Foreign & Commonwealth Office

Parliamentary Relations Department
WG75
King Charles Street
London SW1A 2PA

14 March 2018

www.fco.gov.uk

Dear Chris,

Thank you for your letter of 22 February 2018 concerning the FCO Supplementary Estimate and its accompanying memorandum. Please see below the Department's replies to the questions raised in your letter. Your questions are shown in italicised quotes before each answer.

1. *"The Supplementary Estimate Memorandum (para 6) states that FCO's net capital spend for 2017-18 will be negative. What is the Department's expected capital expenditure this year (gross and net of income)?"*

Our expected capital expenditure is -£270m which, as the Supplementary Estimate Memorandum describes, reflects that the Bangkok receipt will score as income against our budget. Our gross capital expenditure before netting off income is expected to be £150m.

2. *"Why is the FCO transferring £12.7m from its resource budget to its capital budget in the Supplementary Estimate? Could the FCO not have spent the £16m additional asset disposal income it is banking with the Treasury in the Supplementary Estimate rather than transferring funds from its resource to its capital budget"*

The 'capital smoothing' agreement between HMT and the FCO allows us to carry forward surplus receipts from asset sales in order to reinvest these receipts in the estate in future years.

The bulk of the £12.7m transfer from the resource budget to the capital budget was due to specific programmes in the Conflict, Stability and Security Fund (CSSF), which will spend some of their budget as capital grants. Funding these capital requirements from asset sales would not have been in the spirit of the agreement with HMT or in line with our estate investment plans. It would also leave the FCO with surplus resource budget in the ring-fenced CSSF programme, which cannot be utilised elsewhere.

3. *"The Supplementary Estimate Memorandum shows that, like last year, the FCO is not able to spend all its asset disposal income. How is the Department planning to spend its asset disposal income in the forthcoming years and for what reasons is its capital expenditure unable to keep pace with capital receipts"*

The main challenge in spending our income from asset disposals in the past has been a lack of certainty around future year funding. The highest priority estates projects span multiple years and could therefore not be committed to without future income to complete them. Our Spending Review settlement for estate investment was based around the disposal in Bangkok, without which these projects could not be started.

Now that we have successfully negotiated the Bangkok sale we can begin work on our priority projects as outlined in the Global Asset Management Plan, which sets out how we plan to spend the asset disposal income achieved from the sale of Bangkok over the next five years. In preparation for this increase in workload, projects are progressing through our internal governance processes and we are scaling up staffing levels in our estates department in anticipation of the larger portfolio of projects to be managed.

- *"DFID's and the Department of Health's Supplementary Estimates show transfers from their capital budget to the resource budget. We understand that such transfers are not normally allowed within Treasury guidelines. However, has the Department considered asking the Treasury for special permission to use its proceeds from asset disposals to augment its resource budget, given the pressures on the FCO's network?"*

We have asked for similar flexibility for a portion of the income received from the sale of the Bangkok compound. Treasury have agreed that this can be used to fund investment in the estate which scores against the resource budget. This will allow us to undertake a programme of essential maintenance and seismic related safety improvements across the overseas network. We also intend to transfer some capital budget to our resource budget in order to fund the portion of large estates projects which cannot be capitalised. We will review this with Treasury on a case by case basis.

4. *"The letter of 16 March 2017 from the Department to the Chair shows that the FCO carried forward £33m of its capital budget from 2016-17 to 2017-18. <u>Consolidated budgeting guidance</u> (2017-18) (para 2.9) shows that departments are generally allowed to carry forward underspends <u>for one year only</u>. Does this mean that the FCO has lost the asset disposal income (£33m) from 2016-17 as it did not spend it in 2017-18?*

- *What amount is Treasury allowing the department to carry forward into 201819?"*

The £33m carried forward from 2016-17 will be spent in full on estates projects this Financial Year. Excluding Bangkok we have sold assets worth £22.8m so far in 2017-18, of which £16m was carried forward at the Supplementary Estimate for use in future years. In addition, we will recognise £396.5m of the Bangkok receipt in our accounts in 2017-18 (the rest of the sale proceeds will be treated as deferred income and recognised over the next two years). We will draw this down in future years in accordance with our capital funding agreement with the Treasury. So the total amount that the Treasury is allowing the FCO to carry forward is £412.5m. We will agree the amount to be called down in 2018-19 in time for the Supplementary Estimate. This is in line with the 'capital smoothing' agreement.

5. *"There is a £3.9m reserve claim in respect of preparations for Britain's exit from the European Union. What will these funds be used for?"*

As trailed in the appearances of the PUS and Minister Duncan in front of the committee the Foreign and Commonwealth Office has been working with the Treasury to ensure that the Department has the resources it requires to deliver priority EU Exit work. The £3.9m you highlight is part of that resource.

To date the Department has used this funding to deliver a range of EU Exit priority work. This has included: thickening the UK's diplomatic representation at UKRep, and bilaterally across the EU27; bolstering the Third Country Agreements Unit; providing more resources to work on Sanctions and the Kimberly process; and, providing more resources to the Gibraltar Team.

6. *"Please could you provide details of the types of expenditure contained within the following subheads:*

   - *Administration and programme expenditure*
   - *Programme and international organisation grants*
   - *Conflict Prevention Programme expenditure*
   - *Peacekeeping"*

Details of the subhead Sections are provided at paragraph 1 of the Estimates Memorandum but to provide further specific clarification on the sections you mention:

Section A: Administration and programme expenditure covers:

- the costs of running the FCO network: for example, staff, estates, security, IT and travel;
- expenditure from the core FCO budget on programmes where this is not classified as a grant (for example, programmes delivered through commercial contracts); and
- FCO expenditure funded from the cross-Whitehall Prosperity Fund that is not classified as grant.

Section B: Programme and international organisation grants shows:

- expenditure from the core FCO budget on programmes that is in the form of a grant, including spending through scholarship programmes; FCO spending from the Prosperity Fund in the form of a grant; and
- subscriptions to international organisations such as the UN and NATO. Section E: Conflict Prevention Programme Expenditure shows programme spending by the FCO funded through the CSSF;

Section F: Peacekeeping shows FCO contributions to the UN peacekeeping budget, also funded through the CSSF.

All of these Sections score within our Resource and Capital Departmental Expenditure Limits.

In future, to provide greater clarity, we intend to show the FCO's spending through the Prosperity Fund on a separate section rather than embedded within sections A and B. So, the sections would be:

E Prosperity Fund Programme expenditure F

Conflict Prevention Programme expenditure

G Peacekeeping.

"You have told us that expenditure within 'B programme and international organisation grants' are all grants to third parties. Will the department will consider revising the heading of the subhead to 'B Grants to third parties (including international organisations)' in order to make clearer what is contained in the subhead?"

We are happy to comply with this request and will take the matter forward with HM Treasury.

"What distinguishes the grants within subhead 'B programme and international organisation grants' and those within the "Conflict Prevention Programme" and "Peacekeeping" subheads, which we understand are funded by the CSSF?"

Grants within the Conflict Prevention and Peacekeeping subheads are ring-fenced within the cross-Whitehall Conflict, Stability and Security Fund and therefore have to be included within the expenditure shown in Sections E and F of the Estimate. Similarly, we propose that all spending from the Prosperity Fund, including grants, will be captured within the new Section E in future. This will give greater transparency between the core FCO budget and FCO's spending that is financed by and ring-fenced for the cross-Whitehall funds.

Yours sincerely,

Lynne

Lynne Smith
Parliamentary Relations Department