mechanism—not the reference to the figure here—that we have with the Treasury is something that we will be looking to address through the spending rounds. We have rates set at 2010, which means that we have certainty of our buying power overseas. We have previously, going back before 2010, had challenges managing fluctuating currency values.

So we have that certainty. That is a good thing. But we are actually paying the Treasury £56 million. We did that last year. That was the cost of certainty for the Foreign Office in the last year. So we look at how we can make sure we provide that certainty, such that the Treasury, which is best placed to manage this, can do so, but not in a way that penalises the Foreign Office. This is something that we will want to explore during the spending round.

Q84 Mike Gapes: So the Treasury is taking £56 million of FCO money back by this arrangement.

Iain Walker: That's right, under the foreign currency arrangement that we have in place.

Q85 Mike Gapes: Have you thought that you might go to another Government that might give you a better rate?

Sir Simon McDonald: It's an area for negotiation.

Q86 Chair: But it's a slightly bizarre state of affairs for the treasury department of an organisation—literally in this case the Treasury Department of the British Government—to contract out its currency risk to the operational function.

Iain Walker: I think the logic of it is sound, but I think it has reached the end of its life. Absent any foreign currency protection, what we have is us, the Foreign Office, being able to buy more or spend less overseas, subject to foreign currency changes. But having that certainty is a good thing.

Q87 Mike Gapes: We had that problem in the Committee that I chaired in 2005 to 2010. We were very critical of the way in which the FCO got itself into a problem at that time. Then a new system was brought in, but clearly there are problems with that as well.

Iain Walker: The logic of it is sound, but, having set it at 2010, it now needs to be reset—needs to be rebased.

Sir Simon McDonald: Rebased.

Q88 Mike Gapes: Page 84 of the annual report of FCO costs by operating segments includes a 10% fall since 2013-14 in what is referred to as the cost of supporting Britain's prosperity. I am interested in this because the previous Foreign Secretary made great play of us apparently increasing our exports and increasing up to £1 billion—[Interruption.] A trillion. Sorry. And we seemed to have got about halfway, and then it has gone back. Is that now a lower priority, given that you are reducing expenditure on it? Is that now a lower priority within your overall priorities?

Sir Simon McDonald: UKTI is scored elsewhere, but Iain can explain.

Iain Walker: The figures that you are referring to on page 84—if I'm looking at the right figures—show the £361 million in 2013-14 falling to £256 million in 2014-15. In essence, in the current year, 2015-16, UKTI is now funded directly from the Treasury through a separate vote, through its distinct, separate main estimate that comes to Parliament.

Going back to 2014-15—to work backwards—this is a mechanics reason; this is different. In 2014-15, there were transitional arrangements in place; that money had previously come to the Foreign Office. We had given that money to UKTI. It makes sense, but, rather oddly, as the figures look, we had given the funding to UKTI, which then paid us to operate on a platform. Basically, they were given direct and indirect costs and then they paid them to us.

Going back to 2013-14, UKTI paid the direct costs. We paid all of those costs pretty much for them. So basically what we have is a different routing of money. In 2013-14, it was all paid for by the Foreign Office. In 2014-15, they gave us the money to pay for those costs, and that is why the figures change in the way they do. That is the long answer. The short answer is: we do not reduce prosperity as a priority.

Q89 Mike Gapes: So this is the prosperity equivalent of the conflict pool. It is the same problem—you move pots of money around and you rebadge it, which then makes it very hard for us to get a sense of what is really happening. I would be grateful if you could send us a note and get some information from UKTI about whether the total amount going to this prosperity agenda is actually being reduced, or whether it is just your contribution that is being reduced.

Deborah Bronnert: We can do that. I think we can be confident that we did not reduce it in 2014-15. You are right; it has moved. It is not our decision, actually, but it has moved, which makes it complicated to present what has happened.

Mike Gapes: Okay. Thank you.

Q90 Nadhim Zahawi: On prosperity, is the FCO still committed to the cross-departmental target of £1 trillion?

Sir Simon McDonald: The Government, including the Foreign Office, is committed to this stretch objective.

Q91 Nadhim Zahawi: Can you shed some more light or put some more colour on how we are going to get there?

Sir Simon McDonald: As has just been discussed, £1 trillion was difficult when it was first floated, and two years later it is more difficult because we have gone back a little bit, rather than making progress towards it. I think everybody sees that this is there as an aspiration, but we need an aspiration. We need this to motivate our people and to show them that this is central to our success as a country, and we have to drive towards it even if we do not actually get there.

We are looking at measures within that target that we think are more granular and more achievable, and they are around market share, especially compared with our main competitors. If we are looking at the Chinese markets, we look at what we, the Germans, Italians and French are achieving today, and then rolling forwards five years to 2020 we have to be in a better place compared with our main competitors. We think that is a more realistic way to turn an aspiration into reality.

Q92 Nadhim Zahawi: Do I detect that you do not believe in the target?

Sir Simon McDonald: I did not say that, sir. I believe in aspirations.

Q93 Daniel Kawczynski: Lord Green, the outgoing Minister, told us that if we reached 80% of the £1 trillion target, we would be doing extremely well. You are talking about aspiration, but why have you failed to reach this target? It was not plucked out of the air. It is a very important target that needs to be reached. Is it not that the structure and personnel of UKTI are improper and inadequate, rather than the target being wrong?

Sir Simon McDonald: The target was not plucked out of the air, but it was based on some very optimistic assumptions and assertions. Looking at our economy and the economies of our main competitors, including Germany, we thought that we should be able to do as well as them and that there was no structural hindrance to the UK exporting as much as Germany exports of its economy. Well, there are significant differences—50% of Germany's economy is exported. They managed the change from a proportion similar to ours to where they are now over a 15-year period. Even when the target was launched, the idea of turning the UK from about one third export to one half export within seven years was thinking we could do twice as well as the Germans did at the peak of their economic success. The target was not plucked out of the air, but it was always extremely optimistic.

Q94 Daniel Kawczynski: Even optimistically—even if we reach 80%—it is going to be a shortfall of £200 billion, which is a staggering amount of money.

Sir Simon McDonald: But £800 billion exported would be a staggering achievement too.

Q95 Daniel Kawczynski: I have visited UKTI in Warsaw on many occasions, where they are piloting a project of enabling, empowering and funding chambers of commerce to engage with one another. I have certainly written to Francis Maude about this, because he has taken over responsibility for looking at the structure of UKTI. Is that something that the Foreign Office is seriously considering—changing the way in which we can fund private sector chambers of commerce to do this job rather than civil servants in Whitehall?

Sir Simon McDonald: It's already happening in some markets. As you know, UKTI is at the beginning of a review, which will report by the end of October. One of the things that they are looking at is moving to more high-value work. In moving to more high-value work, the volume work, which is the bulk of what their customers in the UK traditionally look to UKTI for, will not disappear. Looking to chambers of commerce is one possible way to cope with that volume work. Not only in Poland, but in other markets, there are pilot projects. We need to await the outcome of the review before we can say with certainty what model UKTI will follow in the future.

Q96 Daniel Kawczynski: Lastly, I spent about a year and a half writing a report on UKTI, with very limited resources. We interviewed more than 300 British SMEs in the process in my office, just to get their understanding of their traction with UKTI. There is a terrible problem with small companies—pioneering, innovative companies—not getting the ongoing traction from UKTI that they need to encourage them and to export. I wanted to put that on the record.

Sir Simon McDonald: I heard you make the point, Mr Kawczynski, last week to the Foreign Secretary.

Daniel Kawczynski: And I will continue to make it until the situation improves.

Sir Simon McDonald: I will discuss it with the new CEO of UKTI when I meet her next week.

Daniel Kawczynski: Thank you very much.

Q97 Chair: Can I turn briefly to language capability? The previous Committee was alarmed to find, in November last year, that the average target level attainment across all FCO posts was just 38%. In key regions it was lower still—I am told 28% in FCO posts in the Middle East and north Africa, and 27% in Russia and eastern Europe. The predecessor Committee noted that one of the clearest indications in turnaround in language proficiency will be improved performance in exams. This Committee was encouraged by them to monitor this area closely.

The Office wrote to the Committee in February 2015 to say that the results of language exams sat by your staff in October 2014 were promising and will probably lead to an increase in the target level attainment. You volunteered to share the results with the Committee by the end of the financial year. That seems to have got lost in the general election. Could you update us on the target level attainment overall and by region? Would you be able to supply us with a comprehensive report on the target level attainment offered to our predecessors?

Sir Simon McDonald: Deb, do you want a first crack?

Deborah Bronnert: We share the Committee's concern to ensure that our UK-based staff speak the languages required. Some 60% of our UK-based staff have registered language skills, which is good but we need to build on that. The current figures are that target level attainment was 36%; it has gone up to almost 39%. We clearly have a way to go. I mean, 99% of our heads of mission in speaker slots speak the local language. There is quite a lot of good news. We can certainly share that with you, but you are right that we have some way to go.

By way of illustration, we had a letter from our ambassador in Romania today explaining how the new language school had helped him and his two speaker slot UK-based staff to perform at a much higher level. He gave an example that he had been on TV with two other ambassadors. They had spoken their languages and he spoke in Romanian. The difference in impact was really significant. We have some progress but we accept that we have more to do.

Sir Simon McDonald: You are right, and we are on the case. The language school is only two years old—it is two years since it was re-established. I acknowledge that there is a way to go, but it is a priority for the FCO. We will give you the information you asked for.

Q98 Daniel Kawczynski: Just on the languages thing, there is a scheme here in the House of Commons for Members of Parliament to learn European languages. I think that is part of the FCO programme. I telephoned to find out how much it would cost to learn a certain language and was horrified to find out that it was £60 an hour. Now, I find that staggeringly expensive. What are you doing to find a more cost-effective way of teaching diplomats these language skills?

Sir Simon McDonald: You were told that the average cost of the FCO's language tuition—

Daniel Kawczynski: No, there was a particular language that I asked about, and I was told that it would be £60 an hour. That was the cost that the company—

Mr Hendrick: Which language?

Chair: Mr Kawczynski, you are asking questions about the cost to Parliament, rather than the cost to the Foreign Office.

Sir Simon McDonald: Yes, sorry, that is what I wanted to establish. Is this the cost to an outside partner, or the cost within the FCO?

Daniel Kawczynski: In Parliament itself, if you are a Member of Parliament, you are entitled to learn a foreign language, as long as it is a European Union language, and that facility comes from the FCO—

Sir Simon McDonald: And we are charging you £60 an hour.

Daniel Kawczynski: No, the FCO has found a language school or organisation that teaches diplomats and civil servants, then Parliament may use those resources if a Member of Parliament wishes to learn a foreign language.

Sir Simon McDonald: I am going to take a chance—I wonder if you are talking about Polish—but I will ask the question about how we are providing our Polish.

Daniel Kawczynski: Yes, it was Polish. I wanted to find out how much it would be and I was told that it would be £61 per hour. I for one was horrified at the cost and did not take up the course, because I would not be able to justify it to the taxpayer.

Sir Simon McDonald: No, but I wonder if this is the difference between the cost to the FCO and the cost that we are charging external partners. I will investigate.

Q99 Mr Hendrick: A couple of years ago, in the last Parliament, we visited the language school when you first opened it up. I have two quick questions. First, how much do you feel the school has improved languages? Secondly, and partly connected with Mr Kawczynski's question, if you do not already provide a language in the school, is it only expensive to get that language in for someone wanting, for example, to learn Estonian or whatever?

Deborah Bronnert: In fact, we are looking at this in our HR committee tomorrow to try and measure what is happening and what more needs to be done. Anecdotally, we think that things are working well, but we fully acknowledge that more needs to be done. The particular question about the difference in cost when we go outside I cannot answer—we would have to give you a note.

Q100 Mr Hendrick: How many of the languages of the 28 countries in the European Union do you cover?

Deborah Bronnert: We will have some slots in all of them if appropriate—clearly it is not appropriate in all of them. We try to find a cost-effective route, so it depends on the numbers. You can imagine that for quite a lot of the smaller languages it will not make sense to have an in-house capability—

Sir Simon McDonald: We go external.

Deborah Bronnert: We will go outside. But obviously for the other languages it will make sense to have an in-house capability. So it will vary a lot. We will try to do the thing that is most cost-effective.

Q101 Daniel Kawczynski: Sir Richard Lambert, the lead non-executive member of the supervisory board, says in his foreword in the annual report that relations with arm's length bodies were one of the "big themes" discussed by the board. Can you tell us what lies behind this statement?

Deborah Bronnert: Sorry, I am just conscious that Sir Simon was not actually at any of these boards when this happened.

We have an ongoing conversation about how we make the best use of all the range of relationships that we have. The ones that I am most closely associated with are FCO Services and the British Council, but clearly we also have the Westminster Foundation for Democracy and—

Sir Simon McDonald: The Great Britain-China Centre and the Marshall Scholarship.

Deborah Bronnert: The Great Britain-China Centre, the Marshall Scholarship and I have forgotten one.

In the course of the past year we have undertaken specific reviews for some of them. The British Council had its triennial review, which was made public, looking at how to improve and better align what the British Council is doing with broader government, while maintaining its charitable status and so on. Last year we looked at FCO Services to see how we could improve the governance relationship between them and the Foreign Office. We have two new chief executives for both of those two, and are talking to both about how collectively we can approach the spending review to have the most sensible settlement.

I suspect that is what Sir Richard is referring to. The supervisory board will keep an eye on whether we have the right relationships and are getting the right things out of the different bodies with which we have a close relationship**.**

Q102 Daniel Kawczynski: Are you satisfied that these bodies are in sync with FCO and Government policies?

Sir Simon McDonald: Yes, broadly, and that is the main outcome of the reviews that Deborah referred to. It is important to us that we are aligned. The reviews, and indeed our continuing contacts with the senior management in our arm's length body partners, provide us with assurance, but it is something that is monitored all the time.

Q103 Daniel Kawczynski: As someone who has worked with the Westminster Foundation for Democracy in Erbil on two occasions, and seen its tremendous work and the help it gave to the fledgling Parliament in Kurdistan, I want to put on the record how effective I found that particular body. I would very much hope that it is looked upon favourably in future, because the work it does is extremely good.

Sir Simon McDonald: Thank you.

Q104 Daniel Kawczynski: Can I move on to corporate sponsorship? Are you content with the current scale of corporate sponsorship at FCO events and would you be happy to see an increase, with suitable safeguards?

Sir Simon McDonald: This matter is constantly debated. As you know, there are views at both ends of the spectrum. Some want a lot more; others think we do too much already. I think what we do at the moment is justifiable. We work with partners who are aligned with our interests and who clearly have a British connection. That does not mean to say that they are always British companies, but if they are not, they have a significant workforce in the UK or a significant British connection. It works to our mutual benefit, particularly with entertainment overseas. The single event in each post each year where sponsorship is most evident is generally the Queen's birthday party, where we encourage ambassadors to seek sponsors to share the cost of what is usually the most expensive party of the year. So yes, we are happy to do it, and we think we are in about the right place.

Q105 Daniel Kawczynski: The annual report only lists corporate sponsorship deals involving sums of more than £5,000. Why not list all sponsorship deals, in the interests of transparency? We, as Members of Parliament, have to declare anything above £250.

Sir Simon McDonald: I know that you have had correspondence with my predecessor about this issue. All these things have to be done manually, so there would be some extra expense in going for these smaller amounts. We think that the total of those amounts below £5,000 is probably in the order of half a million pounds a year, so a relatively small amount of money spread across the globe, but I know also that we are looking at whether we can, relatively easily and not expensively, do a full examination of money that we get from sponsorship. I would not like to make the commitment today, because it would be right to share with the Committee the expense of completeness. If it is the case that what we are talking about is less than 20% of the total that we get in sponsorship, I would submit that maybe we can continue the present system.

Q106 Daniel Kawczynski: So you said there are about half a million of these corporate sponsorships under—

Sir Simon McDonald: Half a million pounds in total, not half a million incidents.

Q107 Daniel Kawczynski: Half a million pounds sterling of corporate sponsorships that are below £5,000.

Sir Simon McDonald: Correct. As I said, that is our estimate.

Q108 Daniel Kawczynski: And, because of the work, extra burden and red tape that ensures, isn't it better not to have corporate sponsorships below that level?

Sir Simon McDonald: At the moment we do not have the extra red tape, because we can have sponsorship below that, which is not reported in the same way. It is a trade-off between convenience and the transparency of the propriety. So if the decision is that there is too big a question mark and it is too expensive to collate the data, then the logical conclusion would be that we accept sponsorships only of £5,000 or above. That would be, I think, a significant constraint on our work, particularly as a lot of the sponsorship we get is in kind, so more difficult to cost but useful for both parties. When done with restraint and dignity and in compliance with our relations, I would support that we continue to work with partners on sponsorship in kind.

Q109 Daniel Kawczynski: If a British company was interested in finding out what opportunities there were for sponsoring events, what would be the process they would go through?

Sir Simon McDonald: Usually, if we were looking for a sponsor for an event, we would be the initiator. So we would approach trusted senior contacts with an event in mind and a sort of help in mind. It would come from us, not from the companies.

Q110 Daniel Kawczynski: Right. So you are proactively looking for sponsors rather than receiving—

Sir Simon McDonald: Yes, and this is done by all diplomatic services. You cannot move at the 4 July celebrations anywhere in the world without bumping into corporate sponsors.

Q111 Chair: Are we professional enough about this in terms of managing sponsorship: getting the balance right between transparency and reporting; and maximising opportunities for sponsorship for perfectly proper UK companies in the form that American companies use, the 4 July opportunity to sport their wares in the markets they are in? Or would we simply cavil at the Queen's birthday party being tainted by grotty commercialism?

Sir Simon McDonald: There are these considerations. The last big event I had in Berlin was a Queen's birthday party at which the Queen was present. It was the end of the state visit and I took the decision that, with the monarch there, I was not going to have any sponsorship of any sort, no matter what happens at other times, because it did not feel right. So I think it is a matter of judgment.

I expect ambassadors to be able to exercise that judgment, but I personally resist the idea that we should turn our events wholly over to sponsorship. We need to be in control. I think it needs to be proportionate and dignified, not commercial, in the way of some parlance.

Mr Hendrick: Not a Carling Queen's party.

Sir Simon McDonald: For example.

Q112 Chair: Can you give us a brief update of the capital investment programme and the main projects both in the UK and overseas?

Deborah Bronnert: Shall I start? We have two current major projects under way. We have our UK estates reform project, which is where we are moving our London staff all into King Charles Street. That project is well under way. You have been to King Charles Street and you have seen we are enjoying working in a building site at the moment. Staff will, as planned, move out of the Old Admiralty building. The final staff moves will happen over the next few weeks and we will hand it over in November. The completed works for King Charles Street are likely to be in early February by the time everything is done and dusted and we fully expect it to come within budget.

The other major project we have is the new High Commission building in Abuja. That is a £46 million, I think, new-build in Abuja that will bring DFID as well as the embassy on to the same site. Work is progressing there well. It is taking a bit longer than we had hoped, but I think the latest is that the staff should be moving in from September next year. Those are the two big, major projects that we have ongoing in terms of capital.

Q113 Chair: The last PUS told us on 27 July that there was a delay in finishing the construction work at the Old Admiralty building and the remodelling of King Charles Street, and that the timetable was going to be extended owing to an error on the part of the contractors. You have told us that it is now going to finish within budget, but you have not told us whether it would have finished even more within budget. Are there financial implications for the FCO because of that error? Perhaps you could tell us what the error was.

Deborah Bronnert: We are delayed.

Iain Walker: As you said, we are within budget, but there has been a delay and there is a cost associated with that.

Q114 Chair: How much is that?

Iain Walker: The delay is entirely the construction contractor's problem—we are not incurring any further cost in the Foreign Office. We are firmly applying the contract as it stands and have sought legal advice to ensure that we remain in that place, so there has been no further cost to the Foreign Office as of now, and we do not expect to have any additional cost as we apply the contract through the final phases until the contractor finishes and hands back the building to us once complete.

Q115 Chair: So you are bringing it in within budget, but that is obviously a slightly different question as to whether, because of the contractor's error and the delay, there are consequential additional costs to the Foreign Office, even though the project is coming in within budget.

Deborah Bronnert: There are penalties in the contract. We are obviously not at the final stage of working out the precise levels, which would be subject to negotiation and discussion, but there is a delay. We are moving out of the Old Admiralty building on time, but it means that when some of our staff move back to King Charles Street they will effectively have to move into temporary accommodation in King Charles Street before they move into their permanent offices there. That is why it will probably not finish until around February.

Q116 Chair: Okay. We will be looking to you to hold the contractor to account. We hope that the contract was appropriately written.

Why has your global asset management plan not been placed in the public domain?

Deborah Bronnert: I think it contains quite a lot of commercially confidential information.

Iain Walker: The asset management plan includes both planned spend and planned sales. I guess it is because of the planned sales that it is not in the public domain.

Q117 Chair: Please may we have a copy?

Iain Walker: Yes.

Chair: Thank you very much.

I now want to go into some final questions on property. I know that there are some commercially confidential sensitivities, so I am going to ask the Committee to move into private session. I invite those who should not be present in the private session to leave the room.

The Committee proceeded to take evidence in private.