



Foreign, Commonwealth & Development Office

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Meg Hillier MP
Chair, Public Accounts Committee

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7 February 2023

Dear Meg,

ACCOUNTING OFFICER ASSESSMENT: BRITISH EMBASSY AND RESIDENCE WASHINGTON – COMPOUND REPAIRS

It is normal practice for Accounting Officers to scrutinise significant major projects and assess whether they measure up to the standards set out in 'Managing Public Money'. Since April 2017, the Government has committed to making a summary of the main points from these assessments available to Parliament when an Accounting Officer has agreed an assessment of projects within the Government's major projects portfolio. This Accounting Officer Assessment considers the much needed project to repair and refurbish the British Embassy office and Her Majesty's Ambassador's (HMA) Residence buildings in Washington DC, United States.

Background

The Embassy office and HMA Residence buildings are located within a joint 4-acre compound. The prestigious area includes the official US Vice President Residence close by. The HMA Residence was designed by world renowned Architect Edwin Lutyens and was constructed in 1928. It is an iconic landmark in Washington DC and widely regarded as a key asset supporting diplomatic business at the highest levels of US government. It plays a crucial hosting role for strategically and politically important official representation and functions (c800 events in the last calendar year pre-COVID-19). The main British Embassy office is a 7-storey building constructed over 60 years ago. The compound shares central building services. Almost all of the distribution network of water pipes and electrical wiring dates from original construction.

It is of critical strategic and political importance to the UK's foreign policy objectives that these buildings in Washington DC function in the most efficient and cost effective manner. HMG needs to provide a safe, secure and building-code compliant operating environment for all staff and other users.

The need for essential repairs has become increasingly urgent. Nevertheless, they are difficult to carry out and are destructive to the fine internal appearance, particularly in the Residence. Condition surveys (2016) identified continuing infrastructure deterioration, with major investment required to address a number of outstanding 'business critical' works. If pushed back, the eventual cost of infrastructure repairs and replacement was expected to rise exponentially in the future.

The FBC was completed and approved in November 2019. In January 2020, Grunley, a US contractor, began a large complex programme of infrastructure replacement and repairs. Covid-19 struck as the project started and while construction activity on site has been maintained after an initial short-term shutdown, the pandemic had a significant longer-term impact on the US construction industry, with labour and material supply chains particularly stretched. Building conditions, particularly in the historic Residence building, were also worse than anticipated, requiring significant additional design activity.

As a result, the project has faced extensions to delivery timescales and an increase in costs. HMT have been kept informed of revised budgets and the project remains affordable within FCDO's resources. Underpinned by a wider FCDO programme of asset sales, the approved project budget is covered within the FCDO's own capital budget and will be delivered without any additional FCDO request for capital from HMT. The project team has also continued to work with the contractor to clear issues, speed up work and improve supply-chain efficiencies.

Regularity

The Washington project has complied with all Parliamentary requirements for the control of expenditure, and HMT Regularity standards continue to be satisfied. The programme's spend has been in line with the FCDO's ambit and objectives. Funding has been available through the FCDO's agreed Spending Review settlement and budget. The programme has ensured all appropriate advisory fees and contracts awarded have been compliant with UK procurement regulations. The programme has been supported by commercial advisors, legal advisors and the Cabinet Office to ensure compliance with regulation, best practice and requirements on health and safety.

Propriety

There are no changes to the project in terms of propriety. It is compliant with Parliamentary controls. The Washington project has been governed effectively since its inception, with key approvals at appropriate times from the relevant governance authorities. Supported by formal IPA Gateway Reviews at the relevant times (both providing 'strong' Amber delivery confidence assessments), the OBC was approved by the FCO Operations Committee in August 2017 and endorsed by the Management Board and HMT shortly thereafter. The project then joined the IPA's

Government Major Projects Portfolio (GMPP) in early 2018 and has been subject to the regular GMPP quarterly monitoring ever since.

The FBC was approved by the FCO Infrastructure Investment and Operations Committee (IIOC), the Management Board in October 2019 and HMT in November 2019. Expenditure continues to be managed with impartiality and avoidance of personal gain and extravagance.

Value for Money

The Outline Business Case set out the case for change and the options available. Analysis completed in the economic assessment showed the preferred option delivered the best value for money. The principal alternative, based on likely planning approvals, was to demolish the existing Embassy office and re-build it. This was estimated to cost double the current project, require a long and time-consuming delivery process with no guarantee of planning certainty, and not deliver best value for money. The project procurements followed a fair and open process following a thorough commercial review and process. A final assessment against the project objectives was completed in the FBC to show the recommended option delivered the optimum outcome. Even with the recent budget increase, the project option taken forward still comfortably delivers best value for money for the public purse.

The Washington project will deliver significant benefits. It will deliver modern, fit for purpose buildings in a diplomatically very important Post. Of particular significance, it will prevent further deterioration and increasing danger of structural damage to the historic building fabric, particularly in the Residence. Once the works are complete, the Residence should again be a major asset in our diplomacy. It is clear that the lifetime costs of not proceeding with the project would have resulted in an exponential increase in taxpayer expenditure in the future.

The upgraded office, including enhanced trade exhibition and multi-functional conference, entertainment and meeting space, will also provide a functional, safe and secure platform for FCDO, DIT, British Council, MOD and other key UK partners in Washington. Assuming proper maintenance, the core investment should last between 30-50 years.

Feasibility

There are always delivery risks, particularly when intervening in historic buildings with declining and end of life core infrastructure and services. Despite COVID-19 and other issues, the construction site has remained in operation for all but 6 weeks in mid-2020. The programme is tightly governed, and subject to close scrutiny and review, including regular progress monitoring by the Project Board, to the FCDO Management Board and the IPA. In summer 2022, the programme, while not risk free, was de-risked, with additional resources put in place on both client and contractor sides. Progress has been made since then, with the revised target

completion for the Chancery element of the project broadly on track for early 2023, with the Residence to follow later in the year.

Conclusion

Major repair, replacement and refurbishment of key infrastructure in the British Embassy office and HMA Residence in Washington DC is the best value money approach to protecting one of HMG's most historic and valuable overseas assets. If major repairs had continued to be postponed, the eventual cost of building repairs and replacement would be expected to rise exponentially in the future.

As the FCDO Accounting Officer, I considered this assessment of the British Embassy and Residence Washington compound repairs and approve it.

This summary will be published on the Government's website (www.gov.uk). Copies will be deposited in the library of the House of Commons and sent to the Comptroller and Auditor General and Treasury Officer of Accounts.



Philip Barton