

Foreign and Commonwealth Office
Main Estimate Memorandum 2020-21

Contents

1. OVERALL CONTEXT	2
1.1 Objectives	2
FCO spend by strategic objective:	2
FCO Funding.....	3
1.2 Spending controls	4
1.3 Main areas of spending	4
Sections of the estimate	4
1.4 New policies and programmes; ambit changes	5
1.5 Breakdown of FCO Resource DEL spending	5
Administration costs	6
Programme expenditure.....	6
1.6 Efficiency	6
1.7 Funding: Spending Review and Budgets	7
1.8 Funding: Key drivers of funding change since last year.....	7
Resource DEL.....	7
Capital DEL.....	8
Annually Managed Expenditure (AME)	8
2 EXPLANATION OF CHANGES IN THE MAIN ESTIMATE	8
2.1 Drawdown of additional funding and budget transfers	8
2.2 Ring fenced budgets.....	9
2.3 Changes to contingent liabilities	9
3. PRIORITIES AND PERFORMANCE.....	9
3.1 How spending relates to objectives	9
3.2 Measures of performance against each priority	9
3.3 Commentary on steps being taken to address performance issues	10
3.4 Major projects	10

1. OVERALL CONTEXT

This memorandum gives background to the FCO Main Estimate 2020-21. The format of this document follows guidance from the Parliamentary Scrutiny Unit, to provide wider context about departments' objectives and finances.

1.1 Objectives

The FCO is currently focusing on short-term objectives which support the Government's response to the Covid-19 pandemic.

FCO spend by strategic objective:

The FCO is currently reviewing discretionary budgets, in order to prioritise the Covid-19 response. Formal budget allocations for 2020-21 will be confirmed as soon as possible.

The chart below gives a breakdown of the FCO's spending by our three strategic objectives for 2019-20. The costs of running the 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 1: Forecast FCO expenditure by strategic objective 2019-20

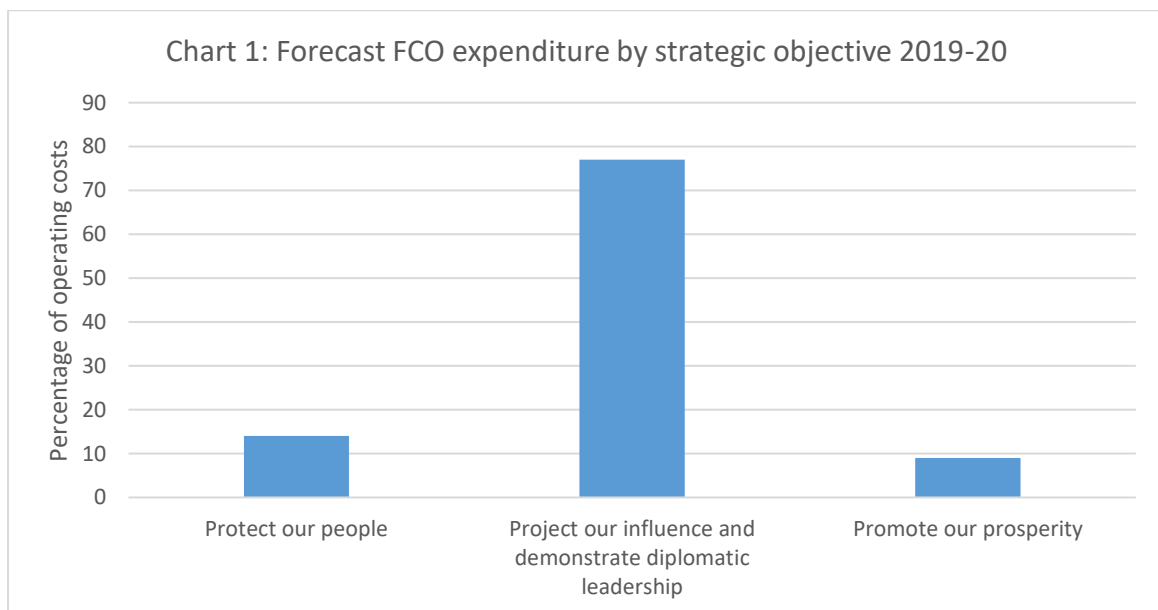
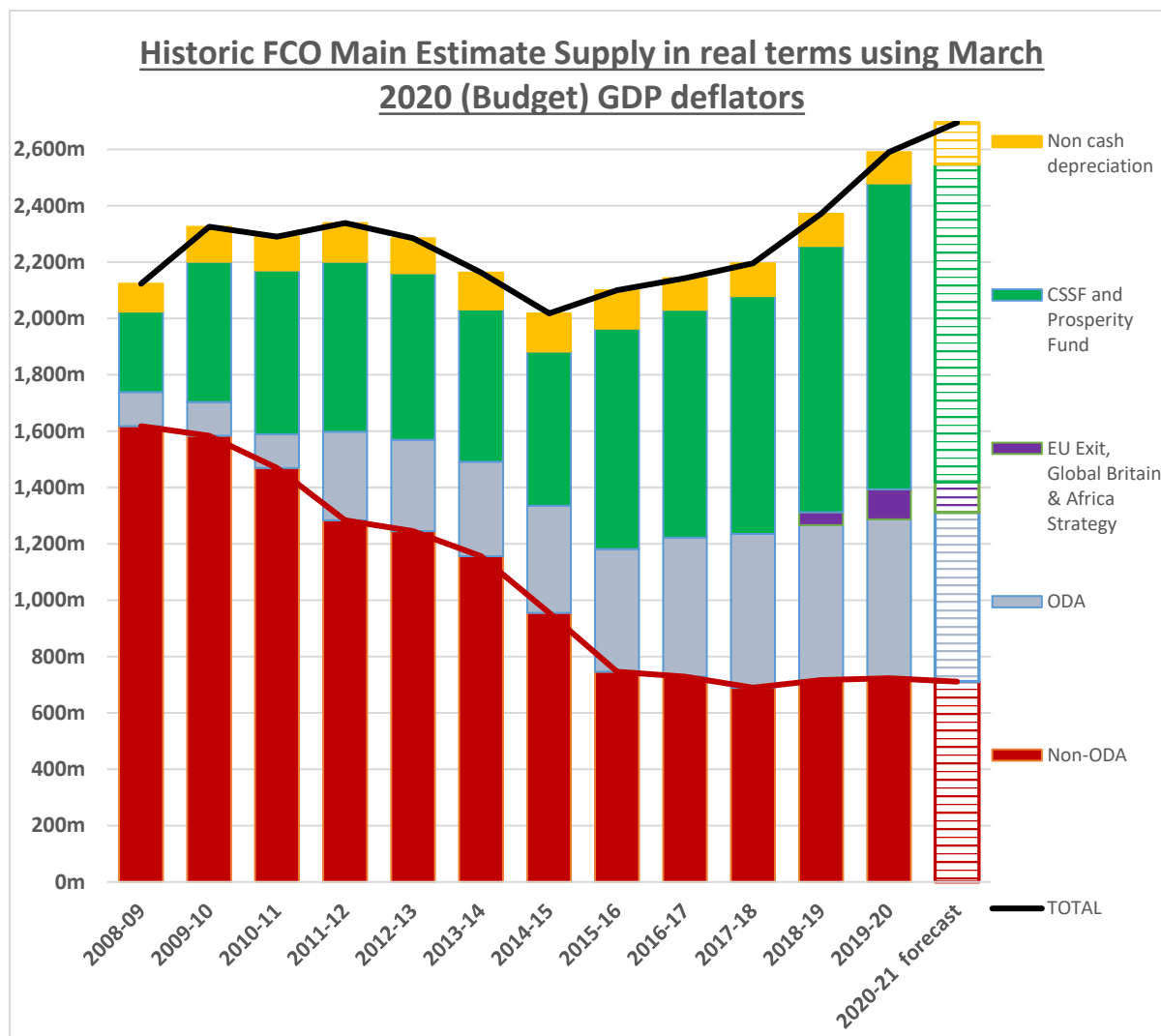


Chart 2: FCO Resource DEL funding in real terms



Notes:

1. Figures show FCO Resource DEL in real terms (2019-20 prices), using GDP deflators at March 2020.
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 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).

1.2 Spending controls

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

Spending total Amounts sought this year (Main Estimate 2020-21)		Compared to original budget last year (Main Estimate 2019- 20)		Compared to final budget last year (Supplementary Estimate 2019-20)	
		£ m	% change	£ m	% change
Resource DEL	2,755.7	2,616.7	5.3%	2,645.0	4.2%
Capital DEL	101.8	111.8	-8.9%	152.5	-33.2%
Resource AME	100.0	100.0	0.0%	202.0	-50.5%

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, Wilton Park Executive Agency, frontline diplomacy, providing an international platform and associated non-cash items.
B	Core FCO programme funds, Gulf Strategy Fund, scholarships, grant to BBC World Service, grants to international organisations and other bodies supporting FCO objectives.
C	Resource grant to the British Council.
D	The net expenditure of other FCO-sponsored Arm's Length Bodies (ALBs): the Westminster Foundation for Democracy, the Marshall Aid Commemoration Commission and the Great Britain China Centre.
E	Expenditure on the Prosperity Fund.
F	Conflict, Stability and Security Fund (CSSF) programme expenditure: conflict prevention, early warning, crisis management, conflict resolution/peacekeeping.
G	Expenditure through the CSSF on peacekeeping and peace building activity and on associated strengthening of international and regional systems.
H	AME non-cash expenditure on impairments, provisions and 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

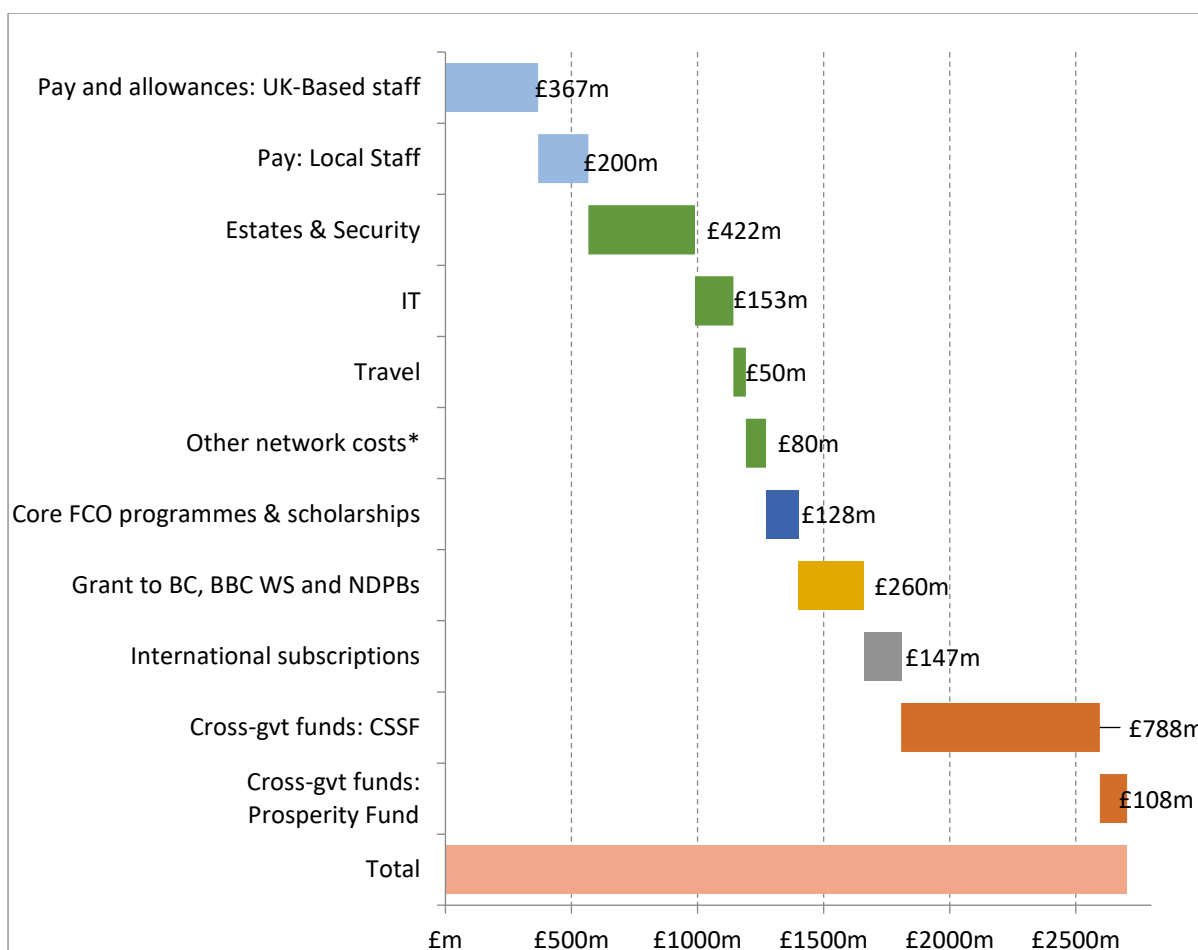
The FCO’s immediate priority in 2020-21 is to support the Government’s response to Covid-19. The ambit has been updated to include the phrase “Governmental response to the coronavirus Covid-19 pandemic”.

There have also been some minor changes to the ambit to improve transparency: “consular assistance” and “promoting our prosperity” have been added. They do not represent a change to the functions of the FCO but emphasise key areas of work.

The Gulf Strategy Fund, formally the Integrated Activity Fund, has been moved from Section E to Section B. It is an FCO-managed programme and sits better with other FCO-managed programme expenditure in Section B, rather than with the Prosperity Fund which is a cross-Whitehall managed fund.

1.5 Breakdown of FCO Resource DEL spending

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



Note: The breakdown of costs is based on a provisional estimate of 2019-20 outturn.

* Other network costs include catering, diplomatic bags, training and medical costs

Administration costs

The FCO's administration cost limit is £208 million. This compares to £183 million at Main Estimate 2019-20. The FCO received a transfer of £12.6m for the costs related to staff who joined the department when the Department for Exiting the European Union (DExEU) disbanded in January 2020. A full list of transfers is set out at Annex B.

Programme expenditure

FCO programme expenditure is split between sections A and B of the Estimate. As well as programme fund expenditure and grants, 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 Fund, section F covering the CSSF programme expenditure and section G covering CSSF peacekeeping. The 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 to 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.

Consular services have been further modernised: pulling services and staff into regional or global hubs, offering services as digital by default, delivering Emergency Travel Documents centrally online, expanding the capability of our Global Contact Centres; and using "lean" methodology to drive a 10% productivity improvement in our Legalisation Office services to the public. The FCO crisis centre is seen as a centre of excellence across Whitehall for managing crises across government. Recent benchmarking for the consular strategy suggests the UK is 30-50% more efficient than the closest comparator country.

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 and 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 2019. This concluded a one-year Spending Round. The Comprehensive Spending Review (SR20) launch date has been delayed by HMT due to Covid-19, but a spending event will need to take place this year to set budgets beyond 31 March 2021.

The FCO's 2020-21 core resource budget grew in line with UK inflation from 2019-20, plus an additional £50m of ODA funding, giving overall real-terms growth of 3.4%. The £1,100.6m RDEL settlement includes continued funding for EU exit.

1.8 Funding: Key drivers of funding change since last year

Resource DEL

In addition to an increase in the FCO's core settlement, overall Resource DEL funding increased in 2020-21 due to budget transfers, additional funding for specific activity agreed by the Treasury and some technical budget adjustments.

The FCO has also received additional Official Development Assistance (ODA) funding from the Department for International Development (DFID), including the £50m from SR19, to support the UK's existing foreign policy objectives and commitments, and the FCO's ability to deliver the Prime Minister's Global Britain agenda and expand UK leadership on international issues.

The major increases in the FCO's funding are:

- £333m transferred from DFID as ODA. This is made up of £283m which is consistent with 2019-20 adjusted for inflation, plus an additional £50m ODA;
- £20m transferred from MOD for the Gulf Strategy Fund (formally Integrated Activity Fund): also received in 2019-20;
- £18.2m transferred from DFID for the Africa Strategy (£16.8m at Main Estimates 2019-20);
- £150m for ring-fenced depreciation (£111.5m at Main Estimates 2019-20);
- Annual uplifts in the cross-Whitehall funds:
 - o DFID have transferred £988m to FCO for Conflict, Sustainability and Security Fund (CSSF) work (up from £904.5m at Main Estimates 2019-20), and
 - o £150m for the Prosperity Fund (down from £187.5m at Main Estimates 2019-20).

A full list of budget transfers is set out in Annex B.

Capital DEL

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 which is largely spent on security, large maintenance projects and information technology. It will also fund the completion of our new Global Britain posts. We expect to make a significant switch of capital to resource to cover the investment cost of the Atlas programme (upgrading our Finance/HR system).

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 funding will support a number of projects under the FCO's Global Asset Management Plan (GLAMP) . These include completing the fit-outs of our new embassies in Bangkok, Mexico City and a number of smaller posts in our network, as well as continuing 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.

2 EXPLANATION OF CHANGES IN THE MAIN ESTIMATE

2.1 Drawdown of additional funding and budget transfers

The Main Estimate draws down the FCO's core funding of £1.1 billion Resource DEL and £98 million Capital DEL set in Spending Review 2019.

Along with the SR19 Settlement and the uplifts mentioned in section 1.8 above, we have used Budget Exchange to move £3m of the FCO's Resource DEL and £2m of CSSF peacekeeping funding from 2019-20 into 2020-21.

The FCO received £12.6m from Cabinet Office for costs related to the DExEU staff who transferred to the FCO.

Charges for occupation of the FCO Platform are reviewed annually, this has led to net baseline transfers out of £22.5m.

The FCO has transferred £14m to the Cabinet Office for COP26.

The Main Estimate does not include important funding streams for consular premiums, international subscriptions and the Foreign Currency Mechanism. These rely on in-year data and so cannot be taken up until the Supplementary Estimate. It is therefore misleading to compare Main Estimate supply with Supplementary Estimate supply.

There have been a number of other routine transfers to and from the FCO in the current Main Estimate, a full list of transfers is set out in Annex B.

2.2 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.

2.3 Changes to contingent liabilities

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

As part of the Government's response to the Covid-19 pandemic the FCO is offering an emergency loan or an undertaking to repay (UTR) to stranded British nationals. Measures are in place to ensure the loan is repaid once they get back home.

It is possible that further liabilities or financial support will be required, either to individuals or organisations, as part of the Covid-19 response.

3. PRIORITIES AND PERFORMANCE

3.1 How spending relates to objectives

The FCO is currently working on short-term objectives which support the Government's response to the Covid-19 pandemic. Up to £75m of Government funding has been pledged to bring UK travellers back home.

In the short term, 2019-20 closing allocations are being used as a guide for non-discretionary spend. Discretionary budget allocations are being reviewed in order to prioritise the FCO's Covid-19 response and 2020-21 budgets will be set as soon as possible.

3.2 Measures of performance against each priority

Data on performance against the FCO's Single Departmental Plan will be given in the FCO 2019-20 Annual Report and Accounts.

Further work is also 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: In 2019 the FCO 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 enables FCO staff, including those at High Security Threat Posts overseas, to collaborate more effectively, and work more consistently and flexibly. It has enabled most FCO work to be continued remotely during the Covid-19 crisis.
- 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 continue 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 embassies in Washington and Paris and a global programme to ensure that our diplomatic estate is resilient to withstand seismic risk.
- 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 be classified as major projects, subject to approval of their business cases.

Progress on major projects is recorded at:

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