Following publication of the Department’s Supplementary Estimates for 2018-19, the Committee has considered the expenditure plans they contain. Please provide a response to the committee by Thursday 11 April to the following questions:

**Asset sales**

1. The 2018-19 Supplementary Estimate Memorandum states that FCO “have a core capital budget of £98m a year, largely spent on security and technology, but depend on asset sales (in particular the sale of the Bangkok embassy compound) to fund investment in our estate.” This implies that the only way that the FCO can fund their ongoing capital investment is through selling off their high value global assets. In 2017-18 the FCO also sold office property in Marseilles, and residential property in Warsaw, Canberra and Jakarta for a total of approximately £1.3 million.

   i) Given that the capital budget appears to be dependent on asset sales, do you regard the current funding model to be sustainable?

   ii) Should we expect further property and embassy sales over the coming years? If so, what impact do you expect this will have on the UK’s strategic influence and ability to provide consular assistance to its citizens?

**Departmental capacity**

2. The administrative and programme resource expenditure for 2018-19 is £1,060 million however plans for 2019-20 are that this be reduced by approximately 20% to £808 million. Given that the NAO has recently raised questions over the Department’s management capability and capacity, how will you ensure that programmes will be managed effectively under such a significantly reduced funding envelope, and where do you foresee these changes being made?

   Capital transfers

3. There are capital transfers from DFID of £12m for ‘various estates projects’. Could you elaborate on the purpose of these projects, and why a budget transfer from DFID was necessary to fund them?

The committee notes that the accompanying memorandum for your 2018-19 was not received until after the Supplementary Estimate was published. We would be grateful if you would take necessary measures to ensure that this does not happen again. You are reminded that all departments are required to provide the Committee with an Estimates memorandum, compliant with the published guidance, by the day of publication of each Estimate. Please ensure this requirement is met in future.
The committee has noted the steps your department has taken to comply with the new guidance issued by the House of Commons Scrutiny Unit, following the Procedure committee's Estimates inquiry in 2017. We are pleased at the progress you have made to date in adopting these changes and encourage you to maintain dialogue with the Scrutiny unit and ensure that you continue to apply the requirements set out on the Scrutiny unit’s webpage¹ in the future.

Tom Tugendhat MP
Chair

Thank you for your letter of 27 March 2019 about the FCO Supplementary Estimate and its accompanying memorandum. I am glad that the Committee was pleased with the progress FCO has made in adopting the new, more transparent format recommended by the Scrutiny Unit. I note the Committee’s concern that the memorandum was presented a day late. I will ensure that it is submitted alongside the Supplementary Estimate in future.

Please see below the Department’s replies to the questions raised in your letter. Your questions are shown in italicised quotes before each answer.

**Question 1**

*The 2018-19 Supplementary Estimate Memorandum that FCO “have a core capital budget of £98m a year, largely spent on security and technology, but depend on asset sales (in particular the sale of the Bangkok embassy compound) to fund investment in the Estate”. This implies that the only way that the FCO can fund their ongoing capital investment is through selling off their high value global assets. In 2017-18 the FCO also sold office property in Marseilles, and residential property in Warsaw, Canberra and Jakarta for a total of approximately £1.3 million.*

i) **Given that the capital budget appears to be dependent on asset sales, do you regard the current funding model to be sustainable?**

**Answer**

The FCO’s spending settlement in 2015 assumed that all investment in our estate would be funded through asset sales, particularly of the Bangkok compound. The one-off Bangkok sale is allowing us to make significant progress in tackling priorities...**
identified within our Global Asset Management Plan. However, all of that funding will be committed in the coming financial year. Therefore the current funding model is not a sustainable basis for future investment; addressing this will be a priority for the forthcoming Spending Review.

ii) Should we expect further property and embassy sales over the coming years? If so, what impact do you expect this will have on the UK’s strategic influence and ability to provide consular assistance to its citizens?

Answer

Some of the capital investment projects currently in train will result in corresponding sales. For example, we plan to sell the existing embassy compound in Mexico City when we move to other office premises in the city following the devastating earthquake last year. There are a small number of lower value sales that arise from normal management of the estate. These smaller scale receipts will amount to perhaps £30m over the next few years. However, we have no plans to make asset sales that would risk undermining the UK’s influence or the FCO’s capability.

Question 2

The administrative and programme expenditure for 2018-19 is £1,060 million however plans for 2019-20 are that this be reduced by approximately 20% to £808 million. Given that the NAO has recently raised questions over the department’s management capability and capacity, how will you ensure that programmes be managed effectively under such a significantly reduced funding envelope, and where do you foresee these changes being made?

Answer

I believe the £1,060 million figure to which you refer is the combined net Resource DEL total of Section A of the 2018-19 Supplementary Estimate. This figure is not comparable with 2019-20 planned expenditure for Section A (£808 million) because the latter does not include 2019-20 in-year uplifts for items such as non-cash (£70m in 2018-19), Consular Premiums (£52m in 2018-19), the Global Britain uplift (£45m in 2018-19), EU exit preparations (£35m in 2018-19) and seismic and maintenance work (£20m in 2018-19, switched from capital DEL). The FCO expects to receive comparable uplifts in 2019-20.

Question 3

There are capital transfers from DFID of £12m for ‘various estates projects’. Could you elaborate on the purpose of these projects, and why a budget transfer from DFID was necessary to fund them?

Answer

DFID provided capital funding for: expansion of operating capacity in Kathmandu (a multi-year project they have funded and which is shortly to complete); the set-up of new offices in Maiduguri; expansion of office capacity in Amman; expansion of
residential accommodation in Addis Ababa; smaller works to offices in Kinshasa and Kampala that have transferred from DFID to FCO estate management following consolidation of the overseas platform in the hands of the FCO; and design and development costs for future projects in Freetown and Maputo.

We work closely with DFID in establishing their forward operating priorities as part of the FCO Global Asset Management Plan. DFID funding enables some of their priorities to proceed when otherwise there may not be sufficient capital available to the FCO.

Your ever,

Simon McDonald