



House of Commons
Foreign Affairs Committee

The FCO's performance and finances in 2013– 14

Ninth Report of Session 2014–15

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to the report*

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The Foreign Affairs Committee

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Summary

We do not dispute that the FCO needed to play its part in the general retrenchment instigated by the 2010 Spending Review. The FCO was dealt a difficult hand, and Ministers and senior management have, on the whole, played it skilfully. However, the cuts imposed on the FCO since 2010 have been severe and have gone beyond just trimming fat: capacity now appears to be being damaged. If further cuts are imposed, the UK's diplomatic imprint and influence would probably reduce, and the Government would need to roll back some of its foreign policy objectives. In short, the FCO would need to aim to do less.

The FCO's budget is a tiny element of Government expenditure, but the FCO makes a disproportionate contribution to policy-making at the highest level, including decisions on whether to commit to military action. To impair the FCO's analytical capacity for the sake of a few million pounds could be disastrous and costly. We recommend that future FCO budgets should be protected under the next Spending Review.

The number of UK-based staff in the FCO will have fallen by 10% over five years; the Department is struggling to fill positions in critical business areas; and many have argued that expertise within the FCO has suffered. It is alarming that the strongest criticisms that we have heard about the FCO's capacity to gain local knowledge, and the most striking evidence of a shortfall in proficiency in foreign languages, relate to regions where there is particular instability and where there is the greatest need for FCO expertise in order to inform policy-making.

Staff morale remains a static amber risk for the Department, given the continuing constraints on pay. There are significant differences between rates of pay for FCO staff and rates for staff in other Government Departments. Dissatisfaction is not necessarily rooted in pay rates alone but also stems from a sense that many of the benefits and attractions of working for the FCO—the chance to spend much of your working life overseas, prestige, a good standard of living while overseas, allowances—have been trimmed or have declined in value. The FCO should either seek to eliminate the pay differential or put more resources into safeguarding the benefits and allowances which are most valued by staff.

The FCO has missed its diversity targets under the 'Fairness for All' programme, and its performance on promoting women to the very top posts has been disappointing. In the history of the FCO, no woman has ever held a post at the highest grade—SMS 4. The problems may not reflect institutional barriers but rather a lack of confidence among women that they have the same opportunities for career development and advancement as their male colleagues. The FCO, in response to these setbacks, has not been complacent and has set out policies to improve performance, including novel ideas such as ambassadorial job-shares. We expect these measures to have an effect, if not an immediate one.

The value of UK exports in goods and services was just £506.5 billion in 2013, significantly lower than where the Government would have expected to have been in order to meet its

£1 trillion export target by 2020. The export target is very demanding: it appeared unrealistic at the time it was set and it is proving to be so now. We believe that the Government should set a new, more realistic target for UK exports, and it should expect other Departments to play their part in helping to reach it.

The FCO disclosed £271,500 of commercial sponsorship for events at overseas posts during the 2013–14 financial year; but the value of sponsorship currently being raised hardly justifies the reputational risk to the Department, nor does it appear to compensate adequately for the undoubted value that sponsors receive on behalf of the taxpayer. We encourage the FCO to derive greater value for the taxpayer by extracting more from commercial sponsors, on the understanding that all sponsorship, including sponsorship of events in the UK, should be transparent and should be published by the FCO on a rolling basis.

Conclusions and recommendations

Staffing

1. We recommend that the FCO give an assurance that any compulsory redundancies in the next Spending Review period would not entail a decrease in the number of staff providing direct policy support. (Paragraph 18)
2. The FCO should, in response to this Report, set out its strategy for ensuring that vacancies for key posts are filled promptly and by staff of the necessary calibre. (Paragraph 20)

Overseas opportunities for UK-based staff

3. We believe that the head of the UK's representation in any particular country should only be a non-FCO career employee in the most exceptional circumstances. However, we welcome the reassurance by the Permanent Under-Secretary that he would expect a Head of Mission always to be employed as an FCO employee. We believe that any other arrangement would obscure an otherwise clear line of accountability, from heads of mission to the Permanent Under-Secretary to FCO Ministers. (Paragraph 33)

Disclosure of information

4. It is unacceptable for Government departments to place constraints on the disclosure of information which directly concerns public expenditure, is not internal policy advice, and which we suspect is neither commercially confidential nor likely to present a security risk if disclosed. (Paragraph 39)

Conclusion on pay and morale

5. The FCO must continue to ensure that the Department is an attractive place to work and that it can compete with other high-prestige employers to attract high-quality applicants. Maintaining a tradition of excellence will be key, but we believe that the FCO cannot entirely overlook pay and benefits. The FCO could either seek to eliminate the pay differential between the FCO and comparable Government departments: that would require Treasury dispensation and might cost £20 million, maybe spread over a period of five years or so; or it could put more resources into safeguarding the benefits and allowances which are most valued by staff. (Paragraph 43)

Overall conclusion on FCO spending and impact on capacity and workforce

6. The cuts imposed on the FCO since 2010 have been severe and have gone beyond just trimming fat: capacity now appears to be being damaged. The next Government needs to protect future FCO budgets under the next Spending Review. The FCO already spends less per head of population than foreign ministries in our closest comparator countries. The majority of the FCO's expenditure is either ring-fenced or

non-discretionary, and so its scope to make savings is limited. If further cuts are imposed, the UK's diplomatic imprint and influence would probably reduce, and the Government would need to roll back some of its foreign policy objectives. In short, the FCO would need to aim to do less. (Paragraph 47)

Diversity at the FCO

7. We recommend that the FCO, in its response to this Report, explains how it plans to use diversity factors as a “legitimate consideration in appointment decisions”, if it has ruled out the use of positive discrimination. (Paragraph 55)
8. Persistent under-achievement on diversity targets has the potential to drain morale and risks damaging the reputation of the FCO as an employer and service provider. The problems do not appear to reflect institutional barriers but rather a lack of confidence among women that they have the same opportunities for career development and advancement as their male colleagues. We would expect the measures already in hand to have an effect, if not an immediate one; and we endorse the principle that the FCO should continue to make appointments on the basis of best person for the job. The FCO will, however, need to continue to demonstrate that cultural change is under way, if women in the FCO are to feel confident that they can make it to the top of the organisation. (Paragraph 61)

Export target

9. The Chancellor's target for the value of UK exports in goods and services to reach £1 trillion by 2020 is very demanding: it appeared unrealistic at the time it was set and it is proving to be so now. We do not believe that a major reallocation of FCO staff and effort would necessarily help to reach that target; nor do we believe that such a rebalancing would be desirable. We believe that the Government should set a new, more realistic target for UK exports, and it should expect other Government Departments to play their part in helping to reach it. (Paragraph 67)

Commercial sponsorship

10. We recommend that data on sponsorship for events hosted by the FCO in the UK is included in disclosures on corporate sponsorship. (Paragraph 71)
11. We welcome the assurances from the Department that no special favours are granted to companies which sponsor FCO activities. (Paragraph 72)
12. The value of sponsorship currently being raised by the FCO hardly justifies the reputational risk to the Department, nor does it appear to compensate adequately for the undoubted value that sponsors receive on behalf of the taxpayer. We encourage the FCO to derive greater value for the taxpayer by extracting more from commercial sponsors, on the understanding that all sponsorship (not just deals with a value of over £5,000) should be transparent and should be published by the FCO on a rolling basis, rather than being held over to the Annual Report and Accounts. (Paragraph 73)

1 Introduction

1. This short Report on the FCO's performance and finances in 2013–14 summarises our views on the future direction of the Foreign and Commonwealth Office (FCO). Although it is based on the FCO's Annual Report and Accounts for 2013–14, it draws more widely on evidence we have received since the start of this Parliament. We assess the impact of the 2010 Spending Review and the implications for the Department of any further cuts that might be imposed under the new Government after the May 2015 General Election. We also look at two aspects of the FCO which have received little scrutiny from us so far: the FCO's trade and economic diplomacy, and its efforts to improve the diversity of its workforce.

2. Our terms of reference were announced on 21 July 2014, as follows:

- The FCO's diversity policies, including the steps it has taken to increase the number of women in senior roles, and other diversity targets;
- The establishment of the Diplomatic Academy;
- The interface between the FCO and the European External Action Service overseas;
- Co-operation between the FCO and other Government departments and publicly funded bodies, including the arrangements for use of FCO premises and services overseas, and pooling of effort and funding in pursuit of policy aims;
- The FCO's understanding and reporting of the costs of its activities;
- The changing role of the FCO and its staff in promoting investment and trade; and
- Corporate sponsorship of FCO activities.¹

3. Written evidence to the inquiry is published on the Committee's webpages on the Parliamentary website.² We took oral evidence from the Permanent Under-Secretary at the FCO, Sir Simon Fraser, and other key FCO officials; and we took evidence from the Chair, Chief Executive and former Chief Executive of the British Council. Our Report, however, relates exclusively to the FCO. We are grateful to all those who have taken part in the inquiry.

1 [FCO Performance and Finance 2013-14: Terms of Reference, 21 July 2014](#)

2 [FCO Performance and Finance 2013-14: written evidence](#)

2 FCO spending and capacity

Spending by the FCO

5. The budget cuts imposed on the FCO by the 2010 Comprehensive Spending Review (2010 Spending Review) were proportionally some of the greatest imposed on any Government department.³ The Spending Review set out a **10 per cent**⁴ real terms reduction in the resource budget (**24 per cent**⁵ real terms reduction if the transfer of funding for the BBC World Service to the BBC Licence Fee is taken into account), and a 55 per cent reduction in capital spending over the four-year Spending Review period. The Spending Round 2013, which set out government spending for the 2015–16 financial year, required the Department to administer a further real terms reduction of **6.3 per cent**⁶ to the resource budget.⁷

6. In order to provide context, we set out below an analysis of FCO spending, based on actual resource outturn, for every year of this Parliament and for the three years prior to 2010–11, to illustrate the financial challenges FCO management have faced over the course of the Spending Review period.

7. The Spending Review settlements do not include costs relating to peacekeeping, conflict prevention or depreciation and impairments. However, resource departmental expenditure limit (RDEL) outturn figures taken from the Annual Report include these items of expenditure. In order to make a like-for-like comparison with the Spending Review, Tables 1 and 2 have deducted these costs from total RDEL outturn.

8. Table 1 shows outturn for the FCO 'family', which includes spending by the FCO 'core' Department, the British Council and the BBC World Service. The last row of Table 1 provides outturn figures on the same basis as the Spending Review settlement.

3 Only the Department for Communities and Local Government, HM Treasury, Department for Environment, Food and Rural Affairs and Business Innovation and Skills faced deeper cuts (in terms of percentage falls in budgets) than the Foreign Office. [See Spending Review 2010, page 10.](#)

4 "Spending reduction in the Foreign and Commonwealth Office", National Audit Office, HC 826, 29 March 2011, para 4, <http://www.nao.org.uk/wp-content/uploads/2011/03/1011826.pdf>

5 "Spending Review 2010", HM Treasury, Cm 7942, October 2010, page 10, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/203826/Spending_review_2010.pdf

6 The FCO's budget excluding Official Development Aid reduces by 7.8 per cent.

7 "Spending Round 2013", HM Treasury, Cm 8639, June 2013, page 10, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209036/spending-round-2013-complete.pdf

Table 1: FCO Family Resource DEL Outturn from 2007–08 to 2014–15⁸ (in 2013–14 prices)⁹ (figures in £m)

	2007–08 ¹⁰	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15 (forecast) ¹¹
Total Resource DEL	2,059	2,252	2,304	2,319	2,252	2,193	2,156	1,833
Less:								
Depreciation	83	91	114	109	128	166	181	147
Conflict prevention & peacekeeping	421	504	507	542	553	493	474	516
Resource DEL (on Spending Review basis)	1,555	1,657	1,683	1,668	1,571	1,534	1,501	1,170

Table 2 shows outturn for the FCO core Department, which relates to spending on the diplomatic and administrative functions of the Department and of its sponsored bodies,¹² and which excludes Grant in Aid funding to the British Council and the BBC World Service. The last row of Table 2 provides outturn figures on the same basis as the Spending Review settlement.

8 Outturn figures for the period 2008-09 to 2013-14 were taken from the FCO Annual Report and Accounts 2013-14, HC 17, 1 July 2014, , page 128, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325896/FCO_Annual_Report_2013-14.pdf

9 Nominal outturn figures have been deflated into 2013-14 prices. We used the GDP deflators from the Autumn Statement, December 2014 update. See <https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-december-2014-autumn-statement>

10 Outturn figures for 2007-08 were taken from the FCO Annual Report and Accounts 2012-13, HC 32, 1 July 2013, page 25, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/318816/Annual_Report_2012-2013_-_update_June2014.pdf

11 Forecast figures were taken from the February 2015 FCO Supplementary Estimates (HC 1019), pages 399 to 412, and adjusted to 2013-14 prices. See www.gov.uk/government/uploads/system/uploads/attachment_data/file/405331/supplementary_estimates_2014-15_print_with_corrections_slip.pdf

12 Six bodies are listed on page 127 of the FCO Annual Report and Accounts 2013-14 as falling within the FCO accounting boundary: Wilton Park, The Great Britain-China Centre, The UK China Forum, The Marshall Aid Commemoration Commission, The Westminster Foundation for Democracy, and the BBC World Service.

Table 2: FCO 'Core' Resource DEL Outturn from 2007–08 to 2014–15 (in 2013–14 prices) (figures in £m)

	2007–08	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15 ¹³ (forecast)
Total Resource DEL for Core Department (exc. BBC & British Council)	1,595	1,776	1,835	1,871	1,825	1,753	1,751	1,686
Less:								
Depreciation	83	91	114	109	128	129	160	147
Conflict prevention & peacekeeping	421	504	507	542	553	493	474	516
Resource DEL for Core Department	1,090	1,180	1,214	1,220	1,144	1,130	1,117	1,023

9. The FCO is forecast to exceed the planned cuts imposed by the 2010 Spending Review, for both the FCO Family and core FCO:

- The 2010 Spending Review planned for a **24 per cent** reduction to the FCO 'family' budget. Spending is, however, forecast to fall by **29.9 per cent** in real terms (see Table 1) over the 2010 Spending Review period, from £1.668 billion to £1.170 billion: **5.9 per cent** more than initially agreed in the settlement;
- 'Core' FCO was earmarked to be cut by **10 per cent** in the 2010 Spending Review settlement. FCO 'core departmental' spending, however, is forecast to fall by **16.1 per cent** in real terms, from £1.22 billion in 2010–11 to £1.023 billion in 2014–15 (see Table 2), which is **6.1 per cent** more than initially agreed in the settlement.

10. The FCO budget has a number of distinctive features. Firstly, it is small in comparison to that of other departments. In 2013–14, the FCO ranked 15th out of the 20 major Whitehall departments in terms of resource spending and accounted for just **0.6 per cent** of total government expenditure.¹⁴ The FCO spent approximately a quarter of the sum

13 Forecast figures were taken from the February 2015 FCO Supplementary Estimates (HC 1019), pages 399 to 412, and adjusted to 2013–14 prices. See www.gov.uk/government/uploads/system/uploads/attachment_data/file/405331/supplementary_estimates_2014-15_print_with_corrections_slip.pdf

14 Based on a comparison of Resource Delegated Expenditure Limit (RDEL) outturn in 2013–14, only the Law Officers' Department, the Department for Energy and Climate Change, the Department for Culture, Media and Sport and the Department for Environment, Food and Rural Affairs spent less than the FCO in 2013–14. See Public Expenditure Statistical Analyses, HM Treasury, July 2014, Cm 8902, Table 1.3, page 20, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/330717/PESA_2014_-_print.pdf

spent by the Department for International Development and less than six per cent of that spent by the Ministry of Defence.¹⁵

11. Secondly, there are a number of areas of FCO expenditure that are difficult to reduce because they are not under the Department's control or are ring-fenced. In 2013–14, these included:

- a) **Spending on peacekeeping and conflict prevention (£474 million):** the Conflict Resources Settlement funds conflict pool and peacekeeping expenditure within the Department. It is separate from the Department's main budget and is ring-fenced from it.
- b) **Grant-in-aid (£407 million):** The Department provides grant-in-aid financing to the British Council and BBC World Service, as set out in the 2010 Spending Review settlement. Funding for these bodies is ring-fenced.
- c) **Subscriptions to international organisations (£156 million):** the UK is a member of a number of international organisations for which the Department pays the UK's share of the running costs. These costs are not decided by the Department and have to be paid regardless of spending allocations by HM Treasury.
- d) **Depreciation and impairments (£181 million):** this sum is not transferred from the Consolidated Fund under the supply procedure as cash but is a notional sum. It is an accounting concept which represents the decline in the value of assets used during the year. It reflects resources used by the Department based on past events, rather than actual cash spent in year, and so it is not possible to spend it on any other budget lines.¹⁶

Areas of uncontrollable and ring-fenced expenditure limit the ability of the Department to accommodate cuts or manage their finances flexibly by transferring costs between budget lines. Any overspend on non-discretionary items of expenditure (such as international subscriptions) has to be covered by budget lines from other elements of the FCO budget. These other areas of 'discretionary' spending totalled £940 million in 2013–14, accounting for **44 per cent** of the FCO's total resource DEL outturn; a significant proportion of this was committed to staff salaries and estates costs, which are largely fixed for a given year and change slowly.

International comparison

12. The House of Commons Library has, at our request, compared FCO spending to that of equivalent departments in other countries. Comparisons are rarely exact, as corresponding ministries in other countries often have different functions, so the figures below should be treated with some caution. To make the figures more comparable, for

¹⁵ Ibid

¹⁶ "NAO Departmental Overview: The performance of the Foreign & Commonwealth Office 2013-14", National Audit Office, November 2014, page 11, www.nao.org.uk/wp-content/uploads/2014/11/The-performance-of-the-foreign-commonwealth-office-2013-14.pdf

countries where the foreign ministry is responsible for spending on overseas aid, aid spending has been stripped out.

Table 3: Foreign Office spending comparisons

International comparisons with similar bodies, excluding aid spending where body is also main aid agency

	Spend in local currency	Spend in £ millions	Rank of Spend	Spend per head (£)	Rank of Spend per head	Year spending relates to
USA	US \$ 25.0bn	17,469	1	55.7	1	2014
Finland	€ 0.38bn	284	10	52.5	2	2015
New Zealand	NZ \$ 461m	219	11	49.5	3	2014–15
Canada	CAD \$ 2.52bn	1,404	6	40.2	4	2013–14
Germany	€ 3.64bn	3,202	3	39.1	5	2014
France	€ 2.82bn	2,305	4	36.3	6	2015
Australia	AUS \$1.77bn	811	8	35.7	7	2014–15
UK (FCO)	£2.18bn	2,183	5	34.3	8	2013–14
Ireland	€ 163m	137	13	29.9	9	2015
Sweden	Krona 1.9bn	151	12	15.8	10	2015
South Africa	Rand 5754.3m	787	9	15.0	11	2014–15
India	Indian Rupees 9,662 crore ¹⁷	4,027	2	3.3	12	2012–13

Source: Figures compiled by the House of Commons Library¹⁸

17 A crore is a unit in the Indian Numbering System equal to ten million (10,000,000)

18 House of Commons Library compiled this information from the following sources: [Ireland](#), Foreign Affairs and Trade (excluding aid), approved expenditure for 2015 €163 million; [France](#), Action extérieure de l'État-2015 budget (credits, excluding CAS pensions & development aid) €2.818 billion; [Germany](#), Auswärtiges Amt (Federal Foreign Office)-2014 budget €3.638 billion euro; [Australia](#), Department of Foreign Affairs and Trade (excluding aid), 2014-15 estimated expenses AUS \$1.77 billion; [New Zealand](#), Ministry of Foreign Affairs and Trade, estimated actual appropriation, 2013-14 NZ\$461m; [Canada](#), Ministry of Foreign Affairs and International Trade (before merger with aid agency), 2013-14 net operating cost CAD\$ 2,515.044m; [United States](#), US State Department, net cost fiscal year 2014 US \$25.008 billion; [South Africa](#), Department of Foreign Affairs, 5,754.3 million rand estimated expenditure for 2014-15 (includes some aid spending); [India](#), Ministry of External Affairs ₹9,662 crore (₹96,620,000,000) (may include some overseas aid); [Finland](#), Ministry for Foreign Affairs appropriation (excluding development branch) 379.075 million euros 2015; [Sweden](#), International Cooperation 1.9 Krona billion budgeted for 2015; [United Kingdom](#), FCO Total Managed Expenditure outturn for 2013-14 from HM Treasury, Public Spending Statistics Nov 2014; Population data for all countries is from OECD Stat and is for 2012; Exchange rates were adjusted for price differences between countries for 2013 (using GDP PPPs from OECD Stat)

Table 3 shows that, based on spending per head of population, the UK spends a similar amount to France on foreign office functions, but less than Germany and considerably less than the United States. The FCO ranks eighth out of the 12 countries listed, with only Ireland, Sweden, South Africa and India spending less per head.

Effects of cuts on FCO capacity

13. The capacity of the FCO to perform its role of protecting and promoting the UK's interests and values overseas relies upon:

- The existence of a corps of sufficient highly competent and motivated staff;
- Efficient methods of gathering information, from the widest possible range of sources within any given foreign country, on attitudes to the UK, opportunities for the UK, and threats to the UK's interests;
- An ability to analyse that information and to form the best possible understanding of how the UK's interests might be safeguarded and its values promoted;
- The ability to command respect amongst opinion-formers within a foreign country or in international institutions, and thereby to carry influence in promoting the UK's values; and
- A platform from which staff can operate. By “platform” we mean the physical premises occupied by staff, both in London and abroad, as well as the facilities which equip staff to do their job effectively (professional development, effective performance management, daily-use tools such as IT services, and back-office functions).¹⁹

Staffing

14. The Department's Strategic Workforce Plan, drawn up in late 2011, envisaged an overall reduction in headcount of UK-based staff²⁰ of 10 per cent between 2011 and 2015. The FCO's 2013 Departmental Improvement Plan noted that “decisions of Ministers to expand our network and the sustained pressure to deliver an ambitious policy agenda”, together with concerns about overstretch, had led the FCO to increase temporarily the supply of staff to fill gaps; and it acknowledged that the Department was not on track to meet the 2015 deadline for the 10 per cent headcount reduction.²¹ In November 2013, Mr Matthew Rycroft, then the FCO's Chief Operating Officer, told us that the Department had extended that deadline by one year, to the end of the 2015–16 financial year, and the Permanent Under-Secretary confirmed to us in November 2014 that the FCO was on

19 FCO Annual Report and Accounts 2013–14, page 9, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325896/FCO_Annual_Report_2013-14.pdf

20 Core FCO staff, recruited and employed by the FCO under central terms and conditions, and based in the UK but sometimes posted overseas.

21 FCO Departmental Improvement Plan 2013, 18 June, page 15, [www.gov.uk/government/publications/foreign-commonwealth-office-departmental-improvement-plan](http://www.gov.uk/government/publications/foreign-commonwealth-office-departmental-improvement-plan/foreign-commonwealth-office-departmental-improvement-plan)

course to meet that target.²² The baseline figure used by the FCO is an average staffing figure for 2010–11, of 4,824 full-time equivalents (FTE), and the target for 2015–16 is 4344 FTE.²³

15. The overstretch point, alluded to by the FCO's 2013 Departmental Improvement Plan published in June 2013, is significant and led us to warn in our report last year on the FCO's Performance and Finances that the FCO machine was being "worked to the limit" and was in danger of trying to do too much at a time when capacity was being limited.²⁴

16. Those concerns about overstretch have not dissipated and are widely shared. Sir Simon Fraser said that "there is a risk of considerable stretch in the Office, and staff feel that and tell us about it".²⁵ When FCO Heads of Mission gathered in London for their Leadership Conference in May 2014, they identified relieving overstretch as the most important challenge to address in the year ahead,²⁶ and the issue was also discussed by the FCO Supervisory Board during the course of the year.²⁷

17. To pursue a target of a 10 per cent reduction in headcount by March 2016 at a time when demand for policy advice is acute, and when staff are already under pressure from what Sir Simon described as "more or less continual crisis in world events"²⁸ seems perverse. Sir Simon admitted that "because of the pressures on the organisation", the FCO had "decided that it was important to seek to maintain the workforce", but he then added "except for the 10 per cent long-term trajectory reduction", which highlights a marked contradiction in FCO policy.²⁹

18. We also note the possibility of compulsory redundancies at the FCO in future. Sir Simon Fraser confirmed to us that there were no current plans for compulsory redundancies among UK-based staff, although there had been "at least 500" redundancies among locally-engaged staff over the past year. He did not, however, rule out compulsory redundancies of UK-based staff during the next Spending Review.³⁰ It is not obvious to us what scope there is for the FCO to make compulsory redundancies other than on the grounds of consistently unacceptable performance. *We recommend that the FCO give an*

22 [Q1](#)

23 FCO written evidence, [see answer to question 8](#)

24 *FCO performance and finances 2012-13*, Sixth Report, Session 2013-14, HC 696, Summary and paragraph 25, <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmcaff/696/69602.htm>

25 [Q2](#)

26 FCO Improvement Plan 2014, July 2014, page 21, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/332896/FCO_2014_Improvement_Plan.pdf

27 See Foreword by Richard Lambert, the Lead Non-Executive member of the Supervisory Board, FCO Annual Report and Accounts 2013-14, page 7. The Supervisory Board is formed of Ministers, senior FCO officials and non-executive members, and advises on strategic issues affecting the FCO's operations. See [FCO Annual Report and Accounts 2013-14](#), pages 7 and 75.

28 [Q3](#)

29 [Q12](#)

30 [Q12](#)

assurance that any compulsory redundancies in the next Spending Review period would not entail a decrease in the number of staff providing direct policy support.

19. One of the more acute manifestations of overstretch is the difficulty sometimes faced by the FCO in filling key roles, typically those which are especially demanding in terms of hours or workload. The FCO 2014 Improvement Plan says that “there remains a disconnect between corporate and operational requirements—demand for staff continues to run ahead of supply in high priority business areas”.³¹ Sir Simon Fraser was candid in telling us of “a slight change in people’s attitudes” towards taking on difficult jobs.³² He said that the FCO “depended very much on people’s readiness to go above and beyond the call of duty” and that staff were now sometimes saying that, given the pressure and the rewards associated with a particularly demanding vacancy, they would be less inclined than previously to put themselves forward.³³

20. The FCO told us in May 2014:

[We have] introduced further changes into our appointments system, to help us get the right people into the right jobs, and so that we can meet our operational requirements and support our ambition to be agile and expert. The changes include ... a more directive approach on filling some roles, and freezing inward interchange at certain grades to balance workforce flows.³⁴

This would suggest that the FCO is trying to address the challenge of filling key roles by actively steering staff towards key posts rather than relying on open competition. ***The FCO should, in response to this Report, set out its strategy for ensuring that vacancies for key posts are filled promptly and by staff of the necessary calibre.***

Expertise

21. We have been alert, through the course of this Parliament, to suggestions that the FCO’s local knowledge and expertise in understanding foreign countries is not what it once was. We heard two striking examples, one from a former FCO Minister and another from a former senior Ambassador:

- Lord Malloch-Brown told us in January 2012 that the UK had lost its previous Arabist “touch and feel” for the Middle East. He said “although the British Ambassadors I met in the region were still of a very high calibre, they had much smaller political teams per country than in the past. In that sense, it is correct to say that they could not dig down

31 FCO Improvement Plan 2014, July 2014, page 17,

www.gov.uk/government/uploads/system/uploads/attachment_data/file/332896/FCO_2014_Improvement_Plan.pdf

32 [Q 13-14](#)

33 [Ibid](#)

34 [“Letter to the Chairman from Sir Simon Fraser, Permanent Under-Secretary, Foreign and Commonwealth Office, on FCO management issues, January to March 2014, dated 12 May 2014”](#), Committee’s website

deep enough". Lord Malloch-Brown ascribed this to cuts under both this Government and the previous one.³⁵

- Sir William Patey, British Ambassador to Iraq in 2005–06, to Saudi Arabia from 2007 to 2010, and to Afghanistan from 2010 to 2012, said at a recent event at Chatham House:

I think it's probably true that our ability to have the in-depth knowledge and take the time to have the depth of analysis is gradually diminishing. I mean budget cuts and cuts generally have reduced the amount of time that an ambassador or an embassy have to take the time to reflect. I mean the days of having a second or a first secretary travel up country for a week or two and get to know the local tribes and maybe write an interesting report for the ambassador and keep it, just clock it away as we might need that one day, that is becoming increasingly impossible. There is just too much else going on and so that time that you can take, the resource involved in accumulating that depth of knowledge is, we're losing that.³⁶

Both men made an explicit link between shortage of manpower and the FCO's capacity to gather and analyse information.

22. The FCO's difficulties in dealing with the Ukraine crisis have also attracted particular comment. Sir Nigel Sheinwald, a former Ambassador to the US, for example, was quoted in the *Financial Times* on 14 November 2014 as saying that "When the Ukraine crisis happened, there was a problem in the Foreign Office, the old Cold War cadre of people just wasn't there".³⁷ Edward Lucas, a Senior Editor at *The Economist*, made a similar point when giving evidence to us in September 2014 on Ukraine and Russia. He said that "[the FCO] kind of gave up in 1991: we thought it was over and wound down the terrific analytical capacity we had".³⁸

23. To some extent, the scaling-down of the FCO's resources in Russia and Eastern Europe after the end of the Cold War can be seen as the result of a rational decision to re-allocate resources to where they were most needed at the time. Sir Simon Fraser took this view, while accepting that there was now "less depth of Russia expertise" in the FCO than in the 1990s.³⁹ He acknowledged that it would be important to address the shortfall now, given that dealing with Russia was going to be one of the big strategic challenges in the near future.⁴⁰

35 Q 106 and 141, evidence given on 31 January 2012, *British foreign policy and the 'Arab Spring'*, Second Report of Session 2012-13, HC 80, <http://www.publications.parliament.uk/pa/cm201213/cmselect/cmfaff/80/80.pdf>

36 "21st Century Diplomats: The Changing Role of British Diplomats", 22 January 2015, Chatham House, see www.chathamhouse.org/sites/files/chathamhouse/field/field_document/2015012221stCenturyDiplomats.pdf

37 "Britain's Foreign Office loses direction as cuts loom", *FT Online*, November 2014

38 [Evidence given by Edward Lucas](#) on 3 September 2014, *Russia and Ukraine*, HC 629, Q19

39 [Q 81](#)

40 [Q 81](#)

Languages

24. Criticism of FCO expertise has commonly centred on an apparent decline in proficiency in foreign languages, something which we have drawn attention to repeatedly over the years. A succession of witnesses have noted a shortfall in proficiency in Arabic in the FCO. To take just two: Lord Malloch-Brown told us in 2012 that Foreign Office languages were “in crisis” and that even with a mainstream language such as Arabic, the cutbacks that have occurred are key.⁴¹ Sir Oliver Miles⁴² saw it as “deplorable” that “too many positions” in the FCO in the Middle East and North Africa region were occupied by non-Arabic speakers.⁴³

25. Proficiency in Russian is also seen as a weak spot: Sir Tony Brenton, a former UK Ambassador in Moscow, told the House of Lords EU Sub-Committee on External Affairs that

British diplomacy towards Russia and elsewhere has suffered because of a loss of language skills, particularly in the Foreign Office. There was quite a lot of complaint in Whitehall after the annexation of Crimea that the Foreign Office had not been able to give the sort of advice that was needed at the time. I think that is regrettable and it marks a change from when I was there.⁴⁴

26. It is alarming that the strongest criticisms that we hear about FCO capability relate to regions where there is particular instability and where there is the greatest need for FCO expertise in order to inform policy-making. We also note that the percentage of ‘speaker slot’ posts⁴⁵ occupied by someone possessing the specified level of proficiency in the required language (a measure known as “Target Level Attainment”) is currently just 38 per cent overall, and in the same key regions it is lower still: 28 per cent in FCO posts in the Middle East and North Africa region, and 27 per cent in Russia and Eastern Europe.⁴⁶

41 [Q 121](#), evidence given on 31 January 2012, British foreign policy and the ‘Arab Spring’, Second Report of Session 2012-13, HC 80

42 Former Ambassador to Libya and former Head of the FCO’s Near East and North Africa Department

43 Written evidence to the Committee’s inquiry into The role of the FCO in UK Government, HC 665, Session 2010-12, <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmcaff/665/665vw17.htm>. See also evidence given by Robin Lamb on 22 January 2013 - Q63, *UK’s relations with Saudi Arabia and Bahrain*, Fifth Report of Session 2013-14, HC 88, 12 November 2013, www.publications.parliament.uk/pa/cm201314/cmselect/cmcaff/88/88.pdf

44 See Q32, transcript of evidence taken before the House of Lords Select Committee on the European Union, External Affairs (Sub-Committee C), 24 July 2014, <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/eu-sub-c-external-affairs-committee/eu-and-russia/oral/11587.html>

45 Each “speaker slot” carries a requirement for facility in that language to a specified level. That might be ‘confidence’ level, at which someone would be able to deal confidently with routine everyday issues in the local language, or at a higher ‘operational’ level, roughly equivalent to degree level, or at ‘extensive’ level, representing the most advanced level of fluency.

46 FCO memorandum answer to Q 10, see <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/foreign-affairs-committee/the-fcos-performance-and-finances-in-201314/written/15560.html>

27. The Permanent Under-Secretary readily acknowledged that the low levels of Target Level Attainment in foreign languages were unacceptable and said that Heads of Mission and FCO Directors had been given “very clear instructions” that people should be given time to do their language training and were given strong incentives to do so—both carrots and sticks.⁴⁷ We note the actions being taken by the FCO to make clear to staff what is expected of them and to demand higher levels of proficiency in certain posts.⁴⁸

28. In past reports, we have repeatedly drawn attention to the dangers of allowing language proficiency among FCO staff to erode. Whatever the root causes of this decline, we are heartened to see that the Permanent Under-Secretary has gripped the issue and has made a clear personal commitment to reversing the trend. One of the clearest indications of a turnaround would be improved performance in language exams, and we encourage our successors to monitor this area closely.

Overseas opportunities for UK-based staff

29. Knowledge and expertise at senior levels of the FCO is an accumulation formed over many years of service in the UK and abroad. Heads of Mission who have spent their career within the FCO—the vast majority—have experience of living and working within different cultures, and in different political and social environments. As we observed last year, opportunities for UK-based staff in relatively junior policy grades to work overseas are an essential part of acquiring that knowledge and experience which is carried forward to senior levels of the organisation.⁴⁹ It is important that those opportunities should not be eroded. We note that the balance between UK-based staff working in the UK and those working overseas has been relatively constant over the last six years, at a roughly 62%/38% split.⁵⁰ A small downward trend since 2012 is likely to be attributable to the recent marked reduction in overseas postings for staff in administrative grades.⁵¹

30. Last year we questioned whether the FCO's openness to an increase in the use of locally-engaged staff in front-line and policy roles might reduce opportunities for UK-based staff. Sir Simon Fraser reassured us then that any such increase could be accommodated without damaging the career prospects of UK-based staff, and that the number of diplomatic positions overseas for UK-based policy staff was in fact increasing.⁵² However, the FCO declined to give us a guarantee that a greater use of locally-engaged staff in future would not at some point lead to a decrease in overseas positions for UK-based

47 [Q 78](#)

48 [FCO response](#) to the Committee's Sixth Report of Session 2014-15, published as Cm 8797, response to recommendation 12

49 *FCO performance and finances 2012-13*, Sixth Report of Session 2013-14, HC 696, paragraph 35, <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmaff/696/696.pdf>

50 FCO written evidence, [answer to written question 4](#)

51 See [FCO performance and finances 2011-12](#), Fifth Report from the Committee, Session 2012-13, HC 690, paragraph 40

52 [FCO performance and finances 2012-13](#), Sixth Report from the Committee, Session 2013-14, HC 696, paragraphs 34 and 35

staff at policy grades. It did nonetheless state that it would “not undermine the first-hand experience and knowledge base” of its UK-based staff.⁵³

31. All FCO posts at SMS grades⁵⁴—including most ambassadorships and many deputy head of mission posts—are advertised across Whitehall.⁵⁵ The FCO listed eleven posts which were, or would shortly be, headed by people who had not spent their careers in the FCO.⁵⁶ Sir Simon Fraser confirmed that these staff were (or would be) FCO employees; but when asked whether there might come a day when a Head of Mission was not an FCO employee, he saw no reason why that should occur. He told us that the FCO “runs the overseas network” and added that “Heads of Mission and ambassadors report to the Foreign Office. That is their institutional home, so if people want to come in and take those jobs, they should come in and become part of the Foreign Office”.⁵⁷

32. There is also interchange from other Government departments at middle-ranking grades. Sir Simon Fraser told us that there had been an increase in the number of inward secondments from other departments, and that the FCO benefited from their expertise. He recognised, however, that the FCO needed to nurture “the skills and the people who are making a long-term contribution as British diplomats”, and to maintain “opportunity for them as well”.⁵⁸

33. While we recognise that it is in the FCO's interest to draw, to a limited extent, on experience from outside the organisation, we have sometimes been surprised to find key, sensitive posts occupied by people who have not spent their career in the FCO. We also find that the practice of appointing Heads of Mission from outside the FCO on the basis that they are the best applicants for the posts concerned brings into question the adequacy of the FCO's staff development. *We believe that the head of the UK's representation in any particular country should only be a non-FCO career employee in the most exceptional circumstances. However, we welcome the reassurance by the Permanent Under-Secretary that he would expect a Head of Mission always to be employed as an FCO employee. We believe that any other arrangement would obscure an otherwise clear line of accountability, from heads of mission to the Permanent Under-Secretary to FCO Ministers.*

53 [Government response to the Sixth Report from the Committee](#), Session 2013-14, recommendation 8, published as Cm 8797

54 Equivalent to the Senior Civil Service

55 [Q5](#)

56 Ambassadors in Athens, Jakarta, Sofia and Sarajevo; High Commissioner in Sydney and Deputy High Commissioner in Mumbai; Consuls-General in New York, Ho Chi Minh City, Guangzhou and Sao Paulo; and UK Permanent Representative to the EU in Brussels. See written evidence from the FCO, [answer to written question 21](#)

57 [Q 59](#)

58 [Q 5 and 15](#)

Staff morale

34. The FCO's 2013–14 Annual Report and Accounts state that “overall, morale is generally considered to be high”.⁵⁹ It is true that the FCO consistently scores significantly higher than the Civil Service median for percentages of staff who are proud to work for the Department, who see it as a great place to work, and who feel motivated.⁶⁰ The FCO, however, recognised concerns about pay, and the Annual Report recorded that staff morale was “a static amber risk” on the FCO's Top Risk Register, given the continuing constraints on pay.⁶¹

Staff pay

35. The FCO, in its 2014 Departmental Improvement Plan, reported that the majority of staff are dissatisfied with their pay and benefits package. Only 33 per cent of staff felt that their pay adequately reflected their performance, and only 26 per cent believed that their pay was reasonable compared to that for people doing a similar job in other organisations.⁶² FCO staff pay was frozen for two years, in 2011–12 and 2012–13, and was subject to an average increase of one per cent in 2013–14, in line with the Government's public sector pay restraint policy.⁶³

Pay: comparison with other Government Departments

36. There is a significant difference between rates of pay for FCO staff and rates for staff in what might be called comparable departments, such as the Department for International Development and the Department for Business, Innovation and Skills. For instance, the minimum pay for a Grade 7 employee in the Department for International Development in 2013 was £49,500,⁶⁴ whereas it was £43,500 at the FCO.⁶⁵ Sir Simon Fraser told us that in some key grades, the median of FCO pay is “somewhere in the region of 10 to 12 per cent below median pay of those Departments”.⁶⁶ He added that there were “historical reasons for that”, the main one being that the FCO had moved very early to remove incremental pay increases when the Treasury had asked Departments to do so. Others had done so rather less speedily and, as a consequence, pay for FCO staff had fallen behind pay for staff in other departments.⁶⁷

37. This discrepancy has emerged as a major obstacle to full implementation of the ‘One HMG Overseas’ initiative, under which the Government plans to derive benefits (including

59 [FCO Annual Report and Accounts 2013-14, Governance Statement, page 73](#)

60 [Civil Service People Survey 2014](#)

61 [FCO Annual Report and Accounts 2013-14, Governance Statement, page 74](#)

62 [FCO Improvement Plan 2014](#), page 11

63 Pay was frozen for staff in SMS grades for three years, from 2010 to 2013.

64 HC Deb, 01 December 2014, [UIN 215749](#) [Commons written answer]; figures rounded up to the nearest £500.

65 “FCO staff and salary data”, www.gov.uk/government/publications/foreign-office-staff-and-salary-data; figures rounded up to the nearest £500.

66 [Q 7](#)

67 [Ibid](#)

savings) from bringing together on a single premises or “operating platform” in any one foreign city the various UK Government departments and agencies operating there. Significant progress has been made on various aspects of the programme, but not on harmonisation of pay between staff working for different departments. Deborah Bronnert, the Chief Operating Officer at the FCO, told us that “the pay issue in particular will be very hard to crack”.⁶⁸

38. Sir Simon agreed that the disparity in pay between the FCO and other Government departments was “undesirable and illogical”, but he emphasised that it was not within his “power to unilaterally increase the pay of FCO staff” as he simply did not have the resources from the Treasury to do so.⁶⁹ He said that he was talking to colleagues in the Treasury about how the situation might be remedied.⁷⁰

39. We asked the FCO to supply a copy of research that it had commissioned from an external researcher on comparing pay between the FCO and other Government departments.⁷¹ The FCO offered to share the research, but it asked to do so on condition that we did not publicise the contents, as other Government departments had required the FCO to give an undertaking that the report would not be publicised. We rejected those conditions. **It is unacceptable for Government departments to place constraints on the disclosure of information which directly concerns public expenditure, is not internal policy advice, and which we suspect is neither commercially confidential nor likely to present a security risk if disclosed.** We chose, however, not to pursue the matter, as enough information was already in the public domain to illustrate the pay disparity.

40. We asked the FCO how much it would cost to remedy the differences in pay, to the point where FCO staff would receive equal pay to staff doing comparable jobs in other Government departments. The FCO estimated, on the evidence available, that raising FCO median pay so that it was in line with median pay for comparable departments operating internationally would mean an increase to the FCO annual pay bill of approximately £20 million—which we calculate to be an increase in total staff costs of 3.4 per cent.⁷²

Reduced benefits of working at the FCO

41. It may be that dissatisfaction reported in the staff survey also stems, in part, from a sense that many of the benefits and attractions of working for the FCO have been trimmed or have declined in value. For instance:

68 [Q 9](#)

69 [Q 9 and 11](#)

70 [Ibid](#)

71 [Q 7](#)

72 Including associated costs such as pension costs and National Insurance contributions. [See answer to Q 2 of supplementary written evidence from the FCO.](#)

- The number of overseas posts for FCO staff in administrative grades has been cut substantially, reducing the opportunities for staff in these grades to work abroad;⁷³
- Residential premises for most FCO staff overseas are likely to be humbler than in the past. The new Residential Accommodation Policy for UK-based staff working overseas is intended to reduce spending on rented residential accommodation by 20 per cent over the Spending Review period. The “ceilings” for rentals payable by the FCO have been lowered,⁷⁴ and the likely consequence is that affordable properties will be smaller or less central, and less prestigious; and
- Allowances paid to recognise proficiency in languages have remained static for years. A recent review of language allowances concluded that allowances paid to postholders in ‘speaker slots’ should remain unchanged. This decision was based on a number of factors, including pressure to remain within the HM Treasury one per cent pay cap rule, and strong fields of applicants for speaker slots.⁷⁵

Conclusion on pay and morale

42. The pay differential between the FCO and comparable Government departments is not going to go away. For as long as there are compensations and significant non-financial benefits in working for the FCO—the chance to spend much of your working life overseas, prestige, a good standard of living while overseas, allowances—the discrepancy is less noticeable. But if those benefits are perceived to be diminishing (and for some grades they have largely disappeared), then the current dip in morale could become more established and could lead to a lessening of commitment amongst staff. Ultimately, if the FCO becomes a less attractive place to work, more and more of the brightest and best will apply elsewhere.

43. The FCO must continue to ensure that the Department is an attractive place to work and that it can compete with other high-prestige employers to attract high-quality applicants. Maintaining a tradition of excellence will be key, but we believe that the FCO cannot entirely overlook pay and benefits. The FCO could either seek to eliminate the pay differential between the FCO and comparable Government departments: that would require Treasury dispensation and might cost £20 million, maybe spread over a period of five years or so; or it could put more resources into safeguarding the benefits and allowances which are most valued by staff.

73 See [FCO performance and finances 2011-12](#), Fifth Report from the Committee, Session 2012-13, HC 690, paragraph 40

74 See [FCO performance and finances 2012-13](#), Sixth Report from the Committee, Session 2013-14, HC 696, paragraphs 11 and 12

75 FCO written evidence, [answer to written question 11](#)

Overall conclusion on FCO spending and impact on capacity and workforce

44. We do not dispute that the FCO needed to play its part in the general retrenchment instigated by the 2010 Spending Review. The FCO was dealt a difficult hand, and Ministers and senior management have, on the whole, played it skilfully. We continue to see evidence in some overseas posts of a depth of knowledge and a well-developed relationship with civil society organisations and representatives. However, we believe that the scale of the cuts required from the FCO has been excessive and that damage to the institution has resulted. The FCO's budget is a tiny element of Government expenditure, but it makes a disproportionate contribution to policy-making at the highest level, including decisions on whether to commit to military action. To impair the FCO's analytical capacity for the sake of a few million pounds could be disastrous and costly.

45. Unless staffing at overseas posts is protected, further reductions in staffing levels overall are likely to lead to either a reduction in complement at overseas posts, or a significant shift in the balance between UK-based staff and locally engaged staff, in favour of the latter. Neither option seems to us to be palatable: the first would almost certainly reduce opportunities for staff to get away from the diplomatic “bubble” and acquire the depth of knowledge about local attitudes that must inform policy-making, while the second would be likely to reduce the opportunities for more junior staff in policy grades to get the experience which is essential to qualify them for service at the highest levels of the Diplomatic Service.

46. The cuts required by the 2010 Spending Review have also had an impact on the UK's overseas platform, even though admirable efforts have been made to expand the number of posts under the Network Shift announced by the previous Foreign Secretary in May 2011. That expansion took place at the expense of a number of subordinate posts in Europe and of the UK's diplomatic footprint in Iraq and Afghanistan. We have previously questioned the wisdom of closing the British Embassy office in Basra;⁷⁶ and in October 2014 we noted the view of senior figures in the Kurdistan Region of Iraq that the UK's failure to secure proper premises in Erbil⁷⁷ had given a poor impression of the UK in comparison to other countries which had opened permanent offices in the city.⁷⁸

47. The cuts imposed on the FCO since 2010 have been severe and have gone beyond just trimming fat: capacity now appears to be being damaged. The next Government needs to protect future FCO budgets under the next Spending Review. The FCO already spends less per head of population than foreign ministries in our closest comparator countries. The majority of the FCO's expenditure is either ring-fenced or non-discretionary, and so its scope to make savings is limited. If further cuts are imposed, the UK's diplomatic imprint and influence would probably reduce, and the

76 See [FCO performance and finances 2011-12](#), Fifth Report from the Committee, Session 2012-13, HC 690, paragraph 19

77 The Consulate-General operates out of a business hotel on the outskirts of the city.

78 See [UK Government policy on the Kurdistan Region of Iraq](#), Eighth Report from the Committee, Session 2014-15, HC 564, paragraph 62

Government would need to roll back some of its foreign policy objectives. In short, the FCO would need to aim to do less.

3 Diversity at the FCO

48. The FCO launched its first ever strategy on diversity, entitled 'Fairness for All', in November 2008.⁷⁹ The strategy was based on four key themes that were designed to drive the mainstreaming of equality and diversity further into every aspect of FCO business. The key themes were:

- To create a more inclusive FCO culture;
- To provide stronger leadership and accountability;
- To bring in and bring up diverse talent, based on merit; and
- To better represent the communities it serves.⁸⁰

This section of the report considers the last of these four themes in detail.

49. As part of the FCO's drive to be more representative of the community, the Department set targets in 2008 to increase the proportion of women, black and ethnic minority and disabled staff in senior management. The targets were:

- 28 per cent of FCO senior management to be women;
- Five per cent of senior management to be people from minority ethnic backgrounds; and
- Five per cent of FCO senior management to be disabled people.

The aim was to achieve these targets by April 2013;⁸¹ but, in the event, all were missed, and at the time of writing this Report, the FCO had still not met any of them.

Table 4: 'Fairness for All' Diversity Targets

Diversity targets for senior management (SMS grades)			
Group	Target	November 2008 (baseline)	December 2013 (last reported)
Women	28%	20.1%	25.4%
Black and ethnic minority staff	5%	3.9%	4.4%
Staff with disabilities	5%	2.2%	Not reported*
*December 2013 figure for staff in senior management grades with disabilities not reported due to low response rate			

Source: NAO Departmental Overview 2013–14

We focus in this report on representation of women in senior management in the FCO.

79 "The FCO's Inclusion & Diversity Strategy 2008-13: Fairness for All Strategy", November 2008, www.gov.uk/government/uploads/system/uploads/attachment_data/file/11859/FCO_DI_2008-13_FINAL_Jan09_doc.pdf

80 [Ibid](#)

81 [Ibid](#)

Missed targets

50. The FCO senior management structure is made up of four grades: SMS 1, SMS 2, SMS 3 and SMS 4. The table below, which is reproduced from the FCO's written evidence, shows the number of women in each senior management grade for the last six years:⁸²

Table 5: The Number of FCO UK Based SMS (Senior Civil Service) female staff, 2008 to 2014 (headcount)

Grade	2009	2010	2011	2012	2013	2014
SMS 1	62	61	66	69	75	82
SMS 2	14	15	13	17	16	18
SMS 3	3	3	3	3	4	6
SMS 4	0	0	0	0	0	0
Total	79	79	82	89	95	106

Source: Foreign and Commonwealth Office (Dates are as 31 March 2014)

The number of female senior managers has increased by 34 per cent in the past six years, from 79 in March 2009 to 106 in March 2014. The most noticeable rise took place in the most recent financial year, when 11 women had either been promoted from lower ranks of the FCO or brought in from outside into the SMS grades. Despite this progress, the proportion of women in senior management in March 2014 was **26.2 per cent** and still below the 'Fairness for All' representation target of 28 per cent.⁸³

51. The Civil Service published a diversity strategy in July 2008, in which it set targets to increase the representation of women in senior management. The targets were:

- i) 34 per cent of staff in top management posts to be women;⁸⁴ and
- ii) 39 per cent of the Senior Civil Service (SCS) to be women.

The FCO has opted not to benchmark its performance against either of the Civil Service targets. It has not tracked progress against the first objective at all; and on the second target, the FCO set its mark 11 per cent lower than the Civil Service milestone. The FCO does not compare favourably with some of its Whitehall partners, most notably DFID. Not only did DFID achieve the 39 per cent target for women in the Senior Civil Service; it tracked, monitored and exceeded the other target on women in top management posts. 42 per cent of DFID directors were women in December 2013.⁸⁵

52. FCO performance in promoting women to the very top posts has been disappointing. Only 19 per cent of the top two senior management posts are occupied by women. Only 6 out of the 29 positions in SMS 3 are held by women, and in the highest and best-rewarded branch of the diplomatic tree (SMS 4), there were no women (out of a possible three

82 FCO written evidence, [answer to written question 2](#)

83 As at 31 March 2014, there were 404 people in FCO senior management. See [FCO Annual Report and Accounts 2013-14, page 44](#)

84 Top management posts were defined as Director and above

85 "DFID Diversity and Inclusion – Annual Report 2013-14", DFID, page 19, www.gov.uk/government/uploads/system/uploads/attachment_data/file/339639/Diversity-Inclusion-Annual-report-2013-2014a.pdf

positions).⁸⁶ In the history of the FCO, no woman has ever held a post at the highest grade (SMS 4). There are a number of ‘glittering posts’ in which there has never been a woman head of mission: Washington, Paris, Tokyo, New Delhi, Permanent Representative at the UN in New York and Permanent Representative at the EU in Brussels;⁸⁷ and no woman since at least 1984 has been Ambassador in Rome, Bonn/Berlin, or Ottawa.⁸⁸ Out of 125 people appointed to Head of Mission posts in 14 BRIC or emerging market countries between 1984 and February 2014, just nine were women.⁸⁹ The list of women appointed comparatively recently to high-profile posts includes Dame Mariot Leslie, the UK’s Permanent Representative to the North Atlantic Council since April 2010, Dame Nicola Brewer, High Commissioner in South Africa from 2009 to 2013, Dame Anne Pringle, Ambassador in Moscow from 2008 to 2011, and Barbara Woodward, appointed as Ambassador in Beijing in August 2014.

Addressing barriers

53. FCO officials told us that it was “regrettable” that the ‘Fairness for All’ targets had been missed, and they acknowledged that it had “some catching up to do”.⁹⁰ The FCO identified a number of key barriers that were still preventing the progress of women:

- Difficulty maintaining a work-life balance in senior roles;
- Reconciling work with caring responsibilities;
- The difficulties of partners finding employment when accompanying their diplomatic spouses overseas; and
- Self-confidence.⁹¹

Deborah Bronnert, the new Chief Operating Officer at the FCO, told us that there was still a misconception across the Office that women did not see themselves in an ambassadorial role and that it was still perceived as a role for a man.⁹² Some of these problems, particularly ones related to confidence, still appear to be linked to historic policies of discrimination, such as the marriage bar.⁹³ Although it was lifted in 1972, Ms Bronnert told us that it still casts a long shadow over the FCO.⁹⁴

86 FCO written evidence, [answer to written question 2](#) and [FCO Annual Report and Accounts 2013-14, page 46](#)

87 “Review: *The slow progress of women in the diplomatic service*” by Dame Nicola Brewer, *The World Today* - Chatham House, June and July 2014, page 48-49

88 HL Deb, 24 February 2014, col WA 170

89 BRIC/emerging market countries: China, Russia, India, Indonesia, Saudi Arabia, Egypt, Brazil, Argentina, South Africa, Nigeria, Australia, Canada, New Zealand, and Turkey.

90 [Q 19 and 20](#)

91 FCO supplementary written evidence, [answer to written question 5](#)

92 [Q 20](#)

93 Up until 1972, the FCO required female staff to resign from the Diplomatic Service if they became engaged to be married.

94 [Q 20](#)

54. We were given assurances that that the FCO was working hard to remove the remaining barriers blocking the progress of women. In its written submission, the FCO outlined its “radical policies” for improving diversity.⁹⁵ These included:

- i) Extending tour lengths for disabled staff beyond five years;
- ii) Using diversity factors as a legitimate consideration in appointment decisions; and
- iii) Allowing interview panels to be composed of staff at different levels, including more junior staff members.

In addition to these “radical” policies, the FCO said that it would run communication campaigns to encourage talented people from under-represented groups to consider a career in the FCO; run targeted coaching and mentoring schemes to help support the advancement of existing staff from underrepresented groups; make diversity and inclusion a key focus in the Leadership Conference sessions for senior staff; and encourage staff to complete unconscious bias training.⁹⁶

55. We questioned whether any of these policies were as “radical” as the Department had claimed. It appeared to us that many of these ideas had been discussed and implemented by many different organisations for many years. Sir Simon, in response to this assertion, told us that the “absolute principle of appointments has to be...the best person for the job”. He categorically ruled out the possibility of “positive discrimination in terms of actual appointments”.⁹⁷ It is not clear to us therefore what is meant by the FCO in its policy of using “diversity factors as a legitimate consideration in appointment decisions”.⁹⁸ ***We recommend that the FCO, in its response to this Report, explains how it plans to use diversity factors as a “legitimate consideration in appointment decisions”, if it has ruled out the use of positive discrimination.***

More positive signs

56. The FCO has argued that it has built good foundations for improvement in the past few years, and it appears to be confident that it is heading in the right direction. Sir Simon Fraser told us that the “single biggest and most important achievement” was the shift in culture of the organisation, and that diversity had been taken away from being something that is purely seen in terms of numbers and targets into something that the FCO genuinely understands is in the interests of efficiency and high performance.⁹⁹ This has become “well-entrenched” and would “drive real change” in the future.¹⁰⁰

95 FCO written evidence, [answer to written question 3](#)

96 FCO supplementary written evidence, [answer to written question 4](#)

97 [Q 23](#)

98 FCO written evidence, [answer to written question 3](#)

99 [Q 23](#)

100 [Ibid](#)

57. We have also seen signs that the FCO is willing to experiment: Jonathan Aves and Katherine Leach have been job-sharing the role of Ambassador to Armenia since 2012, on a four month on/off format.¹⁰¹ Ms Bronnert told us that the Department encouraged job-sharing and indicated that there were other examples of this happening in the Department, including job shares at senior levels of the FCO. Ms Bronnert claimed that perhaps in this area, the FCO had been radical after all.¹⁰²

58. There have been signs of positive change on increasing representation at some of the key decision-making functions of the FCO: five out of the 11 members of the FCO Management Board are women; and on the Senior Appointments Board, which makes recommendations for all ambassadorial appointments, there are four women and three men.¹⁰³

New targets

59. The FCO has set new diversity targets for its under-represented groups, including an aim to have 39 per cent of senior management to be women by 2019.¹⁰⁴ The FCO Board has also set a new target to have 24 additional female Heads of Mission overseas by 2017, from its baseline of 39 female Heads of Mission in 2013 to 63 in 2017.¹⁰⁵

60. These targets are challenging. On the assumption that the number of senior managers at the FCO remains at the current level of 404, the FCO would have to promote 52 more women into senior management, either from the lower ranks of the FCO or directly from outside in the next five years. We note that:

- Talented women in junior ranks would have to be retained in order to build a corps suitable for promotion into senior management;
- A low churn rate of senior managers would place additional pressure in meeting the target. With less staff turnover, fewer positions would become available for women to occupy; and
- If staff turnover remains at current levels, on average 12 vacancies would become available each year. Even if none of the people at SMS grades leaving the Department between now and 2019 were women, the FCO would need to appoint 10 or 11 women each year into the vacant positions that become available, in order to meet its target. On that basis, the FCO would have to appoint, on average, 86 per cent female candidates into these positions each year.

101 "British Ambassador to Armenia", Gov.uk website, www.gov.uk/government/people/james-aves

102 [Q 23](#)

103 [Q 21](#)

104 [Q 19](#)

105 "2014 Diversity and Equality Report", FCO, page 4, www.gov.uk/government/uploads/system/uploads/attachment_data/file/306569/FCO_Diversity_and_Equality_Report_2014_-_FINAL_25_April_2014_for_publication.pdf

61. Persistent under-achievement on diversity targets has the potential to drain morale and risks damaging the reputation of the FCO as an employer and service provider. The problems do not appear to reflect institutional barriers but rather a lack of confidence among women that they have the same opportunities for career development and advancement as their male colleagues. We would expect the measures already in hand to have an effect, if not an immediate one; and we endorse the principle that the FCO should continue to make appointments on the basis of best person for the job. The FCO will, however, need to continue to demonstrate that cultural change is under way, if women in the FCO are to feel confident that they can make it to the top of the organisation.

4 Trade and Economic Diplomacy

62. One of the three key responsibilities of the FCO relates directly to growth and promoting UK prosperity.¹⁰⁶ The FCO states in its Annual Report and Accounts for 2013–14 that it will work towards this objective by increasing exports and investment, by opening markets, ensuring access to resources and promoting sustainable global growth.¹⁰⁷ Through its network of offices overseas, the FCO plays a key role in improving export performance by engaging in range of activities which create conditions for growth, such as lobbying to remove trade barriers on behalf of the UK.

Export target

63. In March 2012, the Chancellor of the Exchequer announced a government-wide ambition to double exports to £1 trillion (£1,000 billion) by 2020, from £488 billion in 2010.¹⁰⁸ The Government committed to help businesses maintain market share in advanced markets while providing assistance to secure increased exports to new, fast-growing emerging economies. The FCO and UKTI, a non-ministerial department of both BIS and FCO, were identified as key contributors to achieving the new export target.

64. Since 2010, the value of UK exports has increased by £50 billion, with “strong” growth in China, Mexico and the Republic of Korea.¹⁰⁹ The Prime Minister has said that UK exports to China have more than doubled since 2009, and that “at £1 billion a month, they are growing faster than France or Germany”.¹¹⁰ The Office for National Statistics has published data on UK exports which demonstrate good performance in some of the other major emerging markets, such as Brazil and India.¹¹¹ From 2010 to 2013, UK exports to Brazil grew by 19 per cent, reaching £3.9 billion in 2013, and exports to India totalled £8.1 billion in 2013, representing an increase of 13 per cent over the four year period. However, overall exports remained fairly flat in 2012 and 2013. UK exports and services increased to just £506.5 billion in 2013 from £495.3 billion in 2012, an increase which was significantly lower than the Government would have anticipated in order to meet its £1 trillion export target.¹¹² UK exports will need to grow by 10 per cent year-on-year to meet the target by 2020.¹¹³

106 [FCO Annual Report and Accounts 2013-14, page 10](#)

107 [FCO Annual Report and Accounts 2013-14, page 23](#)

108 “Budget 2012”, HM Treasury, HC 1853, March 2012, page 43, www.gov.uk/government/uploads/system/uploads/attachment_data/file/247119/1853.pdf

109 [FCO Annual Report and Accounts 2013-14, page 23](#)

110 “UK and China agree £14 billion of trade and investment deals”, Government press release, 17 June 2014, www.gov.uk/government/news/uk-and-china-agree-14-billion-of-trade-and-investment-deals

111 “United Kingdom Balance of Payments – The Pink Book, 2014”, Office for National Statistics, 31 October 2014, Part 3: Geographical Breakdown, www.ons.gov.uk/ons/rel/bop/united-kingdom-balance-of-payments/2014/index.html

112 [FCO Annual Report and Accounts 2013-14, page 15](#)

113 “Supporting UK exporters overseas”, National Audit Office, 16 October 2013, HC 732, page 15, www.nao.org.uk/wp-content/uploads/2014/10/10258-001-FCO-and-UKTI-Book.pdf

65. Sir Simon Fraser admitted that the export target was a challenging one and a real stretch, but was careful to avoid saying whether he thought the UK would achieve the target within the set timeframe.¹¹⁴ Forecasts from the International Monetary Fund and Office for Budget Responsibility (OBR) were less circumspect. Both organisations have indicated that the UK is unlikely to achieve exports of £1 trillion by 2020, with the OBR estimating that UK exports will not even reach £800 billion.¹¹⁵

Factors influencing UK export performance

66. The National Audit Office published a report in 2013 on supporting UK exporters overseas, in which it pointed to a number of factors that influence the UK's export performance, most of which are uncertain and largely outside the control of the UK Government. These include:

- weaknesses in the global economy;
- changes in exchange rates;
- changing commodity prices;
- changes in the monetary policy of other nations;
- fluctuations in global demand; and
- political and security issues affecting overseas markets, such as events in the Middle East.¹¹⁶

The NAO also highlighted the need for greater coordination across Government departments to maximise the utility of export promotion activities. The FCO has identified some policy areas which are creating problems for UK businesses. For instance, delays in getting UK visas may discourage business leaders from overseas visiting the UK. We have been told this directly when meeting business leaders and representatives overseas.¹¹⁷ The FCO has argued that extending the 'three to five day visa service', for example, to some other countries might help remove some of these barriers.¹¹⁸ Ultimately, this is a matter for the Home Office.

67. The Chancellor's target for the value of UK exports in goods and services to reach £1 trillion by 2020 is very demanding: it appeared unrealistic at the time it was set and it is proving to be so now. We do not believe that a major reallocation of FCO staff and effort would necessarily help to reach that target; nor do we believe that such a rebalancing

114 [Q 24](#)

115 ["Supporting UK exporters overseas"](#), National Audit Office, HC 732, 16 October 2013, page 15

116 ["Supporting UK exporters overseas"](#), National Audit Office, HC 732, 16 October 2013, page 15

117 See for instance, [UK-Turkey relations and Turkey's regional role](#), Twelfth Report from the Committee, Session 2010-12, HC 1567, paragraph 24; also [The UK's relations with Saudi Arabia and Bahrain](#), Fifth Report from the Committee, Session 2013-14, HC 88, paragraph 60.

118 ["Public Accounts Committee - Minutes of Evidence"](#), HC 709, 6 November 2013; See Q 105, www.publications.parliament.uk/pa/cm201314/cmselect/cmpubacc/709/131106.htm

would be desirable. We believe that the Government should set a new, more realistic target for UK exports, and it should expect other Government Departments to play their part in helping to reach it.

Commercial sponsorship

68. It has been a long-standing policy of the FCO to encourage private companies and other organisations to provide financial support for some of its activities. Sponsorship has been provided in two main ways, either through direct cash payments or by means of ‘in-kind’ assistance, such as embassies and offices having the use of companies’ facilities or products. Receipts of sponsorship in excess of £5,000 for events held in overseas offices have been disclosed in the FCO’s Annual Reports and Accounts, including some details of the type of event being held, the form of sponsorship and the names of the companies involved.¹¹⁹

69. In 2013–14, the FCO disclosed £271,500 (£110,000 as cash payments) in sponsorship for hosting 20 events at overseas posts.¹²⁰ Of these events, the Queen’s Birthday celebrations proved to be most popular: the FCO received over £188,000 for 10 parties, an average of nearly £19,000 per party.¹²¹ Commercial sponsorship subsidised close to 30 per cent of the total cost of these activities to the taxpayer.

70. The FCO’s decision to seek corporate sponsorship has attracted some criticism: press reports have claimed that the Queen’s Birthday parties have been turned into trade fairs and that the “Queen’s Birthday has been put up for sale”.¹²² As well as the immediate reputational risk that comes from negative press, there are a number of other issues that need to be considered when discussing sponsorship:

- **Accountability and transparency:** ensuring that all sponsorship—both in cash and ‘in kind’ - has been properly accounted for and disclosed in the Annual Report. Sponsorship for events held in London was not disclosed in this year’s Annual Report.
- **Threat to integrity:** sponsorship might place Ministers and diplomatic staff under an obligation to outside individuals and organisations that might seek to influence them in the performance of their official duties;
- **Issue of privileged access:** sponsors may be afforded opportunities to obtain privileged access to Ministers, senior diplomatic staff and other assets of the Department, in a way that gives them advantages, and disadvantages others.

119 [FCO Annual Report and Accounts 2013-14](#), page 34; figures rounded up to the nearest £500.

120 [Ibid](#)

121 [Ibid](#)

122 “There’s a whiff of sleaze coming from William Hague’s Foreign Office”, The Telegraph online, 19 June 2014, www.telegraph.co.uk/news/uknews/queen-elizabeth-ii/10909264/Theres-a-whiff-of-sleaze-coming-from-William-Hagues-Foreign-Office.html

71. We challenged the FCO on all of these aspects during the course of the inquiry. On the issue of accountability and transparency, the FCO has indicated that it has requested information from its posts and directorates on corporate sponsorship in excess of £5,000, including for events held in the UK.¹²³ It is not clear whether this new data would be disclosed in the Annual Report and Accounts. ***We recommend that data on sponsorship for events hosted by the FCO in the UK is included in disclosures on corporate sponsorship.***

72. Sir Simon Fraser told us that commercial sponsorship from private companies helps to defray the cost to the taxpayer of holding some of these major events, and that only very limited publicity is made available to sponsors.¹²⁴ Embassies and High Commissions are instructed by the government to promote British business at all possible opportunities; no special favours are given to the companies that sponsor events.¹²⁵ Sir Simon confirmed that careful consideration is given to the companies who are allowed to sponsor events, and although some of these companies are not based in the UK, these companies provide jobs in the UK.¹²⁶ ***We welcome the assurances from the Department that no special favours are granted to companies which sponsor FCO activities.***

73. The FCO needs to consider carefully the accusations that the dignity of the Department has been jeopardised by seeking commercial sponsorship. We acknowledge the force of argument that sponsorship could amount to, or be perceived as, an attempt by outside organisations to ‘buy’ influence of the FCO. We conclude, however, that appreciable public benefit can be derived from commercial sponsorship of FCO activities: it reduces the burden on the taxpayer by bringing in funds from outside of the public purse; and partnerships with private sector sponsors are a valuable means of promoting British industry abroad. Sponsorship can be used to maximise the utility of events held by the FCO, which can help to sustain, rather than diminish, the reputation and integrity of the Department. However, ***the value of sponsorship currently being raised by the FCO hardly justifies the reputational risk to the Department, nor does it appear to compensate adequately for the undoubted value that sponsors receive on behalf of the taxpayer. We encourage the FCO to derive greater value for the taxpayer by extracting more from commercial sponsors, on the understanding that all sponsorship (not just deals with a value of over £5,000) should be transparent and should be published by the FCO on a rolling basis, rather than being held over to the Annual Report and Accounts.***

123 FCO supplementary written evidence, [answer to written question 7](#)

124 [Q 33](#)

125 [Q 39](#)

126 [Q 38](#) and see FCO supplementary written evidence, [answer to written question 7](#)

Formal Minutes

Tuesday 24 February 2015

Members present:

Sir Richard Ottaway, in the Chair

Mr John Baron
Ann Clwyd
Mike Gapes
Mark Hendrick
Andrew Rosindell

Sandra Osborne
Mr Frank Roy
Sir John Stanley
Nadhim Zahawi

Draft Report (*The FCO's performance and finances in 2013–14*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 10 read and agreed to.

Paragraph 11 read, amended and agreed to.

Paragraph 12 read, amended and agreed to.

Paragraphs 13 to 33 read and agreed to.

Paragraph 34 read, amended and agreed to.

Paragraph 35 read and agreed to.

Paragraph 36 read, amended and agreed to.

Paragraphs 37 to 51 read and agreed to.

Paragraph 52 read, amended and agreed to.

Paragraph 53 read, amended and agreed to.

Paragraphs 54 to 57 read and agreed to.

Paragraph 58 read, amended and agreed to.

Paragraphs 59 to 63 read and agreed to.

Paragraph 64 read, amended and agreed to.

Paragraphs 65 to 68 read and agreed to.

Paragraph 69 read, amended and agreed to.

Paragraph 70 read and agreed to.

Paragraph 71 read, amended and agreed to.

Paragraphs 72 and 73 read and agreed to.

Summary read, amended and agreed to.

Resolved, That the Report, as amended, be the Ninth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That written evidence be reported to the House for publication on the internet:

FPF 01 Conscience Campaign

FPF 05 Foreign and Commonwealth Office, supplementary written evidence, dated 12 January 2015

FPF 06 Letter from Ciaran Devane, Chief Executive, British Council, dated 22 January 2015

FPF 07 Letter from Ciaran Devane, Chief Executive, British Council, dated 5 February 2015

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 3 March at 1.45 pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the Committee's inquiry page at www.parliament.uk/facom.

Tuesday 25 November 2014

Question number

Sir Simon Fraser KCMG, Permanent Under-Secretary, **Deborah Bronmert CMG**, Chief Operating Officer and **Iain Walker**, Director, Finance, Foreign and Commonwealth Office

[Q1-86](#)

Tuesday 6 January 2015

Sir Vernon Ellis, Chair, **Sir Martin Davidson KCMG**, former Chief Executive and **Ciarán Devane**, Chief Executive, British Council

[Q87-129](#)

Published written evidence

The following written evidence was received and can be viewed on the Committee's inquiry web page at www.parliament.uk/facom. FPF numbers are generated by the evidence processing system and so may not be complete.

- 1 British Council ([FPF0004](#))
- 2 British Council ([FPF0006](#))
- 3 British Council ([FPF0007](#))
- 4 Conscience Campaign ([FPF0001](#))
- 5 Foreign And Commonwealth Office ([FPF0003](#))
- 6 Foreign And Commonwealth Office ([FPF0005](#))