

Foreign Affairs Committee

Oral evidence: FCO Budget and Capacity and Annual Report 2016-17, HC 573

Wednesday 15 Nov 2017

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[Watch the meeting](#)

Members present: Tom Tugendhat (Chair); Ian Austin; Chris Bryant; Ann Clwyd; Mike Gapes; Stephen Gethins; Ms Nusrat Ghani; Ian Murray; Royston Smith; Nadhim Zahawi.

Questions 1-190

Witnesses

I: Miranda Curtis, Lead Non Executive Board Member, Foreign and Commonwealth Office, Peter Jones, Chief Operating Officer, FCO, Sir Simon McDonald, Permanent Under-Secretary of State, FCO, and Andrew Sanderson, Finance Director, FCO.

[Written evidence from the Ministry of Defence responding to the Committee's questions on Operation Ruman](#)

[Written evidence from the Department for International Development responding to the Committee's questions on Overseas Territories and the Hurricanes](#)

[Written evidence from the Foreign and Commonwealth Office responding to the Committee's questions on Overseas Territories \(ots\) and Hurricanes Irma and Maria](#)

Examination of witnesses

Witnesses: Miranda Curtis, Peter Jones, Sir Simon McDonald, and Andrew Sanderson.

Chair: Welcome Sir Simon, Peter, Miranda and Andrew; thank you very much for attending. We are going to whizz straight through, if that is all right, as we have quite a packed agenda. We will try to keep it brief; I would be grateful if you would do likewise.

Q1 **Nadhim Zahawi:** Welcome Sir Simon, Peter, Miranda and Andrew. What do you see as the UK's strategic priorities right now, particularly in pursuing Global Britain?

Sir Simon McDonald: The top priority is to make a success of Brexit. The Foreign Office has a direct role in that, in parts of the negotiation. The second is to prepare for the world after we leave the European Union. That is what Global Britain is about: even though we are leaving the European Union, we remain engaged around the whole world. We are building up capabilities and we are stressing expertise and agility in order to be able to do this task.

Q2 **Nadhim Zahawi:** According to the single departmental plan, the Foreign Secretary has 34 strategic priorities. Do you think 34 is one too many? I think Margaret Beckett had about eight.

Sir Simon McDonald: Ten, I think. She added the environment as No. 10.

Q3 **Nadhim Zahawi:** I stand corrected, but is 34 realistic in any organisation in the world?

Sir Simon McDonald: I think 34 policies is realistic. We generally brigade these priorities into three headings. First, protecting our country—security. Secondly, promoting our prosperity. Thirdly, projecting our values. All 34 would nestle under one of those three headings.

Q4 **Nadhim Zahawi:** But 34 is a lot. Do you think he is doing too much?

Sir Simon McDonald: I think he leads a Department that is capable of coping with 34 objectives.

Q5 **Chair:** Would every mission be able to describe those 34?

Sir Simon McDonald: No, because every mission does not need to engage on all 34. We have 274 posts around the world, and a lot of them will be focused on only one or two of those objectives.

Q6 **Nadhim Zahawi:** I am almost tempted to ask you to name all 34.

Sir Simon McDonald: I thought you were sidling up to that. I will have to disappoint you—I have not memorised all 34.



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Peter Jones: It is worth saying that there are also six priority outcomes. The PUS has mentioned the three overarching objectives, which are the same as the national security objectives. Under each one, there are two for each year—Europe, Euro-Atlantic security and so on. We prioritise within that longer list of 34.

Q7 **Nadhim Zahawi:** So there are the three, and then the six, and below the six? All I am really trying to get at is that, in any organisation, I think beyond eight or 10 is a stretch. It just feels to me that you either do less or you get more funding and expand massively.

Sir Simon McDonald: I understand your point, Mr Zahawi, but the idea is that there are three big objectives, which everybody should know, and that under those objectives your personal priorities can be more detailed and part of that 34. I think these two things can exist alongside each other. We have over 12,000 people working for us, so I think that across the world we manage to do what is necessary. Each of the 34 does not have the same priority or the same resource behind it, but we do what is necessary to try to deliver on those objectives.

Q8 **Nadhim Zahawi:** How stretched do you think your teams are?

Sir Simon McDonald: I am a big fan of work-life balance. I think that people need to be rested and to have a complete life in order to deliver at work. I think most of my colleagues achieve that, but not everybody, and not everybody all the time. Everybody is familiar with crisis. When we have a crisis, those involved in that crisis will necessarily work harder. I understand that; they understand that. There are some pinch points, for sure, around the organisation. Some of the Middle East work is chronically busy. Europe work now is chronically busy. But overall, I think, we manage to pace ourselves.

Tomorrow we will publish our staff survey results for 2017, and our engagement score remains 70%, so I think that is a good indication that people are, overall, happy with their experience at work.

Q9 **Nadhim Zahawi:** Apart from the Middle East and Europe, which I would probably describe as chronically stretched rather than busy—you are nodding.

Sir Simon McDonald: I recognise the analysis.

Q10 **Chris Bryant:** The point of priorities is to be able to know what you are not going to do as well, because you say, "That's not on my priority list." I wonder whether each of the Ministers has a list of priorities, so that ministerial offices can say, "You know what? That meeting isn't a priority. This is."

Sir Simon McDonald: They do. After everybody was appointed in June, the Foreign Secretary talked to them individually and wrote to them with his expectations for what they should do in the first year of this Parliament.

Q11 **Chris Bryant:** Could we see those letters?

Sir Simon McDonald: I will discuss it with the Foreign Secretary. I can see no reason why—

Q12 **Chris Bryant:** Oh just say yes!

Sir Simon McDonald: They are not my letters, Mr Bryant, but I can see no reason why not.

Q13 **Chris Bryant:** Talking about around the world and, in particular, outside the European Union, where are the priority areas? You have already said that we are chronically stretched or busy. I have never heard the term—

Sir Simon McDonald: Well, I did not challenge Mr Zahawi when he used this phrase, I think.

Q14 **Chris Bryant:** I think it was originally yours, but anyway, it sounds like a translation from one language into another and back into English. I just wonder what areas you think we need to devote additional resources to once we are outside the European Union.

Sir Simon McDonald: The process of assigning resource is one that we do all the time. As an example, immediately after the vote on 23 June last year, we did some internal reprioritisation, and that is where the 50 extra slots for work in the European Union came from.

Q15 **Chris Bryant:** Outside the EU is what I am asking about.

Sir Simon McDonald: Outside the EU, we have built up in China and India over the last decade, so both those networks are bigger than they were 10 years ago.

Q16 **Chris Bryant:** But looking to the future, where do you think we need to do more work in the future?

Sir Simon McDonald: Part of being a global country with a global past is that we have a footprint everywhere. For reprioritising, Ministers will decide, but as far as I can see, the priorities in the next period will be our neighbourhood, including the Middle East and Russia; the far east, particularly China; and the United States.

Q17 **Chris Bryant:** Not the Commonwealth?

Sir Simon McDonald: Not as a top priority, Mr Bryant. You were asking about prioritising.

Q18 **Chris Bryant:** I understand. I am not telling you that it should be; I am just asking because you say that one of your top three priorities is projecting Britain's values, and 95% of people who live in the Commonwealth live in countries where homosexuality is illegal. Is that part of the agenda?

Sir Simon McDonald: It is part of the agenda, but as I am clearly failing to convey to the Committee, you can have top priorities but still be able to deliver across a wider policy piece. The Commonwealth is a very important organisation to the United Kingdom, but not as important, in the next period, as the neighbourhood, China or the United States.



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- Q19 **Chris Bryant:** One final question from me. Parliamentarians from both the House of Lords and the House of Commons, I guess, could be resourced to you. In the future, do you think that resource could be used more effectively?

Sir Simon McDonald: It is a resource we do use effectively. I have seen many of your Committee members on trips around the world. I have been on post when people like Mike Gapes and Ann Clwyd have visited as part of an FAC delegation. That is already part of the piece. Yes, we can continue to work closely together.

- Q20 **Chair:** Have you asked for more resources in order to fulfil that?

Sir Simon McDonald: We are aware that resources are tight for everyone, but yes, we are looking to increase in a bespoke way in certain areas. We are aware that the overall environment is difficult.

- Q21 **Chair:** From within your own budget, or are you asking specifically for more money from the Treasury?

Sir Simon McDonald: One thing that is now under active discussion is how to make best use of official development assistance. The United Kingdom, as everyone here knows, is committed to a 0.7% spend, so it is a large sum of money in the budget in any case. The Foreign Office is a big spender of ODA—the second biggest—but we think we might be able to make use of some more. We have done an exercise to look at the work we do in sub-Saharan Africa. Until now, the scoring has been bottom-up, but we think we might do it top-down, which would allow us to score more of the work that we are doing in sub-Saharan African to ODA. We could then claim more ODA from the central budget and we hope that the money released can be used elsewhere in the diplomatic network.

- Q22 **Ann Clwyd:** Sir Simon, what would you say are the three biggest failures in your Department over the last year?

Sir Simon McDonald: I feel as though I am a candidate for a job that I am not sure I want. I am wondering at the sort of question. The three biggest failures—I do not recognise that. That is not how I approach my work, Mrs Clwyd. I dwell more on the successes than the failures. There are things we could have done better, I am sure. Do you really want me to mention failures?

- Q23 **Ann Clwyd:** No, but we all assess ourselves from time to time. What are you most sorry about not being able to do?

Sir Simon McDonald: For a counsel of perfection, one thing that I wish we could have done more swiftly is gear up in the European Union. As already discussed, that is the biggest thing that will hit us. We recognised that straightaway, but reacting to that takes more time than you would like—or than I would have liked. We took an immediate decision to deploy 50 extra people. A lot of those people are still not in post a year later because it takes time—first to release the resource, then to train them and then to get them in post. Meanwhile, half the period between the vote and



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exit day has gone by. That is a disappointment. It would have been better had we been able to deploy quicker.

- Q24 **Ann Clwyd:** Can you give us some numbers or an idea of how many should be post and how many are not?

Sir Simon McDonald: The 50 are locked and loaded. All of them have been recruited. There will be a second tranche and we are in very advanced conversations with the Treasury. I think that we are looking to recruit over 100 extra people temporarily for the task in hand, but the details of that will come out soon.

- Q25 **Ann Clwyd:** Any idea what sort of extra money that will cost you?

Sir Simon McDonald: Again, we are in detailed conversations with the Treasury, which has announced that there is £250 million for Brexit work. We will get a part of that.

- Q26 **Ann Clwyd:** Are you advanced in planning for the possibility of no deal at the end of the day?

Sir Simon McDonald: Since the beginning we have looked at all the possible scenarios—so yes, we are talking about that, because it is part of prudent planning.

- Q27 **Chair:** Did you begin any planning before the referendum for either outcome?

Sir Simon McDonald: Before the referendum, as you know, the Government was focused on winning, so there was no detailed planning. But one thing we knew before the referendum was that it would be some time before article 50 was triggered, and once article 50 was triggered there would be two years. Because it was Government policy to stay in the European Union, the civil service lined up behind that, but in the knowledge that there would be time if the vote was to leave, as we see.

- Q28 **Mike Gapes:** In the previous Parliament, the Committee was very critical of David Cameron's instruction, in effect, that no planning should be done for the future contingency that we might leave. Was any informal work done at any level, as far as you are aware?

Sir Simon McDonald: Of course we looked at that possibility, because it was one of only two possible outcomes, but the instruction from the previous Prime Minister was clear and we are civil servants working for the Government of the day.

- Q29 **Chair:** Did you advise that the instruction should be different?

Sir Simon McDonald: I did not advise that the instruction should be different.

- Q30 **Ann Clwyd:** Can you explain why five of the FCO's priority outcomes have only been partially achieved? Why has the consular priority outcome been deemed achieved, when there are so many serious ongoing consular cases?



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Sir Simon McDonald: This is true. Frankly, the reason why five are partially achieved is that all of them are big and complicated, and all of them require close work with many other actors. If we described outcomes guaranteed to be green at the end of the year, they would not be the most stretching or worthwhile. The penalty for stretching yourself is that you do not achieve everything you set out to. That is why the five are partially achieved.

Consular we scored green because overall we have done well on it this year. As you know, in the last few weeks the Government had to deal with the collapse of the fourth-largest British airline. The Foreign Office, with the Department for Transport, was ready for that: over two weeks we moved 85,000 British citizens back to the UK smoothly. We had deployed people to 33 countries in order to achieve that; we had over 100 people on the ground ready to go, and it worked. You are right that there are some very thorny consular problems—some of them are in the headlines today—but overall, the 23,000 cases that we deal with per year are happily resolved, and our compliments outweigh our complaints by 10:1.

- Q31 **Chair:** One of the reasons this question came up is that some of us read your predecessor's speech at Chatham House, in which he said: "It is hard to call to mind a major foreign policy matter on which we have had decisive influence since the referendum." That is a rather bleak way of looking at the achievements of the Foreign Office.

Sir Simon McDonald: It is, and it is one man's opinion. I point to what we have been doing in New York on Burma policy, where we hold the pen. I point towards our contribution in the Foreign Office counter Daesh; the main British actor was the MOD, but the FCO was there in support, particularly with the communications cell. That is an international cell based in King Charles Street, which over the past 12 months has degraded Daesh's operation. Their propaganda output is only 30% of what it was a year ago. I think we have done things, but we have been part of a bigger picture rather than doing things all by ourselves.

- Q32 **Chair:** You didn't cite the advice that was given to the Prime Minister in the run-up to the referendum that led to, frankly, a failure to get the negotiation that he sought. And you didn't cite the Chagos islanders' issue, where we lost the vote in the UN. I think for the first time in long time, our EU partners did not vote with us. I wonder whether you could talk about either of those.

Sir Simon McDonald: I was citing success. On the Chagos vote, yes, that did not work out as we wanted, but as you know the UN is a complicated body, and after that vote the Chagossians were relatively disappointed, or Mauritius was disappointed, because they had hoped for more positive support than they got. On such an issue, the plaintiff is accustomed to greater support. Maybe it is cold comfort, but it still meant that the Brits did better than the Mauritians expected.

- Q33 **Ian Austin:** On that point, I wonder whether you thought Sir Simon Fraser meant that our influence had declined because we had decided to



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leave the EU, or because of the attention the Department has to give to Brexit as a result of the decision. Those would be two different things.

Sir Simon McDonald: I cannot account in detail for my predecessor's views but I do not think that the UK counts for less on the wider international stage because of the Brexit vote. We are still a member, and an active member, of all the other clubs, including the UN Security Council. I have mentioned the work we have done on Burma, the work we have done on DPRK and Libya. I think all of that is the UK doing its traditional shaping role.

Q34 **Mike Gapes:** I want to go back to your probably rose-tinted view of the Chagos Islands vote, because it is pretty unprecedented, isn't it, for the UK not to have the support of other European Union countries in a UN General Assembly vote? Normally, you would expect that, but post the Brexit vote, on an issue where previously we would have expected that support, that support was not there.

Sir Simon McDonald: Thank you, Mr Gapes, for supplying example No. 2 for Mrs Clwyd's earlier question. I would say, yes, this was not the best hour for British diplomacy, but, I repeat, on an issue that is basically one of decolonisation, the country that is bringing that to the attention of the General Assembly generally does better than Mauritius did against the United Kingdom over BIOT.

Q35 **Mike Gapes:** But in previous years, other European countries would have been there with us.

Sir Simon McDonald: That is your observation, Mr Gapes.

Mike Gapes: It's a fact.

Q36 **Chair:** Is it a fact?

Sir Simon McDonald: It cannot be a fact because it is a speculation, but it is an analysis.

Q37 **Chair:** So, in previous years, they haven't been with us.

Sir Simon McDonald: In previous years, we have not had a vote in the General Assembly about the Chagos Islands, because we have managed not to have such a vote, so it is a speculation.

Q38 **Chair:** So, the fact that there was a vote is the first failure, not the fact that we lost it?

Sir Simon McDonald: You could say that, Mr Chairman. Okay, we have got my three things dragged out me. But in the overall scheme of things—

Q39 **Chair:** Because nobody expects the Spanish Inquisition, we are about to have four things.

Sir Simon McDonald: One lost vote in the General Assembly, which means that there will be a reference to the International Court, which will come up with an advisory opinion. I submit to the Committee that this is



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not the worst reverse you could sketch for this country or this country's diplomacy. This is quite niche.

- Q40 **Ian Murray:** Staying on this theme, as the Permanent Secretary, do you think the current Foreign Secretary helps or hinders the Department's work in terms of international influence?

Sir Simon McDonald: The current Foreign Secretary helps the diplomatic work of the United Kingdom. The Foreign Office is proud of its tradition of serving the Foreign Secretary of the day, and Boris Johnson is absolutely no exception. He has a dedicated team that do their very best for him and for this country.

- Q41 **Ian Murray:** That is not number four, then.

Sir Simon McDonald: No.

- Q42 **Chair:** I think we will avoid your annual report going into further trouble. What do you hope to achieve in your term of office? How would you rate success for you, when you retire as PUS and go off to give lectures at Chatham House criticising your successor?

Sir Simon McDonald: I clearly have a kinder view of my predecessor's objectives. The Foreign Office is a strong institution, but there are some important ways in which it needs to change as we contemplate the task ahead. One is that we need to be the go-to Department for everything to do with overseas. Over the last period, our international policy has become more fragmented: with the creation of DFID, DIT and DExEU, there are now multiple players in international policy. After we leave the European Union, it all needs to be more joined up, and the Foreign Office should lead that. If we are to do that, we have to be clearly the experts. We need to offer country expertise and we need to offer thematic expertise. That is a big theme of my PUS-ship.

Secondly, we need to be more agile. The Foreign Office is proud of its estate. This is our history, and it helps us do our work, but we cannot be as slow to react—as I said to Mrs Clwyd earlier, it has taken more than a year to get the people out into the European network who needed to get there quickly. We need to deploy more quickly. We need to have a more flexible idea of what a post is in the world. It is not just bricks and mortar; it is having a person with the right technology in a place that needs temporary attention. So agility is the second.

The third is the platform. As I mentioned, the bricks and mortar are important. Some of it is rather flaky. It needs to be fit for purpose.

- Q43 **Chair:** You don't just mean the wiring in the embassy in Paris.

Sir Simon McDonald: That is an example of it. That is on the schedule of works. It needs to look the part and fill the part.

The second bit of platform is the technology. A programme that Simon Fraser started—tech overhaul—is now delivering. We have the best technology we have ever had. That helps us work better than before.



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Q44 **Chair:** If you were offered it, would you accept 150 decent ambassadors or 100 outstanding ones?

Sir Simon McDonald: Again, I do not recognise the choice. I say to every ambassador as she or he is going to post, "What you have to do is to be the go-to person in your capital city." Whether your capital city is Paris or Antananarivo, your objective is the same. I do not think it is a question of having fewer but more outstanding ambassadors. We want and expect them to be outstanding wherever they are posted.

Q45 **Ms Ghani:** Sir Simon, you said that you want the Foreign Office to be the go-to place for international activity and then cited a number of other Departments. Do you think those other Departments should exist, or should they be under you, within the Foreign Office?

Sir Simon McDonald: One of them is clearly a temporary project—DExEU. I have no argument with the existence of any of these other Departments, but I think there needs to be an overall foreign policy of this country, and having separate policies in different parts of Whitehall means that the overall effect is less than it could and should be.

Q46 **Ms Ghani:** So would you say that, at the moment, all these Departments are not working joined-up at all, and are possibly conflicting?

Sir Simon McDonald: They are working together, but I think we could work better together. There is the mechanism of the National Security Council, the National Security Secretariat, which brings us together. I am the Permanent Secretary in the Foreign Office, so I think the FCO, by its performance and by showing that it is there for the whole of Government, can show that, within this town, it is the go-to place for international affairs.

Q47 **Ms Ghani:** It has not quite worked. Could that be seen as your fourth failure?

Sir Simon McDonald: This one, if I may say, has been a slower-burning issue, but I hope that things are getting better on this score, so no, I do not acknowledge that as a fourth failure.

Miranda Curtis: I wonder if I might just add to that. Coming in from the private sector—from outside—and looking at how Government in general, as well as the Foreign Office, needs to organise itself for the immense changes that face the country, I have been very struck at the amount of conversation there is about cross-departmental working.

The Cabinet Office is doing a very good job of standardisation of cross-departmental working on a number of key themes: arm's length bodies, talent management, management information systems, major projects and things like that. The NSC, which Simon referred to, is clearly a very powerful focus for programmatic cross-departmental collaboration on a project-by-project basis.

However, if you look at the challenge from a private sector perspective, you have two problems. First, there is an absolute scarcity of resource,



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and therefore scarcity has to be managed effectively and efficiently. Secondly, the ability to deliver really good cross-departmental collaboration is undermined by a systemic inability, in that it is neither within the overall Government—let alone departmental—budgeting system to drive collaborative performance, as opposed to intradepartmental performance. Culturally, there is not that tradition of building on the combination of skills, or the combination of organisations, to maximise the skills and resources available.

In the private sector, it would be a much more straightforward proposition. You would bring all the interested parties together and you would combine a focus on budget and on cultural focus to drive platform efficiencies and scale synergies.

It seems to me, from a personal point of view, that there is a systemic challenge that goes way beyond the opportunities available to Sir Simon and his team to drive performance. That is a much bigger issue that may need to be considered.

- Q48 **Chair:** From the suggestion you are making, you would envisage bringing the Departments back to King Charles Street in some way?

Miranda Curtis: Not at all. My question is where within the total Whitehall system is the drive to drive both corporate culture change and a different budgetary focus, which would actually recognise not only intradepartmental performance but the benefits of releasing synergies and efficiencies.

- Q49 **Chair:** May I ask, on a somewhat more prosaic note, that given that the FCO does not do Brexit or trade, would you not think that the FCO is not doing the two most important things in terms of foreign policy?

Sir Simon McDonald: The FCO is not leading on Brexit, but we do do Brexit. The network is the key thing. The network is where I think everything has to come together, and there being only one overseas network for the United Kingdom and the Government is key.

- Q50 **Chair:** But the network is not just a hotel network—it has to be in expertise.

Sir Simon McDonald: Exactly—the expertise, so that whoever needs to go to whatever capital can dock into a network that will deliver on their subject. That is the aspiration of the FCO.

On Brexit, we are also deeply involved in four parts of the negotiations: first, on the Overseas Territories with a particular reference to Gibraltar, where the FCO is leading; secondly, on the sanctions Bill that is now in the Houses of Parliament, where the FCO is in the lead; thirdly, on common foreign and security policy; and fourthly, on third-country agreements. In all those areas, working with DExEU, the FCO leads.

- Q51 **Chris Bryant:** Specific to that, because you just referred to common foreign and security policy and defence after Brexit, is it the Foreign Office's hope that we will end up with some kind of observer status?



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Sir Simon McDonald: That is to be negotiated. Clearly, even though we are outside the European Union, those countries will be our closest neighbours. We will want to work very closely with them on a whole range of foreign policy security issues.

Q52 **Chris Bryant:** But do you want it or not?

Sir Simon McDonald: My personal view is not relevant here.

Q53 **Chris Bryant:** Does the Foreign Office want it?

Sir Simon McDonald: No, the Foreign Office is not making a pitch. There are a number of models on the table for how we might have a future relationship in this policy area with the EU. Observer status is one, but it is not the only one that could work.

Q54 **Chris Bryant:** The Brexit Secretary says he does want it, but this is meant to be an area where you are leading.

Sir Simon McDonald: I am saying that we are leading.

Q55 **Chair:** Then what is your advice?

Sir Simon McDonald: What I want is that we continue to work closely with our neighbours. The mechanisms will emerge in the negotiation over the next 12 months. I do not think there is any need for us to pin all our hopes on one particular model in November 2017.

Q56 **Chair:** Indeed, PUS, but we have all written courses of action and when you do COA 1, 2, 3 you often—I would suggest usually—have one COA that you would suggest is the most appropriate for the Minister to follow, although they may not for any number of different reasons. Which is your favourite course of action?

Sir Simon McDonald: This advice is still being developed.

Q57 **Mike Gapes:** Your predecessor Lord Ricketts and former Foreign Secretary William Hague told us that to have any real influence you had to be in the room. Do you agree?

Sir Simon McDonald: I can see why he would say that, Mr Gapes.

Mike Gapes: I am asking your opinion.

Sir Simon McDonald: I think there are other ways to have influence than being at the table. That is our experience already in dealing with many of our key foreign policy relationships. With the United States, with China, with India, we are not in the room as they are developing their policies, but we are still on their mind as they develop their policies. Being in the room, yes, that works—but other ways can work too.

Q58 **Chris Bryant:** But we are in the room with the United States on NATO and it would be a bit difficult to argue that we got most of our foreign policy objectives through China at the moment, would it not?



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Sir Simon McDonald: We are in the multilateral room, but we are not in the bilateral room with the United States in their National Security Council.

Q59 **Chris Bryant:** We won't be in any room, as far as I can see, with the European Union.

Sir Simon McDonald: We will be in a different position. That is a fact. We will make the best of it. We will develop new ways of working because we must. We think it is in their interest as well as ours that we should still continue to work closely. The option of continuing what we have now is something that we do not have.

Q60 **Chair:** You remind me of our investigation with the Foreign Secretary only a few weeks ago when we had a lot of words but no answers. I am merely wondering whether you could tighten, if you would, PUS, how you would like it structured. Forgive me, you are the expert here. You are the permanent head of the Foreign Office. Ministers come and go but civil servants are here forever, as we know. You have spent years in Germany. You have worked across the European question with Prime Ministers for the last 10 or 15 years.

Sir Simon McDonald: Ten years.

Chair: And you have been at the heart of the Foreign Office for the best part of 25 years, ever since you were private secretary to the PUS way back when. What is your advice? You have seen this. You are the expert.

Sir Simon McDonald: I will not pin myself to a model, because I do not think that that would be helpful. The objective is continuous, transparent, automatic co-operation; we need to build up the networks—the links—that allow that to continue. Observer status is one, but it is not necessarily available; it is not necessarily the thing that is going to result at the end of this negotiation. I do not have a crystal ball; I do not know where we will be, but I will judge the model by whether we have continuous, automatic access.

Q61 **Chris Bryant:** Has anybody proposed any other model—whether you like it or not?

Sir Simon McDonald: The one other model is a system of variable geometry, to take a favourite European phrase—bespoke groupings for different subjects. There is quite a lot of this in the international community already—quints, quads and trios. Depending on the subject, a different group convenes to discuss it. As I say, this is already familiar from dealing with things like the western Balkans right now and nuclear questions with Berlin in the past. E3+3 on Iran has been a very serviceable grouping, but bespoke to the problem.

Q62 **Chair:** You talk about quints and quads, but perhaps it is worth pointing out that we did not join the Normandy process on Ukraine, so we are not part of that quad. The way you are talking about it suggests that having no deal would be particularly harmful: we would not be in any of these arrangements, because by definition there would be no deal.



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Sir Simon McDonald: You are saying that I am saying that having no deal—

- Q63 **Chair:** —would be harmful to the UK's interests. Forgive me, but what you have just said is that we should have influence over the process in some way. It is slightly ambiguous how that influence should be shaped and where we should sit, but you are saying that we should have some form of structure that allows us to—

Sir Simon McDonald: But I am saying that it can be very informal or ad hoc. Already as a policy area, the CFSP is different from the core economic part of the European Union, because it is intergovernmental rather than by treaty, so the structures are different. I think the solutions will look different on the other side.

- Q64 **Ian Austin:** Can I go back a bit? I thought you said a moment ago that when different Departments in Whitehall have different policies, that is significant. Could you give us an example?

Sir Simon McDonald: I will give you one example in Ethiopia. In Ethiopia, we have a very large development assistance budget, but we have one or two political issues on which we are finding it very difficult to make progress with the Ethiopian Government. If the thinking was more co-ordinated, I hope that that could not happen, because the Ethiopians would be conscious of their overall relationship with us and so would not be able to compartmentalise development assistance from the political relationship.

- Q65 **Mike Gapes:** And one of those issues will be Mr Andy Tsege.

Sir Simon McDonald: Correct.

- Q66 **Ian Austin:** Could I ask if the difficulties that the Secretary of State for International Development faced last week are an example of the problems that can occur when different Departments are pursuing different objectives? What was the Foreign Office's engagement in this issue that led to her resignation—well, her departure?

Sir Simon McDonald: Specifically that we were not involved. That was the issue.

- Q67 **Ian Austin:** You do not have to be a conspiracy theorist to read all these references to Foreign Office sources all over the stories about Priti Patel's trip to Israel and wonder what was happening here. Are you able to help us on that?

Sir Simon McDonald: What is your specific question?

- Q68 **Ian Austin:** What do you think the references to Foreign Office sources all over these stories refer to?

Sir Simon McDonald: You would have to ask Ms Patel. I do not know what she meant. As a matter of record, the Foreign Office did not know about Ms Patel's contacts with Israeli officials before they happened.



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Chair: Can we perhaps move on from conducting an inquiry into the former DFID Secretary?

Mike Gapes: But I want to ask a specific question because I have had a number of written questions in the past few days: two to the Foreign Office and several more to the Department for International Development. What is the procedure in the Foreign and Commonwealth Office when a Minister decides to go on holiday to a country where there may be some sensitive political issues? Does the Minister always inform officials? Is it expected that they do so? Would the Permanent Secretary in the Department expect to be told in advance by the Secretary of State that they were going to visit a particular country?

Sir Simon McDonald: We have had to look at this, Mr Gapes, in the last days. Much of what has happened so far has been by convention, rather than because people were obliged to do things. So I think the ministerial code is going to be changed to make things clearer.

Q69 **Mike Gapes:** You are saying that the Permanent Secretary would not expect—

Sir Simon McDonald: Would not necessarily. People are entitled to a private life and can go on holiday where they like. The issue in this case in the end is not the holiday.

Q70 **Chair:** We will move on now. You raised something earlier that I would like to touch on again. You mentioned Ethiopia. Would you say that the ambassador in any country, as the Queen's representative, is the lead civil servant?

Sir Simon McDonald: Yes.

Q71 **Chair:** So you would not say that he is merely the FCO representative and that there is a DFID representative and perhaps, I don't know, an MOD one?

Sir Simon McDonald: It is vital for us, vital to the agenda that I was just talking about with Ms Ghani, that we are seen to be there for the whole of HMG.

Q72 **Chair:** So would it disappoint you to hear that I have heard in recent years people referring to the ambassador as the FCO lead and the individual concerned referring to himself as co-equal, as the DFID lead or the MOD lead, depending on the country?

Sir Simon McDonald: It would disappoint me, yes.

Q73 **Chair:** Would you feel that clarity would be useful for people on foreign postings that the ambassador is, as Her Majesty's representative, always the lead?

Sir Simon McDonald: Yes. Clarity exists; that is formally the case. Part of this openness is that the FCO senior appointments are open across Whitehall. They are advertised across Whitehall and we have many heads of mission—six in Africa right now—who are not FCO lifers. That is the



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deal: we are there for everybody. We are the senior representative but jobs are open to the best; they are not reserved for FCO.

Chair: Ian, are we going to move on or are you going to ask a question?

Ian Murray: It depends if you want to move on.

Chair: Are you going to be very brief?

Q74 **Ian Murray:** My question is one sentence. Is Brexit a disaster for the Foreign Office?

Sir Simon McDonald: No.

Q75 **Ian Murray:** Not yet.

Sir Simon McDonald: No.

Chair: I think we will move on, if you don't mind. Mike, you were going to ask about some staff in EU networks.

Q76 **Mike Gapes:** Ann Clwyd touched on this earlier. Specifically, of these 50 additional staff, you said a lot of them were not yet in post. Can you tell us how many are in post?

Sir Simon McDonald: I look left and right. All have been recruited and many of them, I think, are in post. All of them will be in post in the next quarter.

Peter Jones: They are predominantly there: the first batch of 50.

Q77 **Mike Gapes:** Of the 50, are we talking about 20, 30 or 40 in post? It would be helpful to have a little more information.

Sir Simon McDonald: We anticipated this question, Mr Gapes, and did some research but will need to write to you with the exact details. It is a process. The recruitment has finished but the deployment has not, so we will write to the Committee with the exact details.

Q78 **Mike Gapes:** When you write to us, could you also tell us which embassies they will be deployed to?

Sir Simon McDonald: Yes, but it is a spread across the European Union. The intention was to beef up the effort everywhere.

Q79 **Mike Gapes:** I understand that. The Foreign Secretary told us it would cost £8 million to recruit that number. Is that the figure you have?

Sir Simon McDonald: We have done some more detailed working and I think we have a figure of £4.2 million for deployment so far.

Q80 **Mike Gapes:** Was the Foreign Secretary given wrong information or was that a figure that he just had in his mind at the time?

Sir Simon McDonald: As already explained to the Committee, this is a continuing programme. We are hoping for more people. Announcements



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may be associated with the Budget next week that will allow us to send more people.

- Q81 **Mike Gapes:** Given that this is a direct consequence of the Brexit referendum vote, is the Treasury giving you any extra funding for those additional posts?

Sir Simon McDonald: As already explained, the Treasury has earmarked £250 million for additional Brexit work. We expect to get some of that money, in part to fund this activity.

- Q82 **Mike Gapes:** So the £4.9 million will not all be covered from that?

Sir Simon McDonald: The £4.2 million is for the 50 who have already been appointed.

Peter Jones: We are doing the first 50 through reprioritisation internally. Then we have a conversation with the Treasury about additional resource—we hope—to fund the next wave.

- Q83 **Mike Gapes:** So you are switching from other posts globally?

Peter Jones: In order to fund the 50 in Europe, yes.

Mike Gapes: Can we have more detail in writing please?

Sir Simon McDonald: The 50 was reprioritisation. That is key to our operating model, as we have said from the start. What happens next will be additional resource—new recruitment.

- Q84 **Mike Gapes:** To be clear, the 50 is not additional. It is moving people around.

Sir Simon McDonald: Correct.

- Q85 **Mike Gapes:** So the figure of 50 additional staff—

Sir Simon McDonald: They are additional in Europe, but not additional to the overall organisation.

Mike Gapes: Ah.

Peter Jones: It is an internal resource transfer.

- Q86 **Mike Gapes:** Can we have a written clarification with full details of this: where they are going, where they are coming from and how it will affect other parts of the network?

Sir Simon McDonald: *indicated assent.*

- Q87 **Stephen Gethins:** On the 50, to follow up on Mr Gapes' question, does that include the UK's representation to the European Union? Or might some officials be coming from the permanent representation to the 27



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capital cities?

Sir Simon McDonald: It includes seven extra people for the representation in Brussels.

Q88 **Chris Bryant:** I am mystified. I thought the whole point of Brexit was that we would be able to devote lots more energy to the rest of the world, but you have basically just said that you will take resources from the rest of the world and put them in the European Union.

Sir Simon McDonald: We have a short-term task, Mr Bryant, in the European Union. We have a negotiation that we have to land in the next 17 months, so we need to reinforce our effort in the European Union in the short term.

Chris Bryant: I am not having a go at you.

Q89 **Stephen Gethins:** This is only a short-term measure then.

Sir Simon McDonald: Yes, these deployments are for the immediate task.

Q90 **Mike Gapes:** How do you monitor the ODA spend that comes under your headings to manage it throughout the year so it is spent evenly and you do not get into end-of-year budget problems?

Sir Simon McDonald: I will turn to the director of finance.

Andrew Sanderson: We have clear planning assumptions for our ODA spend. Big chunks of our core spend are in grant that we give, for example, to the British Council and the BBC World Service. There is a process to follow up with them about the spending of that grant. For the ODA spending that we ourselves spend, particularly the costs within our core diplomatic network, we have a process of monitoring and recording spending throughout the year. As the PUS mentioned earlier, we are looking at that to ensure that we have the most consistent and robust way of capturing all the ODA cost that we are legitimately able to. We have a process for doing that. We also follow up with DFID, which takes a cross-Government view on the reporting of ODA spend.

Q91 **Mike Gapes:** It is a growing proportion of your total budget.

Andrew Sanderson: We also spend money through the cross-Whitehall fund—the CSSF and prosperity fund. For our core FCO budget, you are right that it has risen from about 6% of the budget back in 2010 to just over 40% now and rising to about 45% through this spending review period.

Q92 **Mike Gapes:** Is that because you have been rebadging things that you were previously paying for out of the FCO and saying, “No, actually we could pay that as part of international development assistance”?

Andrew Sanderson: It is a mixture. In part it is because we have increased in particular the grant in aid that we are giving the British Council and the BBC World Service. There has been a growth in the grant



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that is specifically for ODA activity, which is different activity. At the same time, we have got better at capturing the costs within our existing network that can and should be classified as ODA.

- Q93 **Mike Gapes:** So the real cuts to your budget are much greater than they would appear from the gross figure, because you have been effectively subsidised coming across. Previously you did not budget as such, but now you are using different definitions.

Sir Simon McDonald: I would dispute that, Mr Gapes. It is true that within the budget the effort is being skewed towards ODA-eligible countries.

- Q94 **Mike Gapes:** Does that not then affect what you can do globally? Only certain things in certain countries can be done in that way, because of the international definitions.

Sir Simon McDonald: Yes. It means that there is a squeeze on the rest of the budget, even though the budget headline remains the same.

- Q95 **Mike Gapes:** What are you doing to influence the ODA rules to allow you to have more flexibility with your budget?

Sir Simon McDonald: There is an effort under way with the DAC in Paris. It has been under way for years, led by DFID. They have had a lot of success, so more security work is scored as ODA than before. Bit by bit, more and more such work can be scored as ODA, but strict defence and counter-terror work are not allowed to be ODA-able.

- Q96 **Mike Gapes:** I understand that you can now talk about catastrophic humanitarian crises and that that is allowable.

Sir Simon McDonald: After the hurricanes in the Caribbean this autumn, we submitted a proposal to the DAC that they will consider. It has not yet landed, but there will be a study.

- Q97 **Mike Gapes:** So there is no agreement on that yet.

Sir Simon McDonald: Not yet.

- Q98 **Mike Gapes:** And that requires a consensus within all the other Governments, or is it a votable issue?

Sir Simon McDonald: I do not know whether it is consensus or a vote—it has not yet landed, but we are making the case that the devastating effect on otherwise advanced economies should mean that in the short term, the effort to get them back on their feet can be scored against ODA.

- Q99 **Mike Gapes:** Correspondence that you have sent us said that of the Caribbean overseas territories, only Montserrat was eligible for ODA.

Sir Simon McDonald: This is why the catastrophic effect rubric is important, because the effect on BVI and Anguilla—otherwise prosperous countries—has been to knock their economies flat, so temporarily we made the case that they should be eligible for ODA assistance.



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Q100 **Mike Gapes:** If you had been able to do it differently—if the decisions had been different—what more would we have done to assist those other overseas territories that were not eligible within the definitions?

Sir Simon McDonald: We have already assigned £57 million to the three Caribbean territories to get them back on their feet.

Q101 **Mike Gapes:** And that money is coming from where, if it cannot come from ODA? Is it coming out of your core budget?

Andrew Sanderson: It is across Government. It is a mixture of some from the CSSF that we spend, quite a lot from the MOD and quite a lot through DFID's budget.

Q102 **Mike Gapes:** It is DFID's budget, but not counted as overseas development assistance. I am not clear.

Andrew Sanderson: So they do not just have ODA budget; they have non-ODA budget as well.

Q103 **Ms Ghani:** Sir Simon, I have a few questions on language skills. Are you bilingual by any chance?

Sir Simon McDonald: I would not claim to be bilingual, but I speak German.

Q104 **Ms Ghani:** So you understand how much can be lost in translation.

Sir Simon McDonald: I do.

Q105 **Ms Ghani:** We have 274 posts overseas. Heads of mission are our ambassadors—Her Majesty's representatives. Only 72 of Her Majesty's representatives are fluent in the language of their host country. You must be deeply disappointed with that.

Sir Simon McDonald: I am doing something about it. When I started as PUS, under 60% of heads of mission had reached their target language attainment. There are 104 heads of mission who need to speak a foreign language right now; 75 of them have reached the level that we expect. There has been good progress in the last two years, and the tendency is even better.

Q106 **Ms Ghani:** If 72 heads of mission are fluent in the language of the host country out of 274 posts, 202 posts require a translator.

Sir Simon McDonald: No—there are 274 posts, in 154 countries. The 274 figure also includes subordinate posts and international organisations, so the number of countries and of ambassadors is a lot lower than 274.

Q107 **Ms Ghani:** Would you say that the language shortage is down to the quality of ambassadors, or the Foreign Office's inability to recruit people who are multilingual?

Sir Simon McDonald: We do recruit people who are multilingual. Having one of our priority languages burnishes an application, but the Foreign Office is proud of its record in training people in languages. We have a state-of-the-art language centre. I would be very happy if you and the



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Committee came to see it. Maybe there was a time when language skills were somewhat down-prioritised. We have changed that, and I think that we are seeing the difference in emphasis in the better language exam results that we have had this year.

Q108 **Ms Ghani:** I assume that Arabic is a target language. What effort are you making to recruit or attract people who are either ethnically Arabic or speak Arabic as their mother tongue?

Sir Simon McDonald: The diversity of our intake is very important to us, so there are outreach efforts to make sure that the recruitment of the Foreign Office looks like the United Kingdom as a whole. This year we have had our biggest entry ever, with 20—let me get the figure exactly right—

Peter Jones: These are the latest statistics on the 50 or so fast-stream entrants this year: just to give you the diversity breakdown, it is 47% female, 26% minority ethnic, 7.4% disabled, and 10% LGBT.

Q109 **Ms Ghani:** Sometimes people can enter, but that doesn't mean that the Foreign Office is good at retention. Can you tell me how many of your 274 posts are filled at the top level by women or those who are BME?

Peter Jones: We have 59 female heads of mission currently.

Q110 **Ms Ghani:** What is the percentage? How many are you losing or gaining from start to end?

Peter Jones: It is true that we have an issue in that the percentage rate drops off, going into the more senior levels. That is why we have an active programme of targeting the most senior levels in the senior management structure.

Q111 **Ms Ghani:** Why does it drop off? If you are investing and recruiting where do they go?

Peter Jones: Well, it is complex. There are a range of issues. We need to make sure that our policies are family friendly. We are working on making that a reality. The board has set quite ambitious targets for 2019 for diversity in all its guises. We are not there yet, but we are making progress.

Q112 **Ms Ghani:** You talked about your other positions in Europe. There are an additional 50 positions in Europe that require speaker slots, and you said that that might be a short-term initiative. If it is short-term, how will you get those positions filled?

Sir Simon McDonald: Those 50 slots have been filled.

Q113 **Ms Ghani:** With the language skills that they need?

Sir Simon McDonald: That accounts for some of the delay in deploying people, because we train people in quantity. Part of the recruitment process for the Foreign Office is the MLAT test, which tests proficiency in learning a language. We take people with a high MLAT score, which means that they are predisposed to learn a language quickly.



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Q114 Ms Ghani: Mr Jones, I just want to go back to something you said. You talked about recruitment and retention, and mentioned that childcare facilities could be an issue. Is childcare a particular issue for BME staff or all staff? Surely that is not a reason why BME people are being recruited at a higher percentage, but are not at the top end of the table?

Peter Jones: With respect, I do not think that is quite what I said, but we are really serious about the general issue of working on all the diversity challenges that we have, making sure that everything we do is as supportive as it can be, and not inadvertently discriminating against particular groups. When you come to the building, you will see that we have a nursery, for example. Working on family-friendly policies wherever we can is certainly something that the Board attaches priority to.

Sir Simon McDonald: Diversity is something that we are serious about. It is a long-term objective, and the results will show themselves over time, especially in head of mission jobs. We do have ambassadors who are from ethnic minorities and governors who are from ethnic minorities. We should have more and that is the plan in the next five or ten years.

Q115 Ian Austin: Can I ask some questions about trade? Who is taking the lead to safeguard British jobs following events such as the Bombardier tariff decision? Is that the Department for International Trade or is that the FCO?

Sir Simon McDonald: Most of the work is done by the embassy in Washington DC—that is an effort led by Kim Darroch. In his team, he has people who deal with trade policy and so it is that team connecting back to London that is dealing with this issue.

Q116 Ian Austin: The Department for International Trade has got 3,200 staff working on inward and outward investment. How many of those used to work for the FCO and how many people do you have left working specifically on trade now?

Sir Simon McDonald: We had about 1,200 UKTI employees in the network and they have been transferred to DIT. That would be the main quasi-Foreign Office component in the DIT network.

Q117 Ian Austin: What specific advice has the Foreign Office given the Department for International Trade on how to approach negotiations with the current US Administration?

Sir Simon McDonald: The FCO, DIT and the posts in the United States work very closely together. One of the key officials is the consul general in New York, which is a key appointment for DIT. The man who has just arrived as consul general is Antony Phillipson, who is an FCO person with a trade background. The key personnel on the ground are the key players.

Q118 Ian Austin: What do you think the FCO is doing to persuade Boeing to drop its complaint against Bombardier? How do you think it is going? What is your assessment of all this?

Sir Simon McDonald: I know the embassy is working on this, but for a more detailed analysis, I would have to write to you, Mr Austin.

Q119 **Ian Murray:** I want to go back a little to cross-Government funds. The National Audit Office, the JCNSS and the Independent Commission for Aid Impact have all criticised the FCO for both the CSSF and the prosperity fund. What has been done in the past 12 months to improve the headcount, the training and the delivery of programmes to address those criticisms?

Andrew Sanderson: There has been a big investment in training and capability building within both those funds to ensure that the quality of our programme management is up to scratch. That has involved taking staff from DFID and elsewhere who are experienced programme managers, which we did not have in so many numbers. We have looked to strengthen our internal governance procedures to make sure that the programmes that we are spending through cross-Whitehall funds are properly assured, and assess that the right level of commercial expertise is going into the contract management and so on. So there has been a general attempt to continue improving the capability of those funds and I think the annual report gives some examples of the achievements that the funds have had.

Q120 **Ian Murray:** Are there still gaps to fill in terms of addressing those concerns?

Peter Jones: I might just add one thing, which is that the CSSF is quite a well-established fund now. I think we have projects that are running well, with structures where we can upskill people to make sure they operate optimally in the future. I think it is fair to say that the prosperity fund is still in a sort of start-up phase. There we will be seeking to build in the monitoring and evaluation capacity and all of that right from the start. That is in the early phases and I think it will build up in the years ahead, particularly on the prosperity side.

Q121 **Ian Murray:** Can you explain why the prosperity fund hasn't spent all of its projected funds? Is it a capacity issue?

Peter Jones: I think it is simply the start-up phase. In fact, I was chairing a meeting this morning and we were looking at a set of prosperity fund issues. These are multi-year programmes that start from now. Some are starting to deliver now—there is a Commonwealth marine economies one, for example, and some other individual ones will complete this year—but the intention has always been that this is one for the medium term. Quite a lot of the programmes are designed to be three or four-year life programmes that will build up in quite innovative territory. This is new stuff in middle-income countries where DFID has not historically operated, for example. It is a great opportunity, but we have to build this as we go.

Sir Simon McDonald: As accounting officer, I have made it clear to the team that it is essential that the money is spent well rather than to a timetable. I would rather explain to you why things are going slowly than explain to the PAC why the money has been misspent.

Q122 **Ian Murray:** But those three reports have been highly critical.

Sir Simon McDonald: But overall the CSSF has had a very strong reputation since it launched in 2015. As my colleagues explained, we have a team of experts recruited from across Whitehall; we are growing and training our own talent. It is doing well, and we will do better.

Q123 **Chair:** You make an interesting point when you say that targets are not really the way forward. What do you think of the 0.7%?

Sir Simon McDonald: I wasn't saying that targets are not the way forward; I was saying that it is more important that things are spent well than that they are spent to a timetable. The 0.7% is one of the key features of the British overall overseas effort, respected around the world. There is only one G20 country that hits both the 2% defence spend and the 0.7% development assistance spend, and that is the United Kingdom. That is known and respected.

Q124 **Stephen Gethins:** I know this is largely a question for DFID, but on the 0.7%, a great deal of the spend is done with other European partners, and that informs our foreign policy and the priorities for us as European member states. Has any work gone into how that money may be reallocated after leaving the European Union? Would it be reallocated?

Sir Simon McDonald: As you say, Mr Gethins, this is DFID's responsibility.

Stephen Gethins: I accept that.

Sir Simon McDonald: They are working on it, but as we look at the future relationship with the European Union, one of the options—the models—is to continue to work through European Union programmes.

Q125 **Stephen Gethins:** So continuing to work through European Union programmes is still on the table and could be pursued.

Sir Simon McDonald: On the table, yes. It is part of the negotiation.

Q126 **Ann Clwyd:** What are you doing to improve the transparency of the FCO's expenditure through cross-Government funds?

Sir Simon McDonald: Everything is published.

Andrew Sanderson: We feed into all the reporting that is co-ordinated through DFID. They bring together the cross-Government view of ODA spend. Fairly shortly—this month, I think—they will publish the latest set of statistics, which will incorporate the FCO component of ODA spend, along with other Departments that spend ODA.

Q127 **Ann Clwyd:** So it will be quite clear to everybody, will it?

Andrew Sanderson: We have very high levels of transparency over individual programmes and where money goes. It is all set out in the transparency publications, but many of them are DFID rather than FCO publications.

Q128 Chair: You touched on this already, Sir Simon, as you were setting out your vision—Diplomacy 20:20 is what you call it, I believe.

Sir Simon McDonald: Correct.

Chair: I am delighted we agree. You said it involved at least 12 major corporate change initiatives. How is this affecting the Foreign Office's ability to deliver the Government's overseas ambitions in the challenging global environment, as we are so keen to put it? How is this helping?

Sir Simon McDonald: The intention is to make us a more efficient organisation, so that delivery should be improved rather than impeded by our change programmes. The proof will be in the pudding.

Q129 Chair: How is it going?

Sir Simon McDonald: I think it is going well. I turn to the chief operating officer.

Peter Jones: I never miss an opportunity to talk about Diplomacy 20:20, Chairman, so thank you very much. The PUS has talked about the three pillars—deepening expertise, improving agility and building up a platform. In the last few months, we have picked up the pace for all of this. We have improved the governance of the whole set of programmes. Some of the 12 are proceeding quite well. One is the office restructuring initiative—office structure, size and shape—which will allow us to move resource a bit more agilely around the operation and do some functions centrally in a more effective and efficient way. Those two words—effectiveness and efficiency—are what we are trying to drive.

On the platform side, as the PUS said, the technology has really moved ahead in the last few months. We have new laptops pretty well rolled out to our main building in King Charles Street. The rest of the UK estate will happen by Christmas, and we are starting with the overseas network as well. We are allowing people to get state-of-the-art kit, work mobilely and work in a better way. All of that helps the cross-Government working as well. We are assisting some of our Whitehall partners with some of this. DIT, for example, will use some of our kit.

There are big changes in the human resources area as well. New boarding mechanisms allow us to make better decisions and move people in a more strategic way around the network. Longer tour lengths are about deepening expertise. With the diplomatic academy, which we have touched on, we are really starting to get a much better learning and development capacity in place.

Q130 Chair: Can we come and see that?

Peter Jones: Absolutely, yes. We are very proud of it, and we are very happy to show it to you.

There is a lot going on and a lot more still to do. For example, in the operations area, which I run, the corporate capabilities programme is looking at everything we do to see how we can do it better. We are really



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just at the start of that. That is a very important piece of work ahead. We are picking up pace, we are making progress, people are starting to feel the impact, but we have a lot more to do.

Q131 **Chair:** Can I ask a quick technical question about your electronic capabilities? One of the problems when I used to work in government was the ability to communicate between systems, so the military couldn't speak to the FCO—

Sir Simon McDonald: It still exists, Sir. We are working on it, but it is still there.

Peter Jones: In some ways, we are making progress. Some of the systems that are coming in will be cross-Government. That is the intention. Certainly from a Foreign Office point of view, we want to operate in that kind of way. I have personal experience of setting up a joint unit with the MOD and other Departments, and you are quite right, Chairman, that the IT is the big problem. We always get there, but it can sometimes take a bit of effort.

Q132 **Chair:** And you now have a deployable secret system?

Peter Jones: We are on what we call a tier 2 system. That is starting to roll out in parts of Whitehall—certainly including the Foreign Office.

Q133 **Chair:** Can you tell me a bit about the cost of the programme?

Peter Jones: Of Diplomacy 20:20?

Chair: Yes.

Peter Jones: There isn't a budget as such for it. It breaks down into the 12 different work areas that we have talked about. Some are, in effect, cost-neutral or are trying to be efficiency-finding programmes. The office structure, size and shape one is to move resource optimally around the organisation. Others like tech overhaul have a budget line—in that case, £120 million. There is not one figure for the whole 20:20 enterprise.

Q134 **Chair:** Would it be possible to have a new wiring diagram for the FCO, as you are moving things around in London across the directorates?

Peter Jones: I am sure we can give you that. Of our directorates?

Q135 **Chair:** Yes. That would be a useful thing to have. Can we move on to the advisory board? I realise that you are new in post, Ms Curtis, but can we touch on the annual report, where you say that non-executive directors "have been persistent in our advice" that Diplomacy 20:20 "needs to be sufficiently resourced to realise its ambition"? What elements were you suggesting are under-resourced?

Miranda Curtis: Might it be helpful for me to step back for a second and talk a bit about the non-executive team, their respective responsibilities and how the supervisory board relates to the management board?

Chair: If it is very brief.



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Miranda Curtis: Okay. Four non-executives sit on the supervisory board, two of whom sit on the management board. The management board, as you know, is chaired by the PUS. It meets monthly and deals with all the day-to-day operating and the financial oversight of the organisation. Julia Bond, who has been with the organisation almost six years, focuses on everything to do with human resources, personnel, performance and pay, and leadership. Warren Tucker chairs the audit committee and deals with all the finance issues. Sir Edward Lister, who joined at the same time as I did, focuses on property. I have the broader portfolio of supporting, advising and challenging the Secretary of State and the Permanent Secretary on the process of setting strategy and the oversight of operations. As you point out, the publication of that annual report relates to a period before I joined the organisation.

Q136 **Chair:** I appreciate that but you have signed the report.

Miranda Curtis: Of course. In general, the fact that the non-executive team, particularly Julia and Warren, are able to move around the organisation and work very closely at director level on individual projects, gives them real insight into where they see stress points arising.

Quite properly, as they report back, they flag where they see resource challenges. I think much of what Peter has just described is somewhat in response to that, in that resources are being moved across the organisation to support that work. That comment related to historical activity and does not actually reflect the present.

Q137 **Chair:** You also comment on the need to achieve organisational buy-in for Diplomacy 20:20 within the FCO. Have you found any resistance to the programme? Or is that just a generic comment about how you would like to see things moving forward?

Miranda Curtis: I cannot report personally on having had any response but I am not aware there has been any significant push-back.

Q138 **Chair:** You have also spoken about the requirement for effective programme management, especially on the platform side. Is there anything specifically that made you make those comments?

Miranda Curtis: Again, I think they were reflecting a situation where the organisation was dealing with the prospect of very considerable challenges and was not, at that point, fit for purpose, but has engaged, frankly from my perspective of what I've seen so far, in a very comprehensive and well thought-through programme to address those challenges.

Q139 **Chair:** Shall we move on? I was going to ask the PUS about staff, if I may. How do you evaluate your staff?

Sir Simon McDonald: As an organisation or personally?

Q140 **Chair:** As an organisation but, given that it is your organisation—

Sir Simon McDonald: There is an annual appraisal system that has changed over time. Everybody has a line manager and a counter-signing officer. Everybody has to set and agree objectives at the beginning of the

working year. Everybody has a mid-term review and, at the end, a final appraisal.

Q141 **Chair:** How many do you know are achieving the highest marks?

Sir Simon McDonald: We have a guided distribution across all grades. There is a tendency, without such a distribution, for many top boxes to appear. I don't think we are the only organisation where that is the case. So, it is a guided distribution with 25% in the top and we aim for 10% in tranche three.

Q142 **Chair:** How do you count that? What metrics do you use to see whether a diplomat is under-performing?

Sir Simon McDonald: They are measured against their objectives. The objectives are in all cases supposed to be SMART, so specific and measurable. We try, through our HR directorate, to ensure consistency of application.

Q143 **Chair:** Can you give us an idea of some of these metrics? What sort of objectives might you have?

Sir Simon McDonald: If you are involved in a negotiation of some sort, whether or not that negotiation is successful. If you are involved in a customer-facing job, how many customers you process and the level of satisfaction of your customers. That would be a metric that we use.

Q144 **Chair:** And if you are engaged in bilateral diplomacy that has been ongoing for 100 years and you hope will be ongoing for another 100, how do you deal with that?

Sir Simon McDonald: Yes, you're right: it's tough. Things that would help your annual review would be if we had achieved a big sale of some sort in a big contract, where the embassy had been involved. That would score to the head of mission's credit.

Where the rhythm of a political relationship has upped would be one. The state visit of President Xi of China was good for Barbara Woodward and her team. This year's visit of the Prime Minister to Japan—quite a lot of work has come from that—has been good for Paul Madden and his team.

Q145 **Chris Bryant:** I wanted to ask about bullying. One of the things you assess via staff surveys on the whole of the network is bullying. I just wondered where that policy lies now and whether things are improving.

Sir Simon McDonald: Tomorrow we are publishing the bullying, harassment and discrimination scores, which are the same as last year but are too high—13% for discrimination and 16% for bullying.¹ We have spotted this and have been trying to do something about it. We have upped up that effort in the last year. We have a board champion, Philip Barton, who is the DG Consular and Security and leads on this work. By drawing attention to it I thought that maybe we might see an uptick,

¹ Note from the FCO: The figures for bullying and harassment were quoted the wrong way around. Scores are 16% for discrimination, and 13% for bullying.



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because people would see the routes they can use. I thought that more use might be made of those routes, but it is steady and I hope that in the next years it will get less. At the leadership conference that we had in July, bullying, harassment and discrimination was the main corporate theme in my presentation to the whole conference. It is one of the issues that I discuss with every single—

Q146 Chris Bryant: It has been so, stubbornly, and I just wonder why it is part of the Foreign Office.

Sir Simon McDonald: We are in 274 different places, so it is a very variegated organisation. One possible explanation for the discrimination score is that we are an organisation that has UK-based officers and local staff, so that might be a hard-wired problem.

Q147 Chair: Are you suggesting that some cultural norms in other countries may not be the same as ours?

Sir Simon McDonald: That might also be a factor, but the fact that some staff, because they are posted from the United Kingdom, have a different package from people recruited locally is something that can be an issue. But in the end I think that we try and let ourselves off—this kind of explanation of UK-based and LE is too beguiling. We have to look at our fundamental behaviours and try to make this a better place to work, so we are laying great stress on the diversity and inclusion agenda and on respect. Everybody should know and exhibit the same positive behaviours when dealing with all their colleagues and all their customers. This applies no matter the local, maybe more macho, culture—everybody is working for the British Government and this is what we expect.

Q148 Chris Bryant: I am struck, thinking about it now, that I have seen quite a few ambassadors bully their staff. I have seen it, when I have been on visits, but I don't know that we would ever know a means of reporting that back.

Sir Simon McDonald: If you see it, Mr Bryant, I would encourage you to let me know. This is not acceptable, and the board messaging is very consistent on this and gives it priority. An organisation will not work well if bullying is part of that organisation.

Peter Jones: May I link it to the Chair's previous question about performance management? When we are managing and assessing people, it is not just about the delivery of their business objectives, but about their management performance too, for those who are managers. All of this is part of what we need, and we will expect a corporate contribution from people. I hope you get the sense from this that we take this extremely seriously and we will continue to stay on the case.

Q149 Mike Gapes: I have always had a problem with the tick-box, Treasury-driven approach to diplomacy. I would like to know how you can measure the intangibles of, for example, persuading a country where there are tensions not to go down a route that might lead to internal conflict or war with a neighbour in 10 years' time. How do you measure that in advance?



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Sir Simon McDonald: I know what you mean. Part of our response has been to make more of the reports and assessments a narrative, rather than a series of boxes and ticks or marks. There is the line manager, and the countersigning officer writes something—a bit of continuous prose—about someone's performance so that it is not a tick-box exercise.

Q150 **Mike Gapes:** How do you quantify that as compared with, "We sold them two jets and we got the contract from one of our companies"?

Sir Simon McDonald: It is difficult. It is a challenge, but when all these reports are moderated, we are talking about a group of people in the same line of work—when it is one set of intangibles against someone else's in the same area, it is legitimate to think, "This character in this year has done a bit better than some other."

Q151 **Chair:** Is there a tendency slightly to over-inflate?

Sir Simon McDonald: That is why we have, as I have said, a guided distribution.

Q152 **Chair:** So last year, for example, tranche 3 was only 4%, not 10%.

Sir Simon McDonald: Indeed. One of the challenges, Mr Chairman, is that people think tranche 3 is underperformance, that this is an actual black mark, rather than it being that someone relative to their colleagues has not had as good a year. We are trying to affect the psychology of the markers by putting the three boxes next to each other with the fourth box—the "performance improvement required" box—on the same line so that people see that box 3 does not mean that you are bad; it is just relative to your colleagues.

Q153 **Chair:** But box 4 does.

Sir Simon McDonald: Box 4 is bad.

Q154 **Royston Smith:** On ambassadors, to what extent are ambassadors free and encouraged to initiate major new programmes or adjust the country strategy in a response to changes in local conditions? Are you trying to give people more freedom to do things without referring to the Foreign Office all the time?

Sir Simon McDonald: Ambassadors have the bilateral relationship in their hands. I hope that we empower them, but they work within the overall framework of the foreign policy of the Government. They cannot be freelancing on personal hobby horses, but they can be flexible within the framework.

Q155 **Royston Smith:** What does that look like? What would they initiate themselves without reference to the Foreign Office?

Sir Simon McDonald: It is some of the things that they do culturally and educationally. It is some of the visitors they bring from the United Kingdom. Some of the outreach to universities is something that will be done on the initiative of a head of mission, rather than directed from head office. The objective is to build a strong relationship that helps the



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security, prosperity and reputation of the United Kingdom. How do ambassadors do that? As I said, they are given quite a lot of latitude.

Q156 **Royston Smith:** Are they encouraged, because of the way they are assessed and how their career might progress—do you feel that they would be risk-adverse in the things that they did, rather than being a bit more dynamic?

Sir Simon McDonald: It depends what you mean by risk. I think that imagination is not necessarily risky. I encourage them to be imaginative, and I think it works professionally.

Q157 **Chair:** Talking about one element of the functions of an ambassador, given the preponderance and quality of so much journalism today and the ability to get information from so many sources, how useful are DipTels?

Sir Simon McDonald: DipTels are still a key way of communicating across Whitehall. As I said, we are there for the whole of Government, so DipTels are distributed to other Government Departments, but you are right that the key communications tend to be narrowcast, rather than broadcast these days. The email system that we have allows us to do that.

Q158 **Chair:** Would you look at restructuring how DipTels works?

Sir Simon McDonald: We have done that quite recently. We are prepared to look again. One thing that we have done in the recent review is restrict their length. You have more impact, perhaps, when you are crisper in your message, and I think that has helped some of our colleagues get their message across.

Chair: Forgive me, I just wanted to come back to something, Peter, if that is all right. You spoke about £120 million for the tech. Are you factoring in overspend there, because I believe you said it was £105 million last year?

Sir Simon McDonald: It has gone up.

Q159 **Chair:** It has gone up. Is that overspend, or is that—?

Peter Jones: It was a conscious decision that the envelope was too restricted; we moved it up to £120 million. There is still pressure in that budget, but we are holding our colleagues to account to hit within that overall envelope and I think at this stage—looking at the finance director—we are pretty confident that they will deliver.

Andrew Sanderson: It is picking up the pressure.

Sir Simon McDonald: It is a dynamic programme, but I am assured that, compared with technology programmes elsewhere, this is a disciplined programme as well as a successful one—

Q160 **Chair:** You're better than anyone else.

Sir Simon McDonald: Not better than, but this is doing well.

Q161 **Chair:** Okay. And how are you managing the risks on the Prism system alongside day-to-day tasks?

Sir Simon McDonald: On the Prism?

Chair: Yes.

Andrew Sanderson: We are at the early stages of a programme to replace Prism, which is an old system now; it was introduced in 2004 and is coming to the end of its lifespan. It underpins all our finance and human resources processes, so we are looking to move to a kind of standard cloud-based system, following the same standard approach of the rest of Government, which will take a couple of years; it will be a difficult transition to get through. It will involve potentially changing a lot of the ways that we work and trying to standardise our ways of working, in line with standard best practice processes. But we are just at the design stage of working out exactly what that looks like, what we would need to do and to build up the full business case to decide, as a board, whether to make that investment.

Q162 **Chair:** Can we go on to the One HMG policy, which you have spoken about? You have already touched on this so, if I may, I will just be quite tight. What progress has been made on co-location? I know that in some parts there are various different structures. Have you managed to unify posts from different Government Departments into one space?

Sir Simon McDonald: We have taken on responsibility for all of the DFID overseas estates, which is allowing some rationalisation and harmonisation of standards, but it's slow progress, because leases are important. Lots of things we'd like to do take time to achieve.

Peter Jones: We have 30 Whitehall Departments and agencies on the platform overseas, so it's a lot there. We are trying to do it as efficiently as we can. I chair a One HMG network board which, in fact, meets tomorrow and one of the things that we will talk about is exactly this question of estates and trying to agree a common way forward with our main Whitehall partners. So that's what we try and do.

Q163 **Stephen Gethins:** What kind of feedback have you received from customers or colleagues in the UK Government about co-location?

Peter Jones: I don't think this is a new question. Our missions overseas have been the platforms for many of them over many years. I can think of Accra, where I was for example, and there were a dozen Government partners there: DFID, the Home Office and so on. I think it's an ongoing conversation. I don't think it's a particular sort of thing that's happened that would generate particular feedback, good or bad. It's an ongoing conversation, I think.

Q164 **Stephen Gethins:** So no real feedback that stands out about how it's working out so far?

Peter Jones: I think it's a continual conversation, but if there is some feedback you have that you want to show us—

Q165 **Stephen Gethins:** No, no. Actually, more than anything else, it would be nice to hear if there are any reflections, because it is always good to



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learn from these processes as they go along.

Peter Jones: "You can always do better" would be my reflection.

Q166 **Stephen Gethins:** How is the FCO monitoring and measuring the cost saving delivered by this programme? How much money do you think you have saved by it?

Peter Jones: Cost saving through the One HMG estates?

Stephen Gethins: Yes.

Andrew Sanderson: There was an estimate that there were savings from the last round of consolidation of, I think, about £50 million—£50 million efficiencies. I think that was the assumption from the last round of—

Q167 **Chair:** To your budget, or to the—?

Andrew Sanderson: I think collectively.

Q168 **Stephen Gethins:** Over what kind of time period?

Andrew Sanderson: That was across the period—I think it was a two or three-year programme that led to that, but I can check on the details to see if we have got more precise figures.

Q169 **Stephen Gethins:** That would be helpful. Finally, I know that the FCO co-locates with other European Union partners in about four areas—I think in Mauritania and Sri Lanka, but I cannot remember them all off hand. What will happen with that now?

Sir Simon McDonald: We will keep them. I visited our post in Colombo, Sri Lanka, where we are with the European Union—we have pretty much 50:50 of a building that we built. They are good tenants and we expect them to stay.

Q170 **Stephen Gethins:** And elsewhere?

Sir Simon McDonald: And elsewhere. We co-locate with the Canadians, the French, the Germans, the Dutch, the New Zealanders—

Stephen Gethins: Sorry, specifically about the EU: I know you have Colombo, Sri Lanka, but I think there are three others.

Sir Simon McDonald: That would apply to all four places.

Q171 **Stephen Gethins:** And that would be unaffected by whatever happens in future?

Sir Simon McDonald: Our offer is to remain together. The driver was not because of membership of the European Union.

Q172 **Mike Gapes:** Following on from that, clearly, if we are co-located with the European External Action Service, that involves us having very good, close co-operation. Have you done any work on the implications if we leave the EU as to whether that close collaboration would still happen? For example, joint lunches, briefings or network work with EEAS



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neighbours and partners?

Sir Simon McDonald: The EEAS rep will be one of the key stakeholders of an ambassador overseas, so yes, I would expect ambassadors to do precisely what you are talking about and maintain close relations by social and professional contacts.

Q173 **Mike Gapes:** You don't see any significant change, then?

Sir Simon McDonald: It will be different because right now, most places around the world have regular EU co-ordination meetings, and we won't be there.

Q174 **Mike Gapes:** Unless we are observers.

Sir Simon McDonald: Unless we are observers, which is one of the possible models.

Q175 **Chair:** Can we move on to some finance, if you are ready, Mr Sanderson? Your latest annual report notes fraudulent losses of £305,000 over two years from a sink post. Which post?

Andrew Sanderson: This was a post in Africa: Bamako, in Mali. This was a fraud related to a local member of staff, about the mispurchasing of fuel stocks. An investigation is currently under way. We think that, of that estimated £300,000, about £195,000 of that has been validated and confirmed, and a further £100,000 is estimated.

Q176 **Chair:** Validated and confirmed as lost?

Andrew Sanderson: Yes.

Q177 **Mike Gapes:** That is an incredibly small post. I have been to our post in Mali twice. When I was there in 2014, there were two UK-based staff and about four people working there in total. I do not know if it is now significantly larger. Is that still the case?

Sir Simon McDonald: It is still a small post.

Mike Gapes: It is such a huge amount of money for fuel for a post that is so small.

Sir Simon McDonald: The new ambassador, when she arrived, went through the books and this is what she discovered.

Q178 **Ian Murray:** Over what period of time was that lost?

Andrew Sanderson: That is an estimate—

Peter Jones: Two or three years. It's not a good story, that's clear.

Q179 **Mike Gapes:** Which year does that start from?

Peter Jones: From 2014, from memory.

Q180 **Chris Bryant:** Shouldn't there be some system that automatically goes, "Hang on—that's an awful lot of fuel and dramatically more than last year or in previous years", or "How can you possibly be spending that?". In

Berlin you probably didn't spend that much on fuel in year.

Sir Simon McDonald: It is a pioneering environment, as Mr Gapes knows.

Chair: Berlin would not have required generators, to be fair.

Sir Simon McDonald: Yes. It is not a good story; it should have been one of my top three for Mrs Clwyd earlier. The key is that a new ambassador arriving did her work and discovered this and it was stopped. **Chair:** Can you pass on our congratulations to the new ambassador? Could you also, however, let us know what systems are in place to prevent it happening again?

Sir Simon McDonald: Yes.

Andrew Sanderson: We have a system of budget management and monitoring that should spot large discrepancies like this, where over a protracted period suddenly fuel costs are the biggest single item on the post's budget. What we are trying to do generally with fraud is to build up better use of things like data analytics, so that we can actively look for anomalies and strange patterns and investigate those more proactively, rather than simply relying on the kind of routine monitoring processes that already exist.

Q181 **Chair:** And the former ambassador's report went from tranche 1 to tranche 3?

Sir Simon McDonald: I can't confirm that, but I will check. It was Ambassador Alice Walpole who discovered it; she did her job.

Q182 **Chair:** Absolutely, but the predecessor—anyway, we will move on. Over the seven years to March 2015, the FCO paid £322,000 too much in overtime due to an error on the payroll system. Why wasn't that detected earlier? Seven years is quite a long time for that to run.

Andrew Sanderson: This was technical; I think it was coded in incorrectly on the system, so it was spotted through a full audit of the system, but it would have been very difficult for any of the recipients to know that they were being wrongfully overpaid, and equally—

Q183 **Chair:** Was it a small amount to a lot of people?

Sir Simon McDonald: A small amount for many people over many years, so that is why the sum of money is large.

Q184 **Chair:** Are you seeking to recover it?

Sir Simon McDonald: We decided not to recover it.

Q185 **Chair:** Chief accounting officer?

Andrew Sanderson: We have been through quite a systematic process to identify the amounts. We have ruled out any cases where the overpayment had been below a minimal threshold. Then we got in touch with staff and invited repayments. Ultimately, we have taken a value-for-



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money approach and have tried to proportionally recover what was recoverable but not try to recover things that would not be.

Q186 **Royston Smith:** What does “invited repayments” look like? Did you ask them to pay it back?

Andrew Sanderson: We wrote to staff to let them know and ask them. Ultimately, this was a historical overpayment. It was not the fault of the members of staff. In many cases, they would have received and spent that money—

Q187 **Chair:** I don’t think the House would expect you to pursue people who accidentally received a little extra money and who would now otherwise be faced with a huge bill, but I think that the House would expect you to ensure that public money is not spent inappropriately.

Andrew Sanderson: Exactly, so we have been through a very careful process on that, to try to tread that balance.

Q188 **Chair:** Presumably therefore most of that is written off and most of the £305,000 lost in Bamako is in reality written off.

Andrew Sanderson: I think in reality, yes.

Sir Simon McDonald: Correct.

Q189 **Chair:** Let’s move on. Why do both sections A and B in the Statement of Parliamentary Supply include programme expenditure, and what is the difference between the two?

Andrew Sanderson: Line B is grant funding, so it is purely a technical classification distinction, so it is not a different type. You could have equal programmes. For instance, it would include a prosperity programme or a bilateral programme and if it happened that we had decided to do that programme in the form of a grant to a third party, it would go in line B; if it wasn’t in a grant, then it would be in line A, but the type of work would be otherwise identical. It is a kind of technical apportionment question between the two lines, but in substance you should treat them as a single category.

Q190 **Chair:** What is stopping you from reporting how much you spend on programmes in the various funds more transparently in the Statement of Parliamentary Supply in future years?

Andrew Sanderson: We do break down the grants; there is a further breakdown in the note to the accounts of the main categories of grants. Equally, the body of the report has more detail on some of our grant programmes. I think it is true that we have not been as good at forecasting our grant expenditure as we should have been, which is why there has been an underspend against the figure set in the parliamentary estimate. We have got better, so the discrepancy is much less than it was in the previous financial year, and we are continuing to improve that.

Chair: Can we go on to estates, asset sales and purchases? This is commercial and confidential, so I am going to suspend the sitting and go



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into private session.