

Foreign and Commonwealth Office
Main Estimate Memorandum 2019-20

Contents

1. OVERALL CONTEXT.....	2
1.1 Objectives.....	2
FCO spend by strategic objective:	2
Chart 2: FCO Resource DEL funding in real terms.	3
1.2 Spending controls	4
1.3 Main areas of spending	4
Sections of the estimate.....	4
Breakdown of FCO Resource DEL spending.....	5
Administration costs	5
Programme expenditure.....	5
1.4 Efficiency	6
1.5 Key drivers of funding changes since last year.....	7
Resource DEL.....	7
Capital DEL.....	7
Annually Managed Expenditure (AME)	8
2 EXPLANATION OF CHANGES IN THE MAIN ESTIMATE	8
2.1 Drawdown of additional funding.....	8
2.3 Budget transfers	8
3. PRIORITIES AND PERFORMANCE.....	9
3.1 How spending relates to objectives	9
3.2 Measures of performance against each priority	9
3.3 Major projects	9

1. OVERALL CONTEXT

This memorandum gives background to the FCO Main Estimate 2019-20. The format of this memorandum follows revised guidance from the Parliamentary Scrutiny Unit, to provide wider context about departments’ objectives and finances.

1.1 Objectives

The 2019-20 Main Estimate supports the FCO’s Strategic Objectives as set out in our Single Departmental Plan:

National Interest, Global Leadership
 Foreign & Commonwealth Office

We lead HMG’s global diplomatic network to advance British interests and act for the people of the UK around the world, supporting all UK Government activity overseas. As the UK leaves the European Union we will seize the opportunities to deliver for a Global Britain as we protect our country and our people, project our influence and values, and promote our prosperity overseas. We will do this by working in partnership with others and supporting an international system based on rules, norms, and values to lead and deliver shared action on the world’s most pressing challenges in a period of geopolitical change.

Our Department’s Strategic Objectives

Protect our people
 Utilise the UK’s hard power expertise to protect UK citizens and our allies through our Cyber expertise, P5 status and NATO membership to counter terrorism, prevent weapons proliferation, counter malicious cyber activity, and tackle state and non-state threats.

Project our influence and demonstrate diplomatic leadership
 Advance UK interests by protecting and promoting UK’s values, influence and soft power. Working through the rules-based international system, with partners, we will make the world safer and fairer by supporting human rights, democracy, good governance, the rule of law, and preventing and resolving conflict.

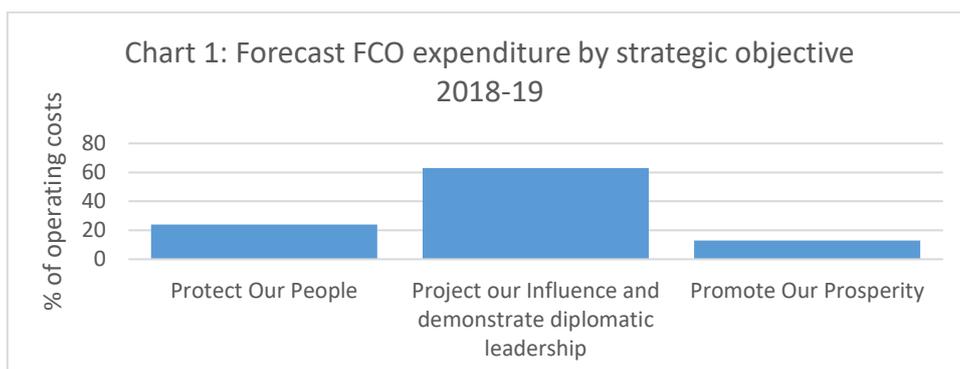
Promote our prosperity
 Promote UK prosperity by projecting the UK as a connected, innovative and active global economy, ensuring it is an attractive investment destination, opening overseas markets, driving economic reform, championing UK business, and winning global free trade through key international bodies.

Department’s Foreign Policy Priority Outcomes (FPPOs). In 2019/20 we will:

<p>FPPO1 Consular and Crisis</p> <ul style="list-style-type: none"> Stand up for British citizens overseas by providing high quality, accessible consular services globally, focused on those most in need. Reduce preventable incidents affecting British people overseas through collaboration with partners and governments. Respond rapidly to all overseas crises, leading non-government action. <p>FPPO2 Euro-Atlantic Security</p> <ul style="list-style-type: none"> Strengthen key security partnerships and ensure our contribution is felt, in particular with the US and Europe—forging a new security partnership with the EU to enhance shared capability and tackle shared threats. Support a more resilient European neighbourhood, including the Western Balkans and Turkey. Ensure a strengthened, expanding, more cohesive NATO—with increased contributions from partners—acts to confront security challenges, including from Russia, and remains a global leader in mutual security cooperation, leading this at the London NATO Summit in 2019. <p>FPPO3 Security Challenges</p> <ul style="list-style-type: none"> Counter malicious cyber activity by developing a global doctrine of attribution and deterrence, defend a free, open, peaceful and secure cyberspace, and have the cost for malicious crime actors. Reduce the threat to UK interests from terrorism, weapon proliferation, stable state actors, illegal regulatory and services and Organised Crime, drawing on all UK Government capabilities. 	<p>FPPO4 Diplomatic Leadership</p> <ul style="list-style-type: none"> Lead delivery of the UK’s first Soft Power strategy. Work to champion democracy, human rights, good governance and the rule of law by assisting, supporting and using our leverage against abusers. Advance media freedom by leading a global campaign; promote gender equality, including the FSW initiative; protect the oceans; defend freedom of religion and belief; address global challenges including modern slavery. Promote UK global leadership in the safe, ethical and innovative development of AI and other emerging technologies, including through championing UK standards to shape the international debate. <p>FPPO5 Multilateralism</p> <ul style="list-style-type: none"> Defend the current Rules Based International Order (RBIO), which is based on norms, rules and abuses, and support its reform and evolution. Promote the UK’s leadership within the RBIO, including improving UK presence in international organisations while building broader coalitions around core interests and values and partnering with emerging powers. Deliver Commonwealth Heads of Government Meeting (CHOGM 2018) commitments, boost the Commonwealth’s voice, increase mutual Commonwealth support in multilateral fora and reform the Commonwealth Secretariat. 	<p>FPPO6 Europe</p> <ul style="list-style-type: none"> Deliver a strong post-EU EIT relationship, advancing UK interests and tackling shared global challenges, protecting UK interests on Gibraltar, Gibraltar Process, and Third Country Agreements. Harvest opportunities and mitigate risks linked to EU exit. Soften governmental and people-to-people links across Europe. Help negotiate a strong future partnership with the EU. <p>FPPO7 Conflict and Stability</p> <ul style="list-style-type: none"> Focus UK effort on high priority countries, advancing inclusive political processes and protecting UK interests in Afghanistan, Syria, Libya and Yemen; supporting security, stability and good governance in the Middle East & Africa, and working to resolve the Rohingya humanitarian crisis. <p>FPPO8 Overseas Territories</p> <ul style="list-style-type: none"> Build resilient Overseas Territories with good governance, increasingly diversified economies and prosperous communities, able to better prepare for and recover from crisis.
<p>Facilitated by our Corporate Policy Priority Outcomes:</p> <p>CPP01 International Platform</p> <ul style="list-style-type: none"> Provide an efficient, impactful and collaborative international platform for the whole of the UK government via our Embassies, High Commissioners, Consulates and Offices. Leadership and support to all departments overseas to deliver government priorities. 		

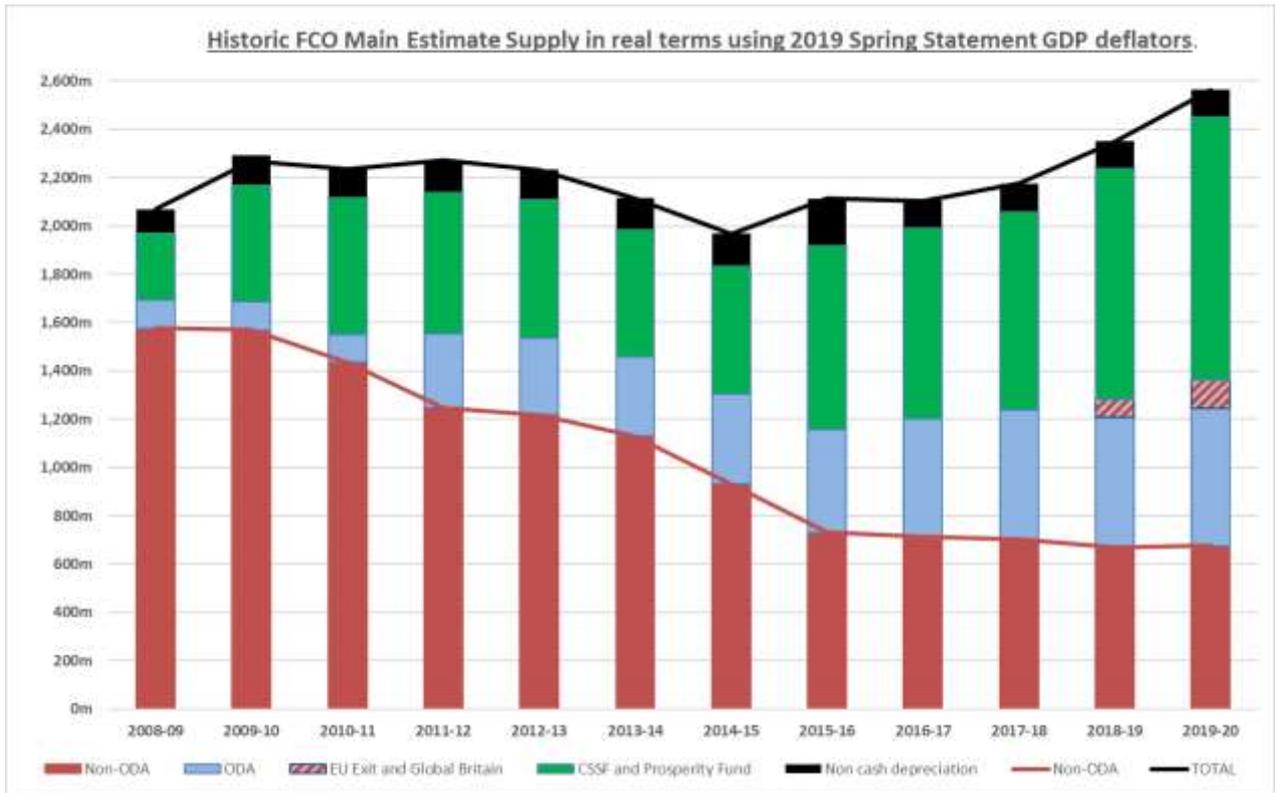
FCO spend by strategic objective:

The chart below gives a breakdown of FCO’s spending by our three strategic objectives. The costs of running FCO’s network are apportioned based on activity recording by staff. The methodology means that most of the operating cost of the network is shown under “Project our Influence and demonstrate diplomatic leadership”. A fuller explanation is given in Note 2 to the annual accounts.



2019-20 FCO Main Estimate Memorandum

Chart 2: FCO Resource DEL funding in real terms.



Notes:

1. Figures show FCO Resource DEL in real terms (2019-20 prices), using GDP deflators at April 2019.
2. For comparability with previous Main Estimates, this chart shows Parliamentary funding at the start of the year, not end-year outturn. Therefore it excludes budget adjustments made in the Supplementary Estimate, such as for International Subscriptions, the Consular Premium, and the FCO's foreign currency mechanism and differential inflation agreement.
3. It excludes FCO's income from other sources, such as the charges paid by other government departments whose staff are hosted on FCO's overseas platform.
4. Funding for UK Trade and Investment has been removed from the series (£75.7m a year from 2008-09 to 2010-11; £114m from 2011-12 to 2013-14).
5. The CSSF and Prosperity Fund category also includes funding in 2018-19 for the Gulf Strategy Integrated Activity Fund. The 2019-20 increase is attributable to an £130m increase for the Prosperity Fund and £50m increase for CSSF.

2019-20 FCO Main Estimate Memorandum

1.2 Spending controls

The table below shows the FCO's key budgetary controls at Main Estimates 2019-20 and at the Main Estimate 2018-19. As in the chart above, this does not take account of budget adjustments in the Supplementary Estimate.

Control totals (£m)	2018-19	2019-20	Change (£m)	Change (%)
Resource DEL	2,351.0	2,616.7	265.7	11.3%
Capital DEL	102.3	111.8	9.5	9.3%
Resource AME	100.0	100.0	0.0	0.0%
<i>Minus</i>				
<i>Non-cash DEL</i>	111.5	111.5	0.0	0.0%
<i>Non-cash AME</i>	65.0	65.0	0.0	0.0%
Net cash requirement	2,376.8	2,652.1	275.3	11.6%

1.3 Main areas of spending

Sections of the estimate

The table below shows the lines of the FCO's Estimate. Section E has been expanded to include the Cross-Whitehall Integrated Activity Fund (IAF). In 2018-19 expenditure on the IAF was shown within sections A and B.

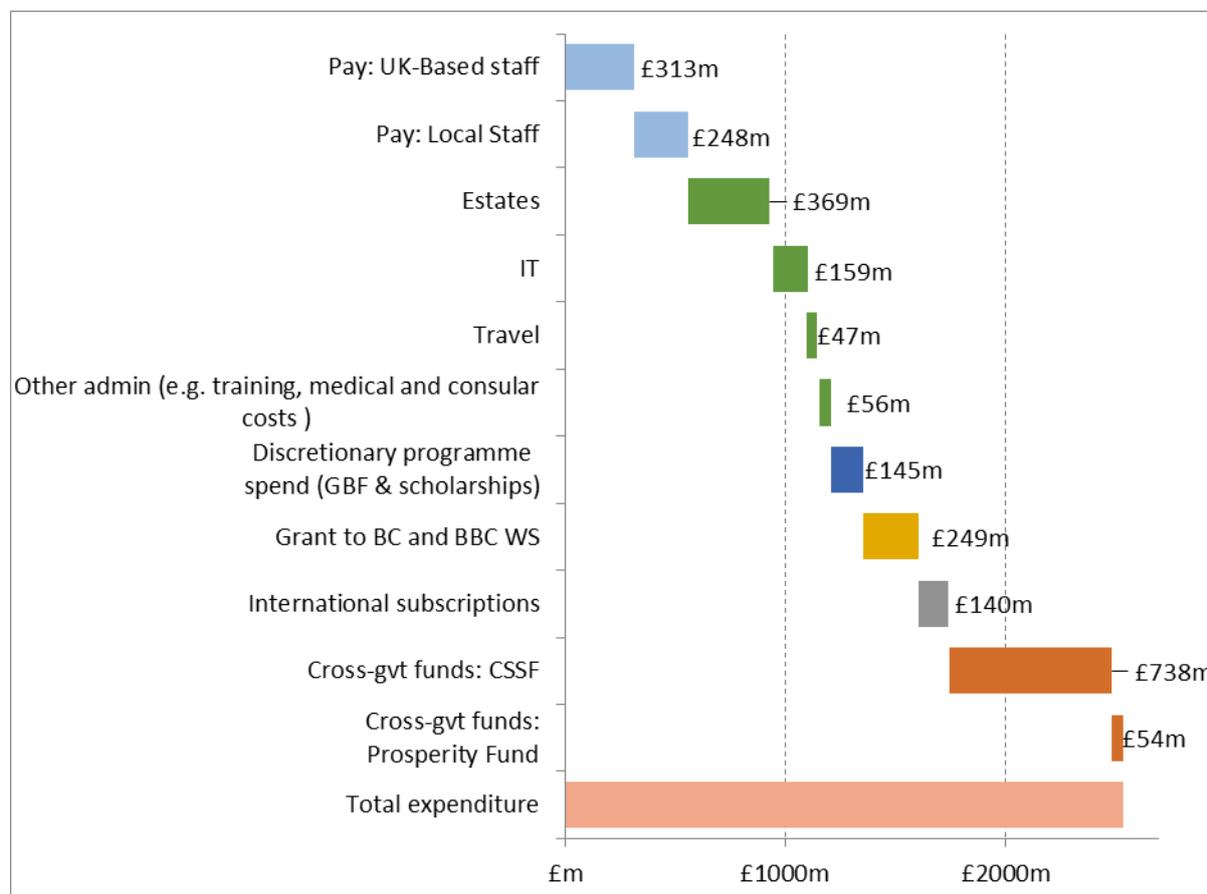
Section	Description
A	Expenditure by the FCO on its administration, strategic and bilateral programmes, FCO Services, Wilton Park Executive Agency, hospitality and facilities; scholarships, information services and sponsored visits; special payments and assistance programmes to support foreign policy objectives including human rights, good governance, international security and the fight against the illicit drug trade; and on associated non-cash items;
B	Grants to international organisations and other bodies supporting FCO objectives and programmes;
C	Resource grant to the British Council;
D	The net expenditure of FCO sponsored Arm's Length Bodies (ALBs) in particular the Westminster Foundation for Democracy, the Marshall Aid Commemoration Commission and the Great Britain China Centre;
E	Expenditure by the Foreign Office on the Prosperity Fund and the Gulf Strategy Integrated Activity Fund;
F	Expenditure by the Foreign and Commonwealth Office on conflict prevention, early warning, crisis management, conflict resolution/peacekeeping;
G	Expenditure on peacekeeping and peace building activity and on associated strengthening of international and regional systems;

2019-20 FCO Main Estimate Memorandum

H	AME non-cash expenditure on impairments, provisions, foreign exchange;
I	AME grants to refund certain taxes and duties paid by certain Foreign and Commonwealth governments.

Breakdown of FCO Resource DEL spending

Chart 3: FCO's spending by category (2018-19)



Note: The breakdown of costs is based on a provisional estimate of 2018-19 outturn.

Administration costs

The FCO's administration cost limit is £183.1 million. This compares to £184.2 million at Main Estimates 2018-19. There have been a number of small transfers as set out at Annex B.

Programme expenditure

The FCO's own programmes are split between sections A and B depending on which delivery method offers the best value for money. Where FCO programmes are grant-funded they score in section B of the Estimate. Other methods of programme delivery such as the use of commercial contracts score in section A.

Cross-Whitehall programmes have separate sections, with section E covering the Prosperity and Integrated Activity Funds, section F covering conflict prevention and

section G covering peacekeeping. Sections F and G together make up the Conflict, Stability and Security Fund (CSSF). Sections E to G are ring-fenced, and funding cannot be transferred into other parts of the core FCO budget without approval.

In addition to the programmatic expenditure set out above, many of the operational costs of running the FCO network are classified as programme rather than administration, because they support front-line diplomatic work.

1.4 Efficiency

As shown in Chart 2 above, the FCO's funding has remained broadly flat over the last decade, but an increasing proportion of the budget has come through the cross-Whitehall Prosperity Fund and Conflict Stability and Security Fund, which are ring-fenced, and in funding classified as Official Development Assistance (ODA). FCO's core budget – in particular the amount that is non-ODA – has reduced. In response, FCO has driven a large number of efficiencies, including:

- A shift over time towards greater use of locally-employed staff, to reduce the cost of posting UK-based staff overseas and increase local expertise. Around half of FCO's posts have two or fewer UK-based staff;
- Centralising corporate functions, through creating global transaction processing centres, central banking systems, and regional hubs for finance, procurement and HR;
- Nearly doubling the usage intensity of FCO's offices in King Charles Street, including by:
 - Halving our London footprint from 15.4m² per member of staff in 2010 to 8.1m² in 2019 (ahead of the HMG average of 9.4m²);
 - Releasing a £74m asset (and saving £5m a year rent) by vacating Old Admiralty Building in 2015; and
 - Hosting more visitors and events, with a two-thirds increase in visitors over the two years to 2018.
- Consolidating overseas government properties under FCO management following the *One HMG* principle, to create a single platform across government;
- Increased digital delivery – for example through the current Technology Overhaul programme – to enable staff to work more flexibly and efficiently; and
- Tight financial management generating savings from budgets across the organisation.

The FCO's Diplomacy 20:20 programme includes further measures that will improve our efficiency and effectiveness. For example, a review of the structure, size and shape of London policy directorates made savings to recycle into strengthening our Europe network after the 2016 referendum. The Corporate Capability Programme is reviewing our corporate services operating model in order to drive efficiencies and improvements across the full range of operational services (such as estate maintenance) in the UK and in our overseas network. This programme is planned to run through to 2021. The Atlas programme will modernise our finance and HR

information systems in order to streamline processes, improve the user experience and create better management information.

The FCO has a programme of environmental sustainability works which are focussed on reducing costs and carbon emissions from across the operations. In particular the FCO has been focussing on energy & waste costs globally. The successful #BeyondPlastic programme has reduced the number of single-use plastic items used in the UK by 97% (1.5m items).

1.5 Key drivers of funding changes since last year

Resource DEL

Overall Resource DEL funding increased in 2019-20 due to budget transfers, additional funding for specific activity agreed by the Treasury and some technical budget adjustments. The major increases in the FCO's funding are:

- Annual uplifts in the cross-Whitehall funds:
 - DFID have transferred £904.5m to FCO for Conflict, Sustainability and Security Fund (CSSF) work (up from £870.6m at Main Estimates 2018-19), and
 - £187.5m for the Prosperity Fund (up from £57.0m at Main Estimates 2018-19).
- £45.0m from the Treasury's Reserve for the FCO's EU Exit preparations;
- £16.8m transferred from DFID for the Africa Strategy; and
- £8.5m from the Treasury Reserve for increased employer contributions to pensions.

We have also had uplifts from our Spending Review 2015 settlement of:

- £75.0m for additional ODA funding (offset by a £30m reduction in FCO's non-ODA budget) to support the government's Global Britain ambitions and the opening of 14 new posts;
- £20.0m from MoD for the cross-Whitehall Gulf Strategy Integrated Activity Fund (IAF);

However, these two amounts were also received in the 2018-19 Main Estimate and so do not contribute to the year-on-year increase.

Capital DEL

On capital, the FCO strives to maintain a UK and overseas platform – for the whole of government – which is modern, flexible, environmentally sustainable, compliant with health and safety standards, and secure for our staff and visitors. We 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. We have flexibility from HM Treasury to draw down sale proceeds to reinvest in later years.

The funding from the Bangkok sale will support a number of projects under the FCO's Global Asset Management Plan (GLAMP). The GLAMP includes remedial work in Paris, Washington, New Delhi, and Ottawa, as well as the re-build of the embassy and residence in Beijing.

Annually Managed Expenditure (AME)

FCO has a non-cash AME budget mainly to cover some depreciation/impairments of assets and unrealised foreign exchange gains/losses.

2 EXPLANATION OF CHANGES IN THE MAIN ESTIMATE

2.1 Drawdown of additional funding

The Main Estimate draws down the FCO's core funding of £1.2 billion Resource DEL and £98 million Capital DEL set in Spending Review 2015.

Along with the SR2015 Settlement and the uplifts mentioned at para 1.5 above, we have used Budget Exchange to move £3m of the FCO's Resource DEL and £6.5m of CSSF peacekeeping funding from 2018-19 into 2019-20.

There have been a number of budget uplifts and reductions in the FCO Settlement in Estimates rounds since SR15 but before Main Estimates 2019-20. These include a transfer from DFID of £60.6m for ODA (later reduced by £10m), £70m for BBC World Service grant funding, £54m for grants to the British Council, and £28m for Chevening Scholarships. We have also had a non-cash DEL reduction of £68.5m, a transfer from MoD of £2.5m for Falklands demining, a transfer of £2.8m (Admin) to Department for Exiting the European Union for a Machinery of Government Change, £1.9m (Admin) for Trade officers and £1m transferred to the Department for International Trade for charges related to their occupation of King Charles Street. Charges for occupation of the FCO Platform are reviewed annually, which has led to net baseline transfers in to the FCO of £14.2m in 2016-17, and net transfers out of £20.2m in 2017-18. These prior year changes are included in the reconciliation at annex B (but marked with an "**") and have been set out in previous Estimates Memoranda.

The Main Estimate does not include important funding streams for consular premiums, international subscriptions and the Foreign Currency Mechanism. These rely on in-year data and so cannot be taken up until the Supplementary Estimate. It is therefore misleading to compare Main Estimate supply with Supplementary Estimate supply.

2.3 Budget transfers

Along with the Cross-Whitehall transfers mentioned at Section 1.5 above there have been a number of other routine transfers to and from the FCO in the current Main Estimate, as set out in annex B.

3. PRIORITIES AND PERFORMANCE

3.1 How spending relates to objectives

Section 1.1 above outlines the FCO's priority outcomes and spend by strategic objective. Priority outcomes 1, 2, 3, 6, 8, 9, 10 and 11 are covered by sections A, B and H of the Estimate. Priority outcome 7 is covered by sections E, F and G. Priority outcomes 4 and 5 are shared between sections A,B,C,D,E and H. Non-Cash AME in section I supports all of objectives.

3.2 Measures of performance against each priority

Data on performance against the FCO's Single Departmental Plan will be given in the FCO 2018-19 Annual Report and Accounts.

3.3 Major projects

The FCO has five major projects as defined by the Infrastructure and Projects Authority (IPA):

- Technology Overhaul – a programme to upgrade FCO's IT;
- Echo 2: a joint project with the British Council and the Department for International Development to provide new network, telephony and video-conferencing services;
- Atlas: a programme to replace the FCO's finance and HR information system;
- Desktop Infrastructure: to design and deliver the future operational support for FCO's desktop computing system;
- A major refurbishment of the embassy and ambassador's residence in Washington DC.

Capital projects in Beijing and Kabul will also be classified as major projects, subject to approval of their business cases.

Progress on major projects is recorded at:

<https://www.gov.uk/government/publications/fco-government-major-projects-portfolio-data-2018>