House of Commons

Foreign Affairs Committee

The FCO and the 2015 Spending Review

First Report of Session 2015–16

HC 467

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Report, together with formal minutes relating to the report

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The Foreign Affairs Committee

The Foreign Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Foreign and Commonwealth Office and its associated public bodies.

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Summary

The Foreign and Commonwealth Office (FCO) has been asked by the Treasury to indicate how it would make real terms savings of 25% and of 40% from its resource budget by 2019-20, in preparation for the 2015 Spending Review. We believe that the Treasury should protect the FCO budget for the period covered by the Review and should bear in mind the following four points:

The FCO has limited scope to make savings. Its resource budget is £1.7 billion, smaller than that of most other Departments, and it has discretion over less than £700 million - less than half of the total. The majority of the FCO's savings under the 2010 Spending Review were achieved by removing from the FCO's books its Grant in Aid to the BBC World Service. Any attempt to make a parallel cut to the British Council budget in the 2015 Spending Review would inevitably weaken the UK's capacity to project soft power and culture in target countries with growing economies or regions with high priority political and human rights concerns, such as Russia and the Gulf, where Government expenditure does not score as Official Development Assistance (ODA).

The FCO is not well placed to make savings in back-office functions: its IT systems are ageing, pose an operational risk and need replacement; and the FCO's security requirements make participation in a cross-Government shared service centre for payroll and human resources support difficult.

The FCO needs to be equipped to re-assert its leading role in foreign policy-making through diplomatic and analytical capability. It has started to repair some of the damage sustained in recent years, but this is very much "work in progress". Levels of attainment in language skills in key regions have yet to turn the corner, having fallen from 28% in 2014 to 27% in FCO posts in the Middle East and North Africa, and from 27% in 2014 to 23% in Eastern Europe and Central Asia.

Human rights needs to be re-established as a top priority. The Permanent Under-Secretary acknowledged that human rights was now not one of the top priorities and that "in a constrained environment", other elements of the FCO's work had "supplanted it to an extent". We believe this to be a consequence of the savings imposed so far on the Department.

There is a lack of coherence in funding different departments with shared aims. Foreign policy underlies the priorities of other Government departments, notably the Ministry of Defence and the Department for International Development. But while the budgets of the two larger-spending departments will both be protected in the Spending Review, that of the FCO, which amounts to less than 3% of the total of the three budgets combined, is to be exposed to the full force of Spending Review cuts. As far as our national security is concerned, it is beyond irresponsible to treat FCO expenditure as the only unprotected department in this group.

In conclusion, it would be a false saving to impose cuts on the FCO in the 2015 Spending Review. Given the size of the FCO's budget, any savings made would make a minimal contribution to reducing the deficit; and they would have a disproportionate impact on the ability of the FCO to do what it was established to do, as has been evidenced in the

last five years. Progress in restoring its policy-making and diplomatic capability would be reversed; and the ability of the FCO central machinery to support its core diplomatic function would be put at risk just at a time of unusual international turbulence and when diplomatic skills are required more than ever.

In an increasingly unstable world, the Government relies on the FCO to have the necessary infrastructure in place so that it can make critical decisions at a moment's notice. Over the last Parliament the country was found to be lacking in expertise, analytical capability and language skills to manage the fallout from the Arab Spring and the crisis in Ukraine. In 2010 it might have been thought that expertise on Benghazi, Donetsk, or Raqqa was surplus to requirement. These have become vital areas for our national security, evidencing the real dangers of an under-funded Foreign and Commonwealth Office.

Further cuts of 25% or more were described in the words of Sir Simon Fraser, a former Permanent Under-Secretary at the FCO, as "neither coherent nor wise". Outside commentators went further. Charles Grant, Director of the Centre for European Reform, described the FCO as "a Rolls Royce machine" and spoke of "the damage done to the Foreign Office by cuts made by successive Governments—not just the current Government—in recent years". He warned that "to cut it significantly further would in my view be madness". We agree.

1 The 2015 Spending Review

1. The 2015 Spending Review, launched on 21 July 2015, continues the policies pursued by the previous Coalition government to eliminate the UK's budget deficit. The Government now aims not just to break even but to convert the deficit into a surplus by 2019-20, and it estimates that "consolidation measures" in the form of approximately £37 billion of spending reductions will be required. The 2015 Summer Budget set out specific plans for savings in certain areas: £12 billion from welfare reform and £5 billion from reducing tax avoidance and non-compliance, and imbalances in the tax system.[1]

2. The Spending Review process which is currently under way will identify the scale of savings required from Government departments in order to achieve the remaining £20 billion in "consolidation". Accordingly, departments have been asked to set out how they would respond to two scenarios: savings of 25% and of 40% from the resource budget in real terms by 2019–20. These figures would be cumulative and could for instance be achieved by making new savings of 7% of the resource budget in each of the four years covered by the Review. The Foreign Secretary submitted a letter to the Treasury on 4 September, modelling cuts;[2] but we note press reports that the Foreign and Commonwealth Office (FCO) was one of a number of departments which had "refused" to submit to the Treasury plans "to cut their departments by as much as 40 per cent".[3]

3. Ministerial discussions on departmental settlements are currently under way, and the Cabinet will be invited to sign off ministerial decisions in November. We note that the Public Expenditure (PEX) Committee has been re-established to advise Cabinet on the high-level decisions that will need to be taken in the Spending Review.[4] The FCO is not represented on the full Cabinet Committee or on the Public Expenditure (Efficiency) sub-Committee, whose role is "to consider issues relating to efficiency, asset sales and public sector pay and pensions".[5]

4. The results of the 2015 Spending Review will be published on 25 November 2015.[6]

5. This report is intended as a contribution to the decision-making process currently under way between the FCO and the Treasury.

1 A country that lives within its means, Spending Review 2015, July 2015, Cm 9112
2 Evidence from the Permanent Under-Secretary, 15 September 2015, Q2
3 Daily Telegraph, 13 October 2015, http://www.telegraph.co.uk/news/politics/11927855/Ministers-resist-cuts-to-their-departments.html
4 A country that lives within its means*: Spending Review 2015,* July 2015, Cm 9112, paragraph 4.9
5 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/433440/150608_Committee_list_for_publication.pdf
6 A country that lives within its means*, Spending Review 2015,* page 20

2 The FCO and the 2010 Spending Review

6. Savings of 25%, let alone 40%, are going to be very demanding for any Department. Similar scenarios were invited by the Treasury from Government departments as part of the 2010 Spending Review process. In the event, the average reduction in departmental resource budgets over the four years was 8.3%, although in some cases the reduction was significantly higher (29% at the Department for Environment, Food and Rural Affairs) and in others rather lower (3.4% at the Department for Education); and some areas of spending were protected and benefited from real growth in budgets. The reduction imposed on the Foreign and Commonwealth Office for the four-year period ending in March 2015 was overtly at the higher end of the range, at 24%.[7] Apparent savings of 24% disguised the true level of savings thought achievable within the Department's operational expenditure.

7. Most (14%) of these savings came from transferring the budget of the BBC World Service to the BBC Licence Fee. After the transfer of funding for the BBC World Service is taken into account, the real savings imposed on the operational part of the FCO were 10%. These were painful enough to achieve in the current unpredictable and demanding global context and security environment.

8. The Foreign Secretary pointed to the 2010 experience and suggested that initial pitching by the Treasury should be regarded as "aspirational" and as "a ranging shot", but he was clear that Departments collectively would have to make double-digit percentage savings.[8]

9. The assessment of the predecessor Committee in the last Parliament was clear: "The next Government needs to protect future FCO budgets under the next Spending Review".[9]

7 Spending Review 2010, Cm 7942, Table A.5

8 Evidence taken on 21 July 2015 on Foreign policy developments*: July 2015, Q3*

9 Ninth Report from the Foreign Affairs Committee, Session 2014-15,HC 605, paragraph 47

3 Challenges facing the FCO in the 2015 Spending Review

10. We identify four areas relating specifically to the FCO, which the Treasury must take into account before reaching final decisions on departmental settlements in the Spending Review.

1: Limited scope for efficiency savings

11. The FCO's resource budget in 2014–15 was £1.7 billion — smaller than that of any other Government department apart from the Department for Energy and Climate Change, the Department for Culture, Media and Sport, and the Law Officers' Departments.[10] Much of this is actually the FCO element of the Conflict and Peacekeeping funding pools, shared with the Ministry of Defence and the Department for International Development. In effect, the FCO core budget is actually £1.3 billion; but it would be misleading to treat even £1.3 billion as the baseline when assessing scope for further savings. As Sir Simon McDonald, the new FCO Permanent Under-Secretary, told us, part of the budget is for expenditure which qualifies as Overseas Development Assistance and therefore scores against the commitment to spend at least 0.7% of gross national income on overseas aid; and a further sum is the cost of FCO support for UKTI activities, which will now be accounted for under the UKTI budget settlement. So the figure from which the FCO would need to start when implementing any savings would be significantly lower than £1.3 billion. Sir Simon told us:

> The two main figures under discussion are £682 million, which includes £77 million of non-ODA international subscriptions, and £605 million, which removes those subscriptions. If we are looking to reduce, it is on one of those two figures.[11]

12. We asked the Foreign Secretary how he envisaged making spending reductions of the order suggested by the Treasury without significantly reducing the size of the diplomatic network. He saw scope for further efficiencies, while acknowledging that substantial savings had already been made;[12] and he appeared to see it as a badge of honour that the FCO's budget was 25% lower than that of its French equivalent while the two networks were roughly comparable in size.[13] That may indeed be an indicator of greater efficiency, but it cannot be assumed that diplomatic and policy-making capability is equal.

13. The Foreign Secretary set out his views on which aspects of the FCO's operations deserved protection:

10 Budget 2015, HC 1093, Session 2014-15, Table 2.5. Figures are for Resource Departmental Expenditure limits excluding ring-fenced depreciation.

11 Evidence given on 15 September 2015, Q2

12 Evidence given on 9 September 2015, Q73

13 Evidence given on 9 September 2015, Q73. Size is comparable in terms of number of posts but not in terms of staff: see page 6 of the FCO Annual Report and Accounts for 2014-15. Figures compiled by the House of Commons Library in early 2015 indicate that the difference in budget is rather smaller if aid spending is stripped out. On that basis, the budget for the French foreign ministry in 2015 is equivalent to £2.3 billion, compared to £2.18 billion Total Managed Expenditure outturn by the FCO in 2013-14. See *The FCO's performance and finances in 2013-14, Ninth Report from the Foreign Affairs Committee, Session 2014-15,* Table 3 and footnote 18.

> We also have to look at lower priority activity that we would be prepared to sacrifice without inflicting serious damage on the output of the organisation. That comes to a question of priorities. To answer your specific question, I used the phrase "crown jewel", and I will use it again today. The network, in my view, is the crown jewel - or there are two crown jewels in the Foreign Office: there is the network and the policy brain. The ability to maintain the network at its current level and to sustain that in the future, and the ability to have a sufficient density of policy-making capacity here in London so that we can lead the foreign policy-making process across Government and beyond are the key to the Foreign Office's raison d'être. Everything else is subordinate in my view to those two priorities. One thing that we will do is look at how, in any given outcome scenario of the spending review, we would manage its impact in a way that protected the network and protected the central policy-making capability.[14]

The Foreign Secretary told us that in his view "we are pretty close to the irreducible minimum of UK-based staff on the network".[15]

14. We invited the Permanent Under-Secretary (Sir Simon McDonald) and the Chief Operating Officer (Deborah Bronnert) to say where cuts might fall if both the network and the policy brain were to be preserved. Sir Simon said that the FCO would be looking at efficiencies and, beyond that, "support functions in the FCO".[16] He later added that "the logical conclusion of protecting the network and having to reduce is that such reductions that have to take place will be at home".[17] Ms Bronnert talked about how the FCO might bear down on "the operations side".[18]

15. The intention of the Foreign Secretary to protect the FCO network and the Department's policy-making capability is welcome. However, we doubt that a reduction could be borne by "support functions" simply through efficiencies. The nature of the FCO and its work makes it unsuited to forms of rationalisation which are open to other departments. The FCO's diplomatic estate, for example, is extensive but necessarily so; and the main benefit of any sales would in any case accrue to the capital budget rather than the resource budget, which is the focus for the Spending Review. Likewise, whereas many Government departments use a cross-Government shared service centre for payroll and human resources support, in the interests of economy, the FCO's security requirements make participation in a centralised and shared venture unsuitable.

16. The Department could choose to cut back on investment in other assets or support services, but here again its scope is limited. The FCO acknowledges that its IT system, Firecrest, is "ageing" and "increasingly failing to meet current requirements", and that it poses a serious operational risk. The Management Board has considered options for scope and affordability of a three-year replacement programme.[19] The FCO cannot afford to delay that replacement.

14 Evidence given on 9 September 2015 on Foreign policy developments: September 2015, Q73
15 Evidence given on 9 September 2015, Q74
16 Evidence given on 15 September 2015, Q3
17 Q17
18 Q8
19 Letter from the Permanent Under-Secretary to the Committee Chair, 27 July 2015: Quarterly Management Updates, January to July 2015

17. It appears that part of the savings target will be met by the British Council losing grant-in-aid to fund operations in countries where per capita income is too high for such funding to qualify as ODA-eligible. The Foreign Secretary told us that "where we will probably end up…is with a British Council that does not receive non-ODA grant-in-aid but receives more grant in total from the Foreign Office".[20] In 2015-16, the British Council's funds for activities "which are not directly contributing to international development" amount to £51 million.[21]

18. To a degree, this mirrors the BBC World Service funding change in the previous Parliament, when budget responsibility was taken on by the BBC, as the British Council will now have to take on responsibility for programmes in non-ODA-qualifying countries. British Council programmes in these countries will in future be funded by finding efficiency savings in their other programmes and from profits on their paid-for services. However, this change is not cost-free to the UK. The British Council plays a unique and indispensable role in promoting relationships between peoples and the UK that are the foundation of relationships between states. Cuts to the British Council's funding will inevitably weaken our soft power and cultural presentation in target growing economies and countries or regions with high priority political and human rights concerns, such as Russia and the Gulf.

19. The savings accruing from taking the non-ODA British Council expenditure off the FCO's books appear to be of the order of only £40 to £50 million (about 6% of an FCO budget baseline of £682 million), compared to £238 million scored as savings in 2010 from the transfer of BBC World Service funding.

2: The FCO's role in policymaking

20. The FCO needs to be equipped to re-assert its leading role in foreign policy-making, as restated by the Foreign Secretary. Towards the end of the last Parliament, our predecessors noted a wealth of evidence to demonstrate that the FCO's capability to undertake core work — gathering of information, and analysis of that information to support policymaking — had dipped in recent years, despite being a priority. They concluded that the scale of the cuts required from the FCO under the 2010 Spending Review had been excessive and had resulted in damage to the institution. They said: "to impair the FCO's analytical capacity for the sake of a few million pounds could be disastrous and costly".[22] We believe this had already been operationally evidenced before 2010 by failure in managing the outcome of the crises in Iraq and Afghanistan, but more recent operational failure now includes Libya, Syria, and Russia/Ukraine.

21. The Foreign Secretary acknowledges the general point on FCO capability. When we asked him whether the process of re-energising the FCO and putting leadership of foreign policy-making back into the department had been completed, he replied:

> No, I think it is a work in progress. The architecture across Whitehall since 2010, with the creation of a National Security Council and a National Security Secretariat, makes it more complex. I think the arrangements are working

20 Evidence given on 9 September, Q81
21 British Council Corporate Plan 2015-17, page 76
22 The FCO's performance and finances in 2013-14, *Ninth Report from the Foreign Affairs Committee, Session 2014-15, paragraph 44*

> well, but the Foreign Office is focusing resource and effort on rebuilding the core capabilities—the core competencies—that allow it to own that process. You own a process not by bidding for it but by consistently showing that you have the capabilities to do the work required.[23]

22. The FCO is rightly setting about remedying the shortfall in language skills while promoting and developing diplomatic skills through the new Diplomatic Academy; but there is still quite some way to go. The distance yet to be travelled in bringing language skills up to standard was evident from recent figures for "Target Level Attainment"—the term used by the FCO for the percentage of 'speaker slot' posts[24] occupied by someone possessing the specified level of proficiency in the required language. Our predecessors were alarmed to find in November 2014 that average Target Level Attainment across all FCO posts was just 38% and that in key regions it was lower still: 28% in FCO posts in the Middle East and North Africa and 27% in Russia and Eastern Europe. Figures supplied by the FCO in September 2015 show a small overall increase in Target Level Attainment, to 38.6%; but in the key regions attainment has actually fallen, from 28% to 27% in FCO posts in the Middle East and North Africa, and from 27% to 23% in Eastern Europe and Central Asia.[25] The FCO expects to see an improvement in these figures as more and more staff complete their studies in the FCO Language Centre and move into overseas roles.

23. Alongside the restorative work, there is the distinct prospect of compulsory redundancies among UK-based staff working in the UK,[26] as well as hints of future cutbacks in subordinate posts,[27] which do not bear out the Foreign Secretary's desire to give priority to the network.

3: Maintaining Human Rights as a priority

24. We are disturbed by the new Permanent Under-Secretary's statement in evidence that human rights was "not one of the top priorities" and that "in a constrained environment, the need to concentrate on Europe, eastern Europe and Russia has supplanted it to an extent". We believe this to be a consequence of the savings imposed so far on the Department.[28]

25. This is particularly disappointing after the progress made under the previous Foreign Secretaries, including William Hague who promised in 2011 that there would be "no downgrading of human rights", as "it is not in our character as a nation to have a foreign policy without a conscience, and neither is it in our interests".[29] We wholeheartedly share the concerns of NGOs such as Human Rights Watch, whose UK director, David Mepham, commented: "This unwillingness to fully champion rights and fundamental freedoms

23 Evidence given on 21 July 2015, Q2

24 Each "speaker slot" carries a requirement for facility in that language to a specified level. That might be at "confidence" level, at which someone would be able to deal confidently with routine everyday issues in the local language, or at a higher "operational" level, roughly equivalent to degree level, or at "extensive" level, representing the most advanced level of fluency. Following a review at some point between November 2014 and February 2015, the FCO decided to abolish speaker slots at "confidence" level, having concluded that it did not give the speaker a significant level of impact or influence at Post.

25 See letter of 30 September 2015 from the FCO on FCO Budget and Capacity

26 Evidence given on 15 September, Q12

27 Evidence given on 9 September, Q77

28 Evidence given on 15 September 2015, Q 10 and 11

29 See https://www.gov.uk/government/speeches/there-will-be-no-downgrading-of-human-rights-under-this-government

runs counter to the best traditions in this country's history and weakens the UK's global standing and influence."[30]

26. Whilst the Government may choose to force the FCO to downgrade human rights as a priority by imposing severe spending reductions, this Committee believes in the ongoing importance of promoting human rights, will continue to scrutinise the FCO's work in this area, and expects the Government to properly resource it.

4: Lack of coherence in cross-departmental funding

27. Foreign policy underlies the priorities of other Government departments, notably the Ministry of Defence and the Department for International Development. Our geopolitical and trading interests are served by stability and prosperity and not by security vacuums or by conflict. Diplomacy, military force and development support can all play a part in helping to preserve those interests. As the Foreign Secretary himself told us, the distinctions between military capability, intelligence agency capability, diplomatic capability and capacity — building through development budgets and programmes are "becoming more blurred at the edges".[31]

28. The machinery of government needs to respond to this blurring of distinctions between the roles of different departments, and steps have been taken to provide that response. The National Security Strategy is intended as a more holistic and integrated approach to creating and maintaining conditions at home and abroad which serve the country's interests. Likewise, some of the funding to support the aims underlying the National Security Strategy is pooled in the Conflict, Stability and Security Fund, worth £1.033 billion in 2015–16. Under the departmental allocations from the Fund in 2015-16, the FCO will receive £738.8 million, the Ministry of Defence £191.5 million, the Department for International Development £59.9 million, and other departments and agencies £42.81 million.[32]

29. The resource budgets of the three departments concerned, combined, total approximately £38 billion in 2015–16.[33] Yet while the budgets of the two larger-spending departments will both be protected in the Spending Review, that of the Foreign and Commonwealth Office, which amounts to less than 3% of the combined total, is to be exposed to the full force of the cuts to be imposed by the Spending Review. The three departments are striving towards a common purpose whereby the FCO is responsible for the analysis which is the foundation of policy by the Ministry of Defence and the Department for International Development to secure the UK's interests overseas, and many of the platforms from which this policy is delivered. As far as our national security is concerned, it is beyond irresponsible to treat FCO expenditure as the only unprotected department in this group. It was described to us as "madness" by Charles Grant, Director of the Centre for European Reform.[34]

30 http://www.independent.co.uk/news/uk/politics/human-rights-are-no-longer-a-top-priority-for-the-government-says-foreign-office-chief-a6677661.html

31 Evidence taken on 21 July, Q7

32 Letter of 30 September 2015 from the FCO on FCO Budget and Capacity

33 See Budget 2015, HC 1093, Session 2014-15, Table 2.5. Figures exclude ring-fenced depreciation

34 Evidence given on 20 October 2015, on *Costs and benefits of EU membership for the UK's role in the world, HC 545, Session 2015-16*

30. We challenge the statement by the Foreign Secretary that the most important measure by which the UK's international partners judge us is our willingness to invest in our defence.[35] The UK is probably more valued internationally according to its ability to help resolve active or potential conflict through diplomatic means. The fact that our diplomacy is reinforced by a deployable defence capability gives it unique weight.

31. Furthermore, the FCO's expenditure and its allocation of Grant in Aid to public bodies are increasingly driven by the criteria which determine whether spending may count as official development assistance (ODA) expenditure[36] and thereby score against the Government's commitment to invest at least 0.7% of gross national income in international development. When we asked the Foreign Secretary whether there was a risk that a reliance ODA-eligible funding to fund aspects of the FCO's work might not shift the focus and priorities of the Department, he replied

> It clearly means that we can only bid for ODA funding to do things in ODA-eligible countries. It's a new stream of funding available to the Foreign Office, to address the priorities that we find in ODA-eligible countries. And many of the challenges that we are dealing with, particularly conflict and stability-type challenges, present themselves in ODA-eligible countries.[37]

32. Deborah Bronnert, Chief Operating Officer at the FCO, told us that the FCO's non-ODA budget was under particular pressure and that the FCO would need to look first to subordinate posts in developed countries — which are not ODA-eligible — if there was a need to make cutbacks in the network.[38]

33. This Committee is deeply concerned that funding to non-ODA eligible missions in high priority regions such as Russia, the Gulf, and the European Union is under pressure. The Foreign Secretary outlined the challenge of "responding to Russia's more aggressive stance towards the international community" and "thinking outside the box in responding to Russia's innovative approach to warfare".[39] In the Gulf we currently face the necessity of building a comprehensive international strategy to defeat violent extremism, most notably manifested in ISIL, and our ability to promote human rights is particularly tested. In the EU we are navigating the ongoing diplomatic efforts of renegotiating the UK's membership, and we face the possibility of managing a major strategic change after the referendum. Leaving the EU would require a significant increase in diplomatic expenditure, not only to manage the exit, the negotiation of scores of new treaties, and the presentation of a new global role for the UK. In any event, the FCO will also have to absorb the short-term pressure of the UK presidency of the Council of the EU in 2017.

35 Evidence given on 21 July 2015, Q4

36 Official Development Assistance (ODA) is an international definition of aid which is set by the Development Assistance Committee (DAC) of the OECD. Expenditure can be considered ODA-eligible if it is publicly funded, promotes economic development and welfare in the recipient country as the main objective, and is delivered in an ODA-eligible country, defined by the OECD as a country with a Gross National Income lower than $13,000 per capita.

37 Evidence given on 9 September, Q83

38 Evidence given on 15 September, Q21

39 http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/foreign-affairs-committee/foreign-policy-developments-september-2015/oral/18775.html

34. This is quite apart from responding to the rise of China and serious consequent security instability in the Far East. We cannot recall a more complex and challenging policy making environment in recent decades.

35. The lack of coherence and clarity over sources of funding was apparent in evidence on FCO funding.[40] However, we have sympathy for senior officials trying to make sense of this complexity. The Conflict, Stability and Security Fund acts more to disguise the overall failure to budget holistically around the delivery of national security objectives, and this makes the task of producing a coherent policy framework involving all of the resources of the FCO even more challenging.

36. Another area of cross-departmental funding is the promotion of exports as a key part of the prosperity agenda. The Government set a target in March 2012 to "more than double" annual exports from the UK, from £488 million to £1 trillion by 2020.[41] But exports actually decreased from £516 billion in 2013 to £508 billion in 2014,[42] and the UK is likely to fall well short of the 2020 target. Cuts to the FCO's capacity are likely to make performance worse not better.

40 Evidence taken on 15 September 2015, starting at Q22
41 *Budget 2012*, HC 1853, Session 2010-12, paragraph 1.228
42 FCO Annual Report and Accounts for 2014-15, page 17

4 Conclusion

37. We believe that it would be a false saving to impose cuts on the Foreign and Commonwealth Office in the 2015 Spending Review. Given the size of the FCO's budget, any savings made would make a minimal contribution to reducing the deficit; and they would have a disproportionate impact on the ability of the FCO to do what it was established to do, as has been evidenced in the last five years. Progress in restoring its policy-making and diplomatic capability would be reversed; and the ability of the FCO central machinery to support its core diplomatic function would be put at risk just at a time of unusual international turbulence and when diplomatic skills are required more than ever.

38. In an increasingly unstable world, the Government relies on the FCO to have the necessary infrastructure in place so that it can make critical decisions at a moment's notice. Over the last Parliament the country was found to be lacking in expertise, analytical capability and language skills to manage the fallout from the Arab Spring and the crisis in Ukraine. In 2010 it might have been thought that expertise on Benghazi, Donetsk, or Raqqa was surplus to requirement. These have become vital areas for our national security, evidencing the real dangers of an under-funded Foreign and Commonwealth Office in an increasingly unpredictable world.

39. In a letter to *The Times* on 6 October 2015, Sir Simon Fraser, the former Permanent Under-Secretary at the FCO, pointed to the savings which had been made over the last five years but warned that "elastic only stretches so far". He described the Treasury's requirement for a further cut of 25% or more as "neither coherent nor wise". Others go further. Charles Grant, Director of the Centre for European Reform, told us that

> Whether or not we are in the EU, we have to recognise that the Foreign Office is a Rolls-Royce machine. It is extremely professional—for example, the way it has handled nuclear diplomacy with Iran. We should value, respect and cherish the institutions that enhance our reputation around the world, such as our armed forces, the BBC and the Foreign Office. I am sad to see the damage done to the Foreign Office by cuts made by successive Governments—not just the current Government—in recent years . To cut it significantly further would in my view be madness.[43]

We agree. ***We recommend that the Treasury protect the FCO budget for the period covered by the 2015 Spending Review, with a view to increasing rather than cutting the funds available to support the diplomatic work on which the country's security and prosperity depend.***

43 Evidence given on 20 October 2015, on *Costs and benefits of EU membership for the UK's role in the world, HC 545, Session 2015-16*

Formal Minutes

Tuesday 20 October 2015

Members present:

Crispin Blunt, in the Chair

Mr John Baron
Stephen Gethins
Daniel Kawczynski
Yasmin Qureshi
Nadhim Zahawi

Draft Report (*The FCO and the 2015 Spending Review*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 39 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That the letter dated 30 September 2015 from the Permanent Under-Secretary at the FCO to the Committee, answering questions arising from the oral evidence session on FCO Budget and Capacity on 15 September 2015, be reported to the House for publication on the internet.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 27 October at 2.30 pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the Committee's inquiry page at www.parliament.uk/facom.

Tuesday 15 September 2015

Question number

Sir Simon McDonald, Permanent Under-Secretary, **Deborah Bronnert,** Chief Operating Officer and **Iain Walker,** Finance Director, Foreign and Commonwealth Office — Q1-117