



Government Response to the House of Commons  
Foreign Affairs Committee Report HC 605 of Session 2014-15  
FCO Performance and Finances 2013-14

Presented to Parliament  
by the Secretary of State for Foreign and Commonwealth Affairs  
by Command of Her Majesty

June 2015



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Print ISBN 9781474119030

Web ISBN 9781474119047

ID P002728874      50038      06/15

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

## **GOVERNMENT RESPONSE TO THE HOUSE OF COMMONS FOREIGN AFFAIRS COMMITTEE REPORT HC 605 OF SESSION 2014–15 ON FCO PERFORMANCE AND FINANCES 2013-14**

The Government welcomes the Foreign Affairs Committee's Inquiry into the FCO's Performance and Finances, published on 27 February 2015. We welcome the detailed work the Committee has undertaken and comment on the main points of the Inquiry.

This Command Paper sets out our response to each of the Committee's conclusions and recommendations. The Committee's text is in bold and the Government's response is in plain text. Paragraph numbers refer to the Committee's report.

The Committee should note that combined answers have been given for recommendations 10, 11 and 12.

### **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)**

Ministers will set both the future foreign policy priorities of the Government and the resources to deliver these priorities in light of the future Spending Review settlement. Any requirement to restructure, or reduce in size, the FCO's workforce would need to be achieved while maintaining capability to deliver Ministerial policy priorities.

**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)**

The key principle of all FCO appointments remains selection by merit through fair and open competition. We also require the FCO to be an agile organisation, with an emphasis on developing staff skills and experience, e.g. through the recent launch of the Diplomatic Academy and opening in 2013 of the Language Centre. Talent management at the SMS and at Band D grades and the use of appointments boards to fill our more senior roles enable us to get the right people in key jobs on the basis of merit.

We have also introduced a series of measures to address the issues identified in the Report. These include: increasing workforce flexibility to make it easier to redeploy staff when priorities change; requiring staff to apply for a wider range of jobs in order to reduce gaps in the UK; and building expertise by requiring staff to spend more time at each grade.

The FCO will maintain these measures to ensure that progress made in reducing staffing gaps at home at Band D continues, and will introduce further directive measures at Band C where gaps in home jobs persist.

## **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)**

In line with Whitehall best practice all SMS roles in the FCO, including Head of Mission posts at these grades, are advertised within the FCO and across Whitehall simultaneously. This enables us to make appointments to these important roles from a wider talent pool. However, we are confident that the development opportunities we provide for our own staff prepare them for these roles, and currently over 95% of Heads of Mission are drawn from the FCO.

All appointments to Head of Mission roles are ratified by the Foreign Secretary on the advice of the Permanent Under-Secretary. All staff on inward interchange are formally contracted to the FCO for the duration of their postings, and are subject to the terms and conditions, policies and systems of the FCO during that period. They are FCO employees.

## **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)**

The data used to compile the report on Market Comparison of Salaries at the Foreign and Commonwealth Office was shared by other Government departments on an 'in confidence' basis with an independent research company. We are working with the company to reach agreement to release the report.

## **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)**

As the Committee rightly notes, the FCO continues to attract a diverse range of high-quality applicants. Our staff demonstrate commitment to public service and often work in challenging and difficult circumstances overseas. Staff engagement remains high, though we have seen declining staff satisfaction in how FCO pay compares to that of our closest comparators in Whitehall. We have secured additional flexibility from HM Treasury for

2015-16 to begin to address – within our existing pay bill – some of the most acute pay discrepancies in two key foreign policy delivery grades. As part of the next Spending Review we intend to pursue wider flexibility to address the pay of other grades where it has fallen behind civil service comparators and to ensure that our pay supports our work force strategy goals and continuing high performance. It is important to note that engagement continues to be high, despite the real pay challenges the organisation faces, due in part to our wider reward package. We offer interesting work, the opportunity to make a difference and wider benefits such as flexible working, training and development as well as the opportunity to live and work overseas.

## **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)**

Since 2010 the FCO has achieved over £100 million in savings per year from a total annual discretionary spend of about £800 million involving increased localisation, reducing the number of junior UK-based staff overseas, and reducing overseas estates costs. Further to this, the FCO will contribute an additional £20 million to the Government's plans to reduce spending in 2015-16. By March 2016 we will have reduced our UK based headcount by 10% compared to 2010. The FCO has also strengthened its capabilities in important areas. The FCO language centre was opened in September 2013, the Diplomatic Academy was launched in February 2015, and our diplomatic footprint has grown with the opening of 15 new or upgraded Posts since 2010.

The Committee is correct to note that the FCO budget is smaller than foreign ministry budgets in our closest comparator countries, and that much of our budget is ring-fenced or non-discretionary.

## **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)**

The FCO will continue to base its appointments on merit – getting the best person for the job. However, in line with Section 159 of The Equality Act 2010, where two candidates for recruitment or promotion are assessed as being equally matched, the hiring panel may take diversity indicators into account if one of the equally matched candidates has a protected characteristic which is under-represented in that grade. As set out to the Committee, this is

only one of a set of best practice measures that we have introduced over recent years to ensure a diverse pipeline of talent for senior roles in the FCO.

These measures also include coaching, mentoring and career development support at all grades, through Civil Service-wide and bespoke FCO schemes, including for talented BME staff at the cusp of senior management. A well-established sponsorship scheme for talented SMS women has also been expanded, and now includes BME, LGBT and disabled staff. Our 31 March figures indicate that the SMS is now 27% female with 4.1% minority ethnicity, 4.7% disabled and 3.4% LGBT staff. Our management board is 45% female. We currently have 36 female Heads of Post and a further 13 women will take up Ambassadorial or Head of Post positions during this year.

**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)**

The FCO is committed to ensuring that we retain a talented and engaged workforce; greater diversity supports higher performance. The Cabinet Office has assessed our progress against the priorities set out in the September Civil Service Talent Action Plan as among the best in Whitehall.

We continue to work to remove barriers to career progression for all talented staff from groups who are under-represented in our senior grades. Highlighting role models is an important aspect of this: for example, we brought FCO and cross-Whitehall staff together with successful business and diplomatic role models for International Women's Day. We will continue to use such initiatives to drive culture change. Two new very senior (SMS3) female Ambassadorial appointments have recently taken effect with the arrival of Barbara Woodward in Beijing and Karen Pierce in Kabul. Such appointments demonstrate our commitment to diversity and also to appointing the best person for every job.

## **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)**

The 2020 Export Drive set out the ambition for a whole-of-Government approach in partnership with the private sector to drive a step change in support of UK exports. The FCO will continue to work with other Government Departments to deliver this step change.

## 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)**

Accepting event sponsorship from private companies allows the FCO to do more for tax payers, but not at the tax payers' expense. The decision to accept corporate sponsorship rests with the relevant Head of Mission or (in the UK) Director, as they are best placed to judge whether sponsorship of an event is appropriate and whether it can help support UK objectives locally. They are provided with clear guidance to help them make this assessment, which includes the principle that sponsorship should be additional to, and not replace, core funding, and that we cannot accept offers of sponsorship from firms competing for significant contracts with the FCO.

Our policy on reporting corporate sponsorship agreements is in line with Cabinet Office guidance. Until recently we relied on annual returns from Posts to collate information for publishing, leading to occasional omissions, in particular of sponsorship for UK-based events. We have now implemented an improved mechanism – effective from 2015/16 – which will include UK-based events and capture overseas sponsorship agreements more completely. This was detailed in Sir Simon Fraser's letter to the Committee of 25 February.

These improvements allow us to capture the value of all corporate sponsorship provided in cash, and a headline figure could be published quarterly at the Committee's request.

The inclusion of details on individual agreements (such as the name of the sponsor and the associated event) and of corporate sponsorship provided in kind would need to be done manually. At present, providing this level of detail for agreements worth under £5,000, or doing so quarterly rather than annually, would place a disproportionate administrative burden on our Heads of Post and central accounting teams.

ISBN 978-1-4741-1903-0



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