

Foreign and Commonwealth Office
Supplementary Estimate Memorandum 2019-20

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1. OVERALL CONTEXT

This memorandum gives background to the FCO Supplementary Estimate 2019-20. The format of this document follows revised guidance from the Parliamentary Scrutiny Unit, to provide wider context about departments' objectives and finances.

1.1 Objectives

The 2019-20 Supplementary Estimate supports the FCO's Strategic Objectives as set out in our Single Departmental Plan:

**National Interest, Global Leadership**

We lead HMG's global diplomatic network to advance British interests and act for the people of the UK around the world, supporting all UK Government activity overseas. As the UK leaves the European Union we will seize the opportunities to deliver for a Global Britain as we protect our country and our people, project our influence and values, and promote our prosperity overseas. We will do this by working in partnership with others and supporting an international system based on rules, norms, and values to lead and deliver shared action on the world's most pressing challenges in a period of geopolitical change.

Our Department's Strategic Objectives

Protect our people

Utilise the UK's hard power expertise to protect UK citizens and our allies through our Cyber expertise, P5 status and NATO membership to counter terrorism, prevent weapons proliferation, counter malicious cyber activity, and tackle state and non-state threats.

Project our influence and demonstrate diplomatic leadership

Advance UK interests by protecting and promoting UK's values, influence and soft power. Working through the rules-based international system, with partners, we will make the world safer and fairer by supporting human rights, democracy, good governance, the rule of law, and preventing and resolving conflict.

Promote our prosperity

Promote UK prosperity by projecting the UK as a connected, innovative and active global economy, ensuring it is an attractive investment destination, opening overseas markets, driving economic reform, championing UK business, and enhancing global free trade through key international bodies.

Department's Foreign Policy Priority Outcomes (FPPOs). In 2019/20 we will:

FPPO1 Consular and Crisis

- > Stand up for British citizens overseas by providing high quality, accessible consular services globally, focused on those most in need.
- > Reduce preventable incidents affecting British people overseas through collaboration with partners and governments.
- > Respond rapidly to all overseas crises, leading cross-government action.

FPPO2 Euro-Atlantic Security

- > Strengthen key security partnerships and ensure our contribution is felt, in particular with the US and Europe—forging a new security partnership with the EU to enhance shared capability and tackle shared threats.
- > Support a more resilient European neighbourhood, including the Western Balkans and Turkey.
- > Ensure a strengthened, expanding, more cohesive NATO—with increased contributions from partners—acts to confront security challenges, including from Russia, and remains a global leader in mutual security cooperation, leading this at the London NATO Leaders' Summit in 2019.

FPPO3 Security Challenges

- > Counter malicious cyber activity by developing a global doctrine of attribution and deterrence, defend a free, open, peaceful and secure cyberspace, and raise the cost for malicious online actors.
- > Reduce the threat to UK interests from terrorism, weapon proliferation, Hostile State Actors, illegal migration, and Serious and Organised Crime, drawing on all UK Government capabilities.

FPPO4 Diplomatic Leadership

- > Lead delivery of the UK's first Soft Power strategy.
- > Work to champion democracy, human rights, good governance and the rule of law by assisting supporters and using our leverage against abusers.
- > Advance media freedom by leading a global campaign; promote gender equality, including the PSVI initiative; protect the oceans; defend freedom of religion and belief; address global challenges including modern slavery.
- > Promote UK global leadership in the safe, ethical and innovative development of AI and other emerging technologies, including through championing UK standards to shape the international debate.

FPPO5 Multilateralism

- > Defend the current Rules Based International System (RBIS), which is based on norms, rules and alliances, and support its reform and evolution.
- > Promote the UK's position within the RBIS including improving UK presence in international organisations while building broader coalitions around core interests and values and partnering with emerging powers.
- > Deliver Commonwealth Heads of Government Meeting (CHOGM) 2018 commitments; boost the Commonwealth's voice; increase mutual Commonwealth support in multilateral fora and reform the Commonwealth Secretariat.

FPPO6 Europe

- > Deliver a strong post EU Exit relationship, advancing UK interests and tackling shared global challenges; protecting UK interests on sanctions, the Overseas Territories (including Gibraltar), Kimberly Process, and Third Country Agreements.
- > Harness opportunities and mitigate risks linked to EU Exit.
- > Bolster governmental and people-to-people links across Europe.
- > Help negotiate a strong future partnership with the EU.

FPPO7 Conflict and Stability

- > Focus UK effort on NSC priority countries, advancing inclusive political processes and protecting UK interests in Afghanistan, Syria, Libya and Yemen; supporting security, stability and good governance in the Middle East & Africa, and working to resolve the Rohingya humanitarian crisis.

FPPO8 Overseas Territories

- > Build resilient Overseas Territories with good governance, increasingly diversified economies and prosperous communities, able to better prepare for and recover from crisis.

FPPO9 Global Economic Architecture

- > Work with partners to promote a multilateral economic, financial and trading system for strong, sustainable, balanced and inclusive growth.
- > Reinforce the rules based international economic system, particularly the World Trade Organisation's role in global trade, by advocating and leading reform, focused on international trading rules, regulatory diplomacy, and eCommerce.

FPPO10 Economic Diplomacy

- > Showcase global leadership of free trade and economic diplomacy, including through working with DIT on new and transitioned Free Trade Agreements with third countries, including in Europe.
- > Work with DIT and BEIS to support UK exports and inward and outward investment, including in rising economic powers, Asia, Africa and Latin America, in line with the Industrial Strategy.
- > Promote economic development, clean and sustainable growth, and better business environments in key markets, ensuring that technological and educational advances are delivering mutual prosperity, delivering under the Industrial Strategy and its Grand Challenges.
- > Promote UK leadership on science and innovation, including through working with BEIS, to boost UK prosperity and deliver solutions to global challenges.

FPPO11 Climate Change

- > Tackle the global threat of Climate Change by galvanising international action; promoting the role and impact of COP26, including bidding to host it; and taking a global leadership role.

Facilitated by our Corporate Policy Priority Outcomes:

CPP01 International Platform

- > Provide an efficient, impactful and collaborative international platform for the whole of the UK government via our Embassies, High Commissions, Consulates and Offices.
- > Leadership and support to all departments overseas to deliver government priorities

FCO spend by strategic objective:

The chart below gives a breakdown of FCO's spending by our three strategic objectives. The costs of running FCO's network are apportioned based on activity recording by staff. The methodology means that most of the operating cost of the network is shown under "Project our Influence and demonstrate diplomatic leadership". A fuller explanation is given in Note 2 to the annual accounts.

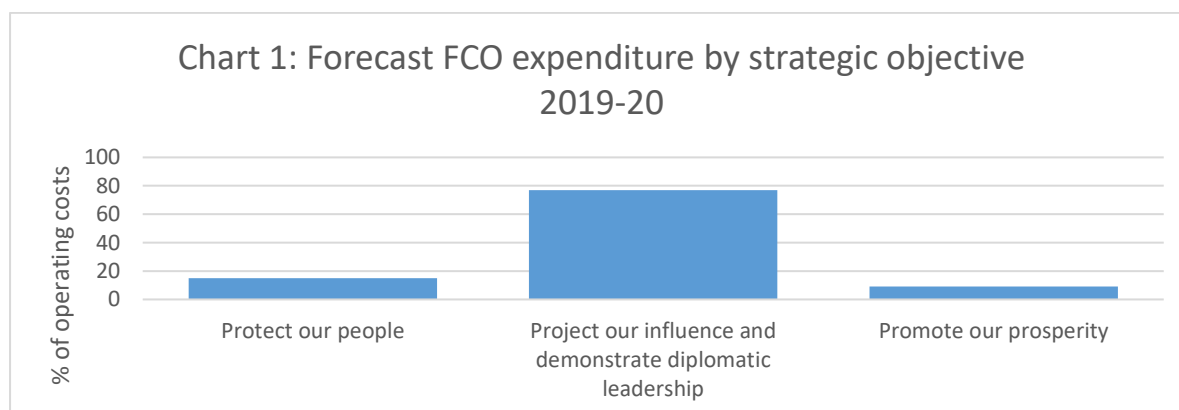
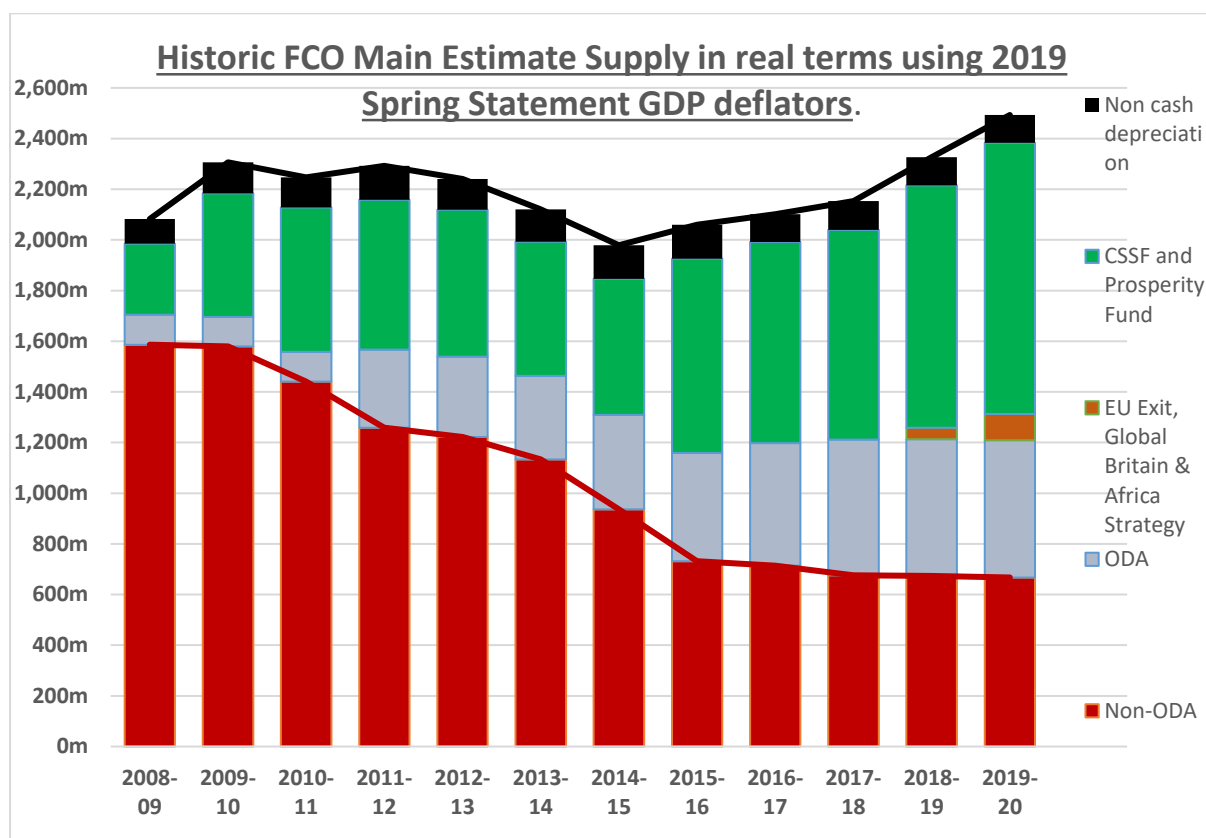


Chart 2: FCO Resource DEL funding in real terms



Notes:

1. Figures show FCO Resource DEL in real terms (2019-20 prices), using GDP deflators at December 2019.
2. For comparability with previous Main Estimates, this chart shows Parliamentary funding at the start of the year, not end-year outturn. Therefore it excludes budget adjustments made only in the Supplementary Estimate, such as for International Subscriptions, the Consular Premium, and the FCO's foreign currency mechanism and differential inflation agreement.
3. It excludes FCO's income from other sources, such as the charges paid by other government departments whose staff are hosted on FCO's overseas platform.
4. Funding for UK Trade and Investment has been removed from the series (£75.7m a year from 2008-09 to 2010-11; £114m from 2011-12 to 2013-14).
5. The CSSF and Prosperity Fund category also includes funding in 2018-19 for the Gulf Strategy Integrated Activity Fund. The 2019-20 increase is attributable to a £50m increase for CSSF and a £130m increase for the Prosperity Fund, £66m of which was surrendered by the Prosperity Fund at the Supplementary Estimate (not reflected here as per Note 2).

1.2 Spending controls

The table below shows the FCO's key budgetary controls compared with last year.

Spending total Amounts sought this year (Supplementary Estimate 2019-20)		Compared to original budget this year (Main Estimate 2019- 20)		Compared to final budget last year (Outturn 2018-19)	
		£ m	%	£ m	%
Resource DEL	2,605.0	2,616.7	-0.4%	2,410.1	8.1%
Capital DEL	152.5	111.8	36.4%	141.7	7.6%
Resource AME	202.0	100.0	102.0%	31.3	545.4%

1.3 Main areas of spending

Sections of the estimate

The table below shows the lines of the FCO's Estimate.

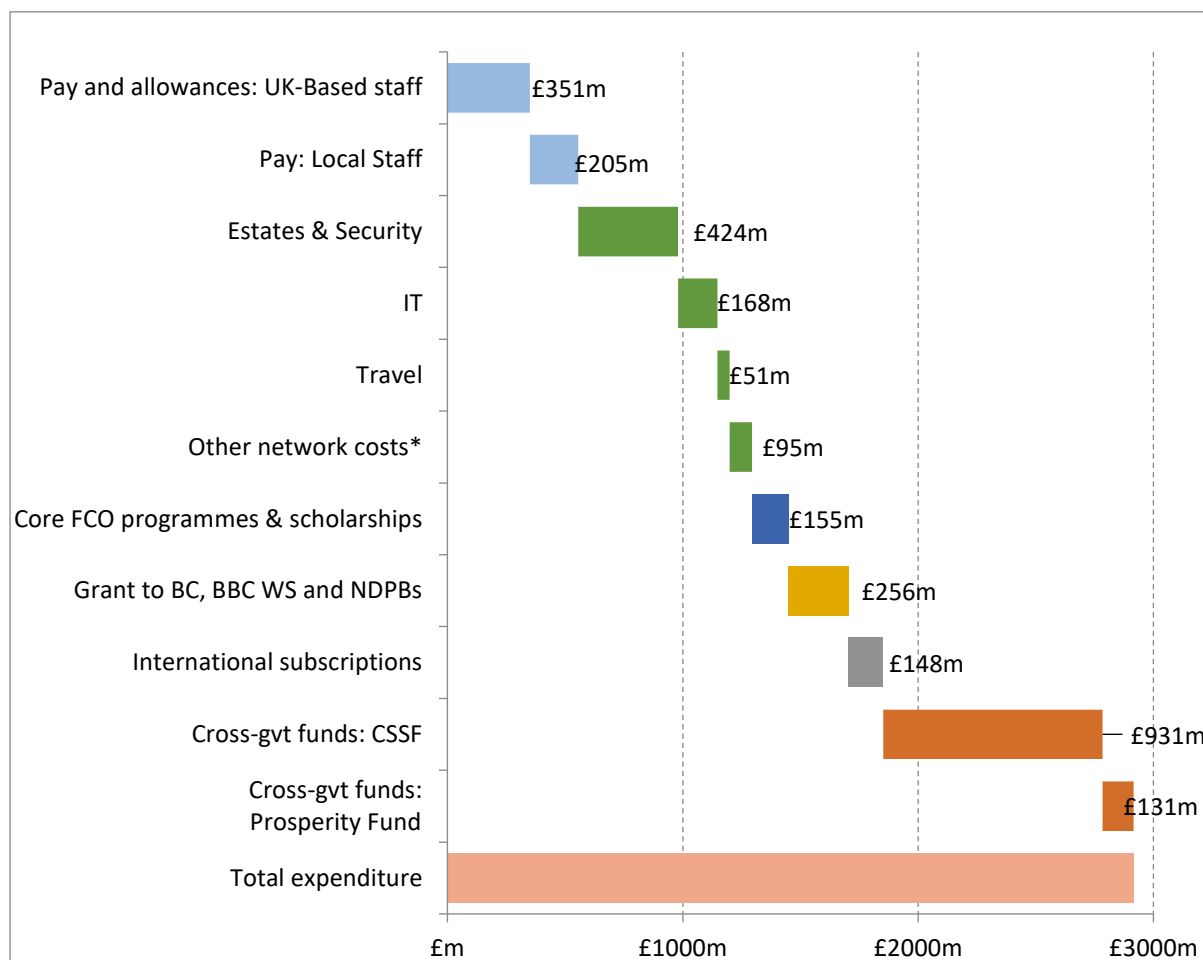
Section	Description
A	Expenditure by the FCO on its administration, strategic and bilateral programmes, FCO Services, Wilton Park Executive Agency, hospitality and facilities; scholarships, information services and sponsored visits; special payments and assistance programmes to support foreign policy objectives including human rights, good governance, international security and the fight against the illicit drug trade; and on associated non-cash items.
B	Grants to international organisations and other bodies supporting FCO objectives and programmes.
C	Resource grant to the British Council.
D	The net expenditure of FCO sponsored Arm's Length Bodies (ALBs) in particular the Westminster Foundation for Democracy, the Marshall Aid Commemoration Commission and the Great Britain China Centre.
E	Expenditure on the Prosperity Fund and the Gulf Strategy Integrated Activity Fund.
F	Expenditure on conflict prevention, early warning, crisis management, conflict resolution/peacekeeping.
G	Expenditure on peacekeeping and peace building activity and on associated strengthening of international and regional systems.
H	AME non-cash expenditure on impairments, provisions, foreign exchange.
I	AME grants to refund certain taxes and duties paid by certain Foreign and Commonwealth governments.

1.4 New policies and programmes; ambit changes

There have been no changes to the ambit this year. The only change to the lines of the estimate is that Section E was expanded this year to include the Cross-Whitehall Integrated Activity Fund (IAF). In 2018-19 expenditure on the IAF was shown within sections A and B.

1.5 Breakdown of FCO Resource DEL spending

Chart 3: FCO's gross spending by category (2019-20)



Administration costs

The FCO's administration cost limit is £191 million. This compares to £193 million at Supplementary Estimate 2018-19. There have been a number of small transfers as set out at Annex B.

Programme expenditure

FCO programme expenditure is split between sections A and B. Where FCO programmes are grant-funded they score in section B of the Estimate. Other methods of programme delivery such as the use of commercial contracts score in section A. Many of the operational costs of running the FCO network are classified

as programme rather than administration, because they support front-line diplomatic work.

Cross-Whitehall programmes have separate sections, with section E covering the Prosperity and Integrated Activity Funds, section F covering conflict prevention and section G covering peacekeeping. Sections F and G together make up the Conflict, Stability and Security Fund (CSSF). CSSF and Prosperity Fund are ring-fenced, and funding cannot be transferred into other parts of the core FCO budget without approval.

1.6 Efficiency

As shown in Chart 2 above, the FCO's funding has risen in recent years, but an increasing proportion of the budget has come through the cross-Whitehall Prosperity Fund and Conflict Stability and Security Fund, which are ring-fenced, and in funding classified as Official Development Assistance (ODA). FCO's core budget – in particular the amount that is non-ODA – has reduced. In response, FCO has driven a large number of efficiencies, including:

- A shift over time towards greater use of locally-employed staff, to reduce the cost of posting UK-based staff overseas and increase local expertise. Around half of FCO's posts have two or fewer UK-based staff;
- Centralising corporate functions, through creating global transaction processing centres, central banking systems, and regional hubs for finance, procurement and HR;
- Nearly doubling the usage intensity of FCO's offices in King Charles Street, including by:
 - o Halving our London footprint from 15.4m² per member of staff in 2010 to 8.1m² in 2019 (ahead of the HMG average of 9.4m²);
 - o Releasing a £74m asset (and saving £5m a year rent) by vacating Old Admiralty Building in 2015; and
 - o Hosting more visitors and events, with a two-thirds increase in visitors over the two years to 2018.
- Consolidating overseas government properties under FCO management following the *One HMG* principle, to create a single platform across government;
- Increased digital delivery – for example through the recent Technology Overhaul programme – to enable staff to work more flexibly and efficiently; and
- Tight financial management generating savings from budgets across the organisation.

The FCO's Diplomacy 20:20 programme has included further measures that will improve our efficiency and effectiveness. For example, a review of the structure, size and shape of London policy directorates made savings to recycle into strengthening our Europe network after the 2016 referendum. The Corporate Capability Programme is reforming our corporate services operating model in order to drive efficiencies and improvements across the full range of operational services (such as estate maintenance) in the UK and in our overseas network. This programme is planned to run through to 2021. The Atlas programme is modernising our finance and HR systems in order to streamline processes, improve the user experience and create better management information.

The FCO has a programme of environmental sustainability works which are focussed on reducing costs and carbon emissions from across the operations. In particular the FCO has been focussing on energy & waste costs globally. The successful #BeyondPlastic programme has reduced the number of single-use plastic items used by the FCO in the UK by 97% (1.5m items).

1.7 Funding: Spending Review and Budgets

The Chancellor announced departmental budgets for 2020-21 in September. This concluded a one-year Spending Round ahead of a fuller Spending Review in 2020. The FCO's core resource budget will grow in line with UK inflation from 2019-20 to 2020-21. The FCO will receive continued funding to support the Africa Strategy, EU exit preparations, and Global Britain initiatives, including 1,000 staff positions and a total of 14 new and upgraded posts opening by 2021. The FCO will also receive additional Official Development Assistance (ODA) funding from the Department for International Development in 2020-21. This includes an extra £50 million to support the UK's existing foreign policy objectives and commitments, while expanding the FCO's ability to deliver the Prime Minister's Global Britain agenda and expand UK leadership on international issues.

1.8 Funding: Key drivers of funding change since original budget

Resource DEL

Overall Resource DEL funding decreased slightly since the Main Estimate due to a large number of transfers to other government departments, particularly by the cross-Whitehall funds, and some surrenders to the Reserve. There was, however, some additional funding for specific activity agreed by the Treasury, and some technical budget adjustments. In the Supplementary Estimate the additional budget for funding change was:

- £22.5m drawdown against the sale of the Bangkok compound to address a historic backlog of maintenance and seismic works on the overseas estate.
- £2.9m for the FCO's EU exit preparations.

There is also a £68m increase in the FCO's ring-fenced non-cash allocation to reflect a rise in the expected depreciation charge this year and to allow for foreign exchange volatility. This is broadly in line with last year's outturn.

Capital DEL

On capital, the FCO strives to maintain a UK and overseas platform – for the whole of government – which is modern, flexible, environmentally sustainable, compliant with health and safety standards, and secure for our staff and visitors. We have a core capital budget of £98m a year, largely spent on security and technology. It has also funded works in our new Global Britain posts and provided electric/hybrid cars to 30 of our overseas missions. But we depend on asset sales (in particular the sale of the Bangkok embassy compound) to fund investment in our estate. We have flexibility from HM Treasury to draw down sale proceeds to reinvest in later years.

This year in the Supplementary Estimate we are drawing down £24m of the Bangkok sale receipt to spend as capital, in addition to the £22.5m mentioned above for maintenance works that score as Resource DEL.

The funding will support a number of projects under the FCO's Global Asset Management Plan (GLAMP). These include the fit-outs of our new embassies in Bangkok, Mexico City and a number of smaller posts in our network, as well as commencing major refurbishments/reconfiguration programmes in Washington and Paris.

Annually Managed Expenditure (AME)

FCO has a non-cash AME budget mainly to cover some depreciation/impairments of assets and unrealised foreign exchange gains/losses. As in 2018-19, we are increasing this budget in the Supplementary Estimate to provide cover against exchange rate volatility.

2 EXPLANATION OF CHANGES IN THE SUPPLEMENTARY ESTIMATE

2.1 Drawdown of additional funding

Most of the major budget changes, including those listed in section 1.8 above, are technically classed as claims on the Treasury's Reserve that we are taking up in the Supplementary Estimate:

- Take up of £53.4m for the Consular Premium, which is a non-discretionary levy charged as part of the passport application fee. It is classified as a tax and therefore paid directly by the Home Office into the Treasury-run Consolidated Fund. The Premium is transferred from the Consolidated Fund to the Consular Service of the FCO each year through a claim on the Reserve;
- Take up of Treasury's 60% contribution, which amounts to £38m this year, for payments for International Subscriptions above an £82m baseline;
- Take up of £24m of banked asset sales receipts (largely from the 2018 sale of FCO's embassy compound in Bangkok) for capital investment in our estate. In addition, we have agreed with Treasury to switch £4.5m of our core capital budget to Resource DEL, for the Atlas programme to replace the FCO's finance and HR system;
- Take up of £23.5m for differential inflation which helps protect FCO against overseas inflation;
- Take up of £22.5m Resource DEL In line with the Chancellor's agreement in 2017 to switch a proportion of the Bangkok sale proceeds into Resource DEL for additional seismic and maintenance work;
- Take up of £9m for local initiatives to counter disinformation and encourage civil society engagement delivered through the BBC World Service for global strategic communications, as agreed in Spending Review 2015;
- Take up of £1.139m Capital DEL for EU Exit preparations in Gibraltar;
- A claim on the Emergency Disaster Relief Fund of £0.588m for the Thomas Cook collapse;

- Take up of £0.103m funding raised through LIBOR fines from which Treasury has agreed to cover the costs of erecting in the UK a memorial to the victims of the 2015 Tunisian terror attack; and
- A £68m increase in FCO's non-cash budget for depreciation. The main reason is to provide headroom against foreign exchange volatility. A fall in the value of sterling would increase the value of FCO's overseas assets.

2.2 Returns of funding to Treasury

We have returned £34m of peacekeeping funding in relation to the Common Foreign and Security Policy as this is paid directly by Treasury as part of the UK's net EU contribution.

We have also returned £30m non-ODA funding to Treasury, as agreed in our Global Britain funding uplift.

We have returned £10m Prosperity Funding to the Reserve.

There is a return to Treasury of £3.269m in respect of the Foreign Currency Mechanism (FCM) which helps protect FCO against exchange rate movements.

We have used Budget Exchange to move £3m of the FCO's Resource DEL (a contribution to the costs of the Dubai Expo) and £2m of CSSF peacekeeping funding from 2019-20 into 20-21.

2.3 Budget transfers

There have also been a number of routine transfers to and from the FCO, in particular those arising from the cross-Whitehall budgets; CSSF, Prosperity Fund and the Integrated Activity Fund, as set out in annex B.

2.4 Ring fenced budgets

CSSF and Prosperity Fund are ring-fenced, and funding cannot be transferred into other parts of the core FCO budget without approval.

2.5 Changes to contingent liabilities

There has been no significant change to contingent liabilities since last year.

3. PRIORITIES AND PERFORMANCE

3.1 How spending relates to objectives

Section 1.1 above outlines the FCO's priority outcomes and spend by strategic objective. Priority outcomes 1, 2, 3, 6, 8, 9, 10 and 11 are covered by sections A, B and H of the Estimate. Priority outcome 7 is covered by sections E, F and G. Priority outcomes 4 and 5 are shared between sections A,B,C,D,E and H. Non-Cash AME in section I supports all of objectives.

3.2 Measures of performance against each priority

Data on performance against the FCO's Single Departmental Plan is given in the Performance Report in the FCO 2018-19 Annual Report and Accounts (HC 2393). This can be found at the link below:

<https://www.gov.uk/government/publications/foreign-and-commonwealth-office-annual-report-and-accounts-2018-to-2019>

Further work is underway to develop measures of performance against FCO priority outcomes.

3.3 Commentary on steps being taken to address performance issues

Spending designed to improve performance includes:

- Programme Management: A Portfolio Management Office (PMO) was established in 2018 to continue improvements in delivering foreign policy through programmes. The PMO has enhanced capability by developing training courses and has introduced a Policy Portfolio Framework which sets the standard for project and programme management. The FCO continues to promote project delivery as a core diplomatic skill and to improve our systems and processes for programme management and reporting.
- Tech Overhaul: The FCO recently completed a £122.4m multi-year IT change programme. Tech Overhaul has enabled the FCO's IT platform to work in the Cloud, rolled out Office 365 to all users and enhanced the performance, reliability and stability of our global IT network. The programme rolled out over 22,000 new, fit-for-purpose laptops and desktops, and smartphones to users who need them. The technology will enable FCO staff, including those at High Security Threat Posts overseas, to collaborate more effectively, and work more consistently and flexibly.
- Atlas: The Atlas programme will modernise the FCO's finance, procurement and HR information systems by bringing more processes on line and increasing automation, improving user experience and providing better management information. The secure Government cloud-based technology solution will drive behavioural change in the way the FCO and its One HMG Partners do business in the UK and Overseas.
- The Estate: We have continued to prioritise investment in estates maintenance, working hard to ensure we meet health and safety standards. This includes adjusting our residential property standards in the light of the Grenfell Tower tragedy, major refurbishments to our aged properties in Washington and Paris, a global programme to ensure that our diplomatic estate is resilient to withstand seismic risk and a new Embassy in Mexico to replace our earthquake-damaged office.
- Diversity and Inclusion: We have created a new Inclusion, Diversity, Wellbeing and Employee Relations Department. The FCO will deliver a more ambitious programme of communications and engagement work to promote inclusive behaviours, including with respect to BHD and sexual harassment, drive greater

diversity and encourage greater focus on wellbeing, including good mental health.

3.4 Major projects

The FCO has four major projects as defined by the Infrastructure and Projects Authority (IPA):

- Echo 2: a joint project with the British Council and the Department for International Development to provide new network, telephony and video-conferencing services;
- Atlas: a programme to replace the FCO's finance and HR information system;
- Desktop Infrastructure: to design and deliver the future operational support for FCO's desktop computing system;
- A major refurbishment of the embassy and ambassador's residence in Washington DC.

Capital projects in Beijing and Kabul will also be classified as major projects, subject to approval of their business cases.

Technology Overhaul, a programme to upgrade FCO's IT, completed this year. Progress on major projects is recorded at:

<https://www.gov.uk/government/publications/fco-government-major-projects-portfolio-data-2019>