The Institute for Statecraft

Private Report. The Challenge of Brexit to the UK: Case study – The Foreign and Commonwealth Office

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Understanding the world in which we must operate today and tomorrow

50 years ago, only about one third of UK Government spending went on health, education, social security. Today that figure is about two-thirds, leaving only one third for spending on *everything* else, including defence, foreign affairs, national infrastructure etc. (see graph at annexe) If we consider that foreign affairs or defence need more investment to strengthen their capabilities and capacity, either specifically for Brexit or more generally, then the first challenge is to change public expectation so that the trend of the past two generations can be reversed and funding transferred to the FCO & MOD. If this solution is considered too difficult politically at the moment, then the only other option is to find a radically different way to do foreign affairs and defence.

Our problem is that, for the last 70 years or so, we in the UK and Europe have been living in a safe, secure rules-based system which has allowed us to enjoy a holiday from history. The end of the Cold War reinforced both this perception of permanent safety and stability and the trend in Government spending depicted in the graph at annexe. This "peace-time" mentality has been reinforced by "peace-time" procedures, rules and regulations across society. All this is now considered normal and permanent by the bulk of the population and by public administrators, in both London and the regions.

The new paradigm of global conflict and competition

Unfortunately, this state of affairs is now being challenged. A new paradigm of conflict is replacing the 19th & 20th Century paradigm which has shaped not only our (Western) thinking about peace, war and competition in international relationships, but all our national and international institutions for dealing with these phenomena.

In this new paradigm, the clear distinction which most people have been able to draw between war and peace, their expectation of stability and a degree of predictability in life, are being replaced by a volatile unpredictability, a permanent state of instability in which war and peace become ever more difficult to disentangle. The "classic" understanding of conflict being between two distinct players or groups of players is giving way to a world of Darwinian competition where all the players – nation states, sub-state actors, big corporations, ethnic or religious groups, and so on – are constantly striving with each other in a "war of all against all". The Western rules-based system, which most westerners take

for granted and have come to believe is "normal", is under attack from countries and organisations which wish to replace our system with theirs. This is not a crisis which faces us; it is a strategic challenge, and from several directions simultaneously. We cannot deal with this by using the crisis management tools we have relied on to solve our problems for the past quarter-century. This needs us to develop a strategic response.

The biggest challenge this paradigm shift brings to our way of thinking, to our national institutions, and to our long-established practices and procedures, is the speed and depth of global change which it brings with it. If we can understand that, in societal terms, one of the defining features of war is that it precipitates change, then to all intents and purposes the world is at war, because we are living through a period of change more widespread, rapid and profound than we have experienced during the last two centuries outside a world war. Moreover, this change has been sustained longer than any world war of the last two centuries, and it is still increasing. But because this is not a shooting war like 1939-45, we in "Western" countries have not adopted the "wartime mentality" essential if we are to cope with the instability which drastic change inevitably brings. We are now trying to cope in a wartime situation but with a peacetime mentality, peacetime institutions and peacetime procedures shaped by the last 70 years of living in a stable, secure, rules-based environment. We have also, quite naturally, selected our leaders for their abilities to shine in this "peacetime" environment. But "wartime" rates of change need a different form of leadership, just as they need different procedures and new ways of thinking. We are facing a new reality.

If the institutions of the West have been slow to react to this new reality, not so a lot of the West's competitors. Countries in what we condescendingly call the developing world; countries like Russia and China; sub-state actors like Al Qaeda or Islamic State; all have learned more rapidly than we have how to cope with today's instability, complexity and rapid change. They are presenting us now not with a crisis, which will pass, but with a strategic challenge, which we are not matching up to because we are trying to deal with it tactically. These countries and organisations want to set up their own alternative world system to rival ours. We are today in a constant, existential competition with these and all other actors in the global ecosystem, be they nation states, sub-state groups or big corporations. Our success in this competition will be guaranteed only if we learn to cope with change as they have and, like them, think and plan on a long-term basis.

The implications of rapid global change for our national institutions

The truth we must face up to is that the speed of global change has outpaced all our national and international institutions. They are now becoming obsolescent. They have been unable to react and adapt fast enough to remain fit for purpose. Problems are often recognised but the fundamental cause is not, and the system resists change due to inbuilt vested interest and inertia, and career progression in these bodies based upon the

continuation of the same ethos. It is just too much effort to change and, with peacetime mentalities and procedures, it just does not matter enough.

This inability to recognise the problem we have and acknowledge its cause, i.e. our inability to adapt our institutions because they have become so strong and inflexible, is paralysing our social, economic and political system. It applies in government even more than it applies in the corporate boardroom. Professor Leon Megginson, interpreting Darwin in societal terms (and in a quotation often attributed to Darwin himself), put it most succinctly: "*It is not the strongest of the species that survives... It is the one that is most adaptable to change".*

Now, we should be learning from our failures, but we are not, because today we only record lessons, we do not learn from them and amend our procedures and our institutions as we should. Institutional resistance to change is just too strong; political correctness too widely enforced; "Performance Management", with its corrosive ideology of self over team spirit, is just too entrenched. As a result, we are now in trouble.

The qualities we now need in our public servants

So, if we consider what qualities and characteristics we need in those whom we select for leadership today, in a period of rapid and profound change, in all sorts of institutions – government departments, big companies, the NHS - the conclusion is that we need to look for people who have abilities that suit a wartime environment[1] rather than a peacetime one.

In each case, the qualities we need are not a straight choice between clear alternatives, not exclusively one thing or the other. Rather, think of a cursor on a line between two related qualities, and moving the cursor along the line so that it is closer to the wartime position than to the peacetime.

The first quality requires a change in the balance between training and education. In peacetime, we can maximise on training, because we have slow development. In a period of slow change, experience is our best help. So, we ask for proof of everything. Evidence-based policy is what we think we need. Best practice is revered. All these have a value, of course, but all are based ONLY on the study of the past. At a time of slow change this can

[1] A good example is Vladimir Putin. Putin and his colleagues in the Kremlin are not politicians in the Western sense. They are intelligence or military officers who bring that mentality, values and practices to the running of the country. With his KGB background and exposure to the corrupting influence of money in E Germany, combined with his cleverness, ruthlessness and ambition, Putin rose to the top during the turmoil, vicious free-for-all and extreme violence that characterised Russia in the 1990s. This process of natural selection rewarded his "wartime" mentality – his ability to deal with complexity, instability and uncertainty. Compare his ability to achieve his policy objectives in today's turbulent international system with that of many Western leaders, and his willingness to use all forms of power in pursuit of his aims. Putin needs a "wartime" environment if he is to thrive. He has not hesitated to create such an environment when it suits him.

be sufficient. But at a time of rapid change, this is like driving down the M6 and steering by only looking in the rear view mirror.

Today, we need to move the cursor along the line away from training, towards education. Training is still necessary, but education becomes proportionately more important than before. Education differs from training in that it prepares people by enabling them to distil principles to guide their actions, so that they can use an understanding of things to deal with the unexpected; because that is exactly what wartime rates of change will bring - the unexpected, the unthinkable, the unpalatable. In periods of rapid change, we will be faced with the unpredictable. It will surprise us.

The second quality concerns management. In times of slow change we can *manage* everything. We can give in to the desire to *control* everything. But at times of rapid change, we cannot do that. We need to move the cursor along the line away from management towards leadership. Of course, we will always need management. But it needs to be the right form of management appropriate to the need to adapt to rapid change, cope with unpredictability and respond to being surprised. This is a far cry from the meaning most organisations and businesses give to management today, which in reality is 'administration'. To deal with a situation of rapid change we also need leadership. *Leadership* understands that in a period of tumultuous change you cannot *control*, you have to *command*. To command means to trust and to delegate, because there is never time to monitor and check up on everything.

The third quality is risk. In peacetime we become risk-averse. Everything has to be failsafe. But in times of war or in times of rapid change, we need a system that encourages us to take risk; that allows us to make mistakes and learn from them. We have to create an environment for staff where it is safe to fail and try again. This means we must move the cursor along the line away from "error and trial" towards "trial and error".

The fourth quality is effectiveness. Peacetime forces us to be *efficient*. It forces us to plan long term, to tie everything up for a long time so we have no reserves. But in wartime, that leads to disaster, because it means we are no longer flexible and cannot respond to a surprise or when things take a bad turn. It is the same in business and government during today's rapid change. Think of investments tied up long term. Think of just-in-time-delivery, which gives supermarkets and filling stations only 2 days' reserves. No flexibility results in failure.

In wartime, or at a time of rapid change, we must have a clearly articulated, long term strategic vision and clear objective. Simply put, we need to know where we want to go in the world; what our interests are; what values do we want to protect. Without that, short term thinking can lead us astray. "*Tactics without strategy is just the noise before defeat*", to

quote Sun Tzu. But guided by that strategic understanding, we have to be able to think and act very short term indeed. For that we have to create a big reserve of people, time and money, so we can adapt quickly and react quickly, so we are not so vulnerable to disruption. With our short term flexibility coupled with long term vision and a clear view of the goal we can still keep going in the right direction, even if we have to zig-zag. Strategy is not "having a big, detailed plan". Strategy is being able to adapt and react, to take advantage of a situation.

Strategic vision and adaptability

All the above means that institutions in wartime or in periods of rapid change MUST operate differently from how they do in peacetime if they are to survive and flourish. The hierarchical structure of an organisation in peacetime is usually very different from in wartime. In wartime, the qualities by which people are judged for promotion are very different. Expertise is prized more than age or rank; readiness to confront a problem frankly more than political correctness.

This is not necessarily an issue of too many "yes men", i.e. of a failure to challenge the leadership which, it is often assumed, is the peacetime norm. It may well be quite the opposite, i.e. an organisation in which younger staff have not been able to adapt in the way their leaders have learned to do. These younger people will not say *yes*, rather they will oppose the innovator and stop them doing the drastic, necessary thing, saying instead: 'No, we think you should go the old way. We don't think you should change so quickly'. This is a question of understanding people's ability to take risk, to be imaginative, to be creative, to turn old tools to new tasks.

If we now apply the above analysis to the Civil Service in general and to the Foreign and Commonwealth Office (FCO) in particular, the challenge these institutions now face looks quite daunting. The FCO is arguably the most important government department for guiding the UK through a rapidly changing, volatile international environment, advancing our national interests and ensuring that, through maintaining our national competitive advantage, we can establish a favourable position in the new global system.

The practical challenges

Government, and the object of our case study, the FCO, now face two large scale challenges which, whilst closely linked, need to be understood and dealt with as distinct issues. The first challenge is an issue of governance – managing strategic change in the absence of a formally articulated national strategy and governmental process of strategic thinking. The second challenge will determine the health of our national capacity for statecraft – how to create a FCO which has the capability and capacity to strategize continuously.

The FCO must now fulfil several complex functions simultaneously. It must:

- Run the UK Foreign Policy in the current situation of UK still a member of the EU
- Determine what the UK's new situation ("wiring") should be in the world outside the EU, (this will need alternative options)
- Create the most advantageous of the possible situations
- Transit to that situation, adapting to changing circumstances with as little degradation as possible

To undertake these tasks successfully, size matters. Since 2010 FCO has lost 25% of staff and 20% of its budget and, on current trends, this latter figure will be 46% by 2020. This may not be a realistic expectation. The FCO, as other Government Departments, will need to rebuild the competencies which the UK Civil Service has lost over the years through the gradual transfer of authority and governance to Brussels. This will need a significant number of additional people with a high level of expertise and a budget to select, pay and house them. Given that the policy of the last few Governments has been to reduce the size of the Civil Service, this will be a challenge. Whether these new recruits will be temporary or permanent appointments will also need to be clarified.

The FCO's tasks need to be planned and implemented as an element of a major change management programme to affect the whole UK governance process. Currently, about two thirds of our laws come from the EU. These laws will now need to be reviewed, rewritten and discarded as deemed appropriate. All this, we must keep reminding ourselves, needs to be done whilst keeping the current system running and protecting the UK's interests in a complex, volatile world in which our opponents and competitors are actively seeking to exploit our vulnerabilities and undermine our institutions.

The problem of strategy

It is the above factors which make the UK's loss of its capability and capacity for strategic thinking such a serious hindrance. Strategy is a much misunderstood issue which has been addressed in earlier papers. Suffice here to note that it must not be confused with a plan. Its main feature is the ability both to manage threats and to recognise opportunity and exploit or create it. To devise and implement a national strategy needs a *system* – people, mechanisms, procedures, resources, tools. Strategy is not just an issue of the skill of a brilliant individual.

However, successive Governments have been reluctant to have a national strategy because it was seen (erroneously, in my view) as questioning the policy of linking the UK to the EU (for economic issues) and the US (for defence). A national strategy was also seen as undesirable because by definition it would constrain a government's ability to do things for the sake of political expediency.

The result, as we have already alluded to, has been the delegation of responsibility for strategy to the US & EU. However, the EU has not yet been able to develop a coherent strategy process, despite the strategic impact of its economic activity. Its efforts to build a strategy process are still almost entirely focused on its *internal* structure and functions. The migration of talented people from the UK (and other member states) to the EU civil service has not had the beneficial impact on the EU's strategy-making process which it should have, given the high quality of the individuals concerned, because of the dysfunctionality of that very process.

The shrinkage of the UK's governmental competencies has been exacerbated by a sentiment, prevalent in some parts of Whitehall, of the prime function being to manage the UK's decline. This in turn is compounded by a conviction on the part of some officials that the UK should not even strive to maintain a capacity for action independent of the EU. The resultant loss not only of expertise but also of ethos is today particularly evident in the FCO, a loss bemoaned in private by many senior ambassadors.

A further point affecting the FCO specifically has been the loss of the tools of international development. The creation of DfID as an independent Department, with different objectives from the FCO and its consequent development of a different ethos of operation, deprived the FCO of its most important tool of influence. An assessment of the effectiveness of DfID itself, and of the appropriateness or otherwise of the metrics by which its performance is judged is beyond the scope of this paper. But its separation from the FCO seriously degraded the focus and impact of the UK's foreign policy.

Practical Security Implications

An often overlooked fact is that many of our Embassies are more than the sum of all their parts. As the FCO has retreated in a number of areas with regards to the support they are able to offer "guests" based in the Embassy (for example the National Crime Agency Liaison Officers, Military Attaches, MI6, etc) these other Departments have also suffered with concomitant reduction in their access, influence and ability to deliver their own aims and objectives! As a result, the overall performance of UK Plc has been severely hampered even further. No alternative is in sight and the progress made against serious crime in recent years will continue to suffer.

By its very nature serious organised crime is an international problem - very many of the serious organised crime threats in the U.K. have their origins overseas. This includes the flow of Class A drugs and firearms; human trafficking; illegal immigration; child exploitation; identity theft; cyber crime; the rising prevalence of certain frauds; money laundering and corruption. Furthermore, as technology evolves, international criminal activity has become increasingly complex. The serious organised crime landscape is asymmetrical. Law enforcement activity against a range of serious crime threats has become more difficult.

Opportunities to attack serious crime overseas remain good, but there is a growing - not lessening - dependence on strong relationships with the international community.

Due to budget cuts over the past 7 years the police and NCA (and other U.K. law enforcement agencies) all face massive challenges maintaining, let alone growing, their efforts against serious crime. This is particularly true in the international arena as posting officers overseas is very expensive. Senior NCA and Police officers faced with uncomfortable choices on budgets find attacking the international budget an attractive one, as they perceive there are considerable savings to be had. For example the NCA is currently thinking of drastic cuts to its overseas liaison officer network.

As we face up to the challenges of Brexit and its likely impact on collaboration on European policing and serious crime, including our exit from Europol, international cooperation is a key part of our response. It allows us to share the burden of combating the threat from serious crime with like minded and capable LEAs around the world. International cooperation gives us the opportunity of stifling the threat at source with targeted acts of intervention. Unique sources of information held by overseas partners are regularly accessed by UK liaison officers. Much of this intelligence and information would not be gathered without the strong partnerships which the FCO underpins, enabling flourishing relationships with countries around the world at different political and operational levels. The FCO are vital players in fighting serious crime and terrorism and as their capacity shrinks further, our overall effort against serious crime will suffer accordingly.

Eating the Elephant

In the light of the foregoing, serious consideration must now be given as to how to prevent, as a worst case, the collapse of the Civil Service under the pressure of such serious simultaneous challenges. Or, at best, how to prevent its getting into a long meandering process which consumes all its capacity for government and leaves it with no resources left to do the job of running the UK and maintaining our national place in this increasingly threatening world. Concluding that: “We need a few more Civil Servants” is not enough.

A rapid and at least partial solution might be to reemploy recently retired senior staff from the FCO and other relevant departments and thereby replenish the well of deep expertise and experience. The fact that current HM Treasury pension abatement rules make it particularly difficult for retired staff to come back on board could quickly be addressed if we were serious about finding a solution.

To tackle this huge, complex challenge now facing the UK, it may be best to disentangle and separate the different issues (never losing sight of their essential interconnection) and address them in turn. The most fundamental of these issues is: How will UK be governed in the near and mid-term?

Developments in Scotland, Wales and N Ireland will have a big impact on how the UK/England develops. However uncomfortable it might be to contemplate, we need to consider alternative scenarios for the future course of the devolved governments – will the current relationship survive, or will we have a federal relationship, or will some become independent? A Federal or Independent Scotland will mean a largely separate Scottish civil service. If the situation in Northern Ireland deteriorates drastically - as it might, hope or presumption making a poor basis for policy – that too will require rapid and imaginative action. We need to prepare contingency plans for several possible outcomes.

If the UK were a big company tackling such a huge and complex challenge, the first thing the company's leadership would do would be to try to identify a 'transition budget', i.e. How many x £100m is to be made available to manage the transition process. No action would be embarked upon until this had been done. The support that the Chancellor provides to underpin this whole process will therefore be decisive in determining its success.

Because a great many UK public bodies were transferred to Brussels in past years, planning will have to include the need to train and educate a lot of qualified people to undertake these essential, practical functions as they are repatriated to the UK. For example, the UK Civil Aviation Authority used to certify all UK-registered aircraft as fit to fly, a function now done by a European agency. The CAA will have to recover this task, or find another solution. The same applies to electrical standards, radio and TV, pharmaceuticals, chemicals. We will need to train a lot of people to do the testing, or outsource to industry and find a way to ensure the maintenance of safety standards. (Despite its commitment to limit government and outsource to the private sector, the US has never resorted to privatising the Federal Aviation Authority).

In terms of the responsibility for managing Brexit, it would be helpful to have a clearer idea of where the responsibilities of DEXEU end and the responsibilities of the FCO (and other Departments) start. It is important to get the operating mechanism for Brexit working as effectively as humanly possible because Brexit will not be smooth. Revolutions never are. In addition to the inevitable internal conflicts, our competitors will use our discomfiture to fight for competitive advantage over us whilst they can. The way governance in the UK has evolved over the past two decades, in particular the reduction in authority of the Civil Service, has, it can be argued, made our country much more vulnerable to lobbying and influence by external agencies, be they countries, companies or organised interest groups. Furthermore, the political volatility of today's world and the certainty of hostile attention, already seeking to undermine our national institutions, need taking into serious consideration. The evolution of politics in the US, France, Germany, and other countries which might see the election of extremist governments, may pose yet another serious international challenge for the FCO

What will the FCO be in the new world?

When we come, therefore, to think through the governmental structure which we need to pilot the UK through today's combination of global volatility, hostile competition and Brexit, we would do well to stand back and, instead of automatically seeking to reconstruct an FCO on an earlier model, assess if it would be better to explore more radical solutions. For example, how much of the FCO's job will be done by MOD, DfID, BIZ, and even our Department of Education[2]? Given that we currently have some 90,000 Chinese students in UK universities, does this mean that our educators (or, by the same measure, our international trade, etc.) have more influence on China than our diplomats? An awkward thought, but one worth considering, if only because of its implications.

Will a future FCO control or direct all the tools of the UK's external statecraft? Or will it simply coordinate the activities of those other institutions and organisations? Will it be responsible for generating as well as implementing foreign policy, or will all the main directions of that policy be determined in the Cabinet Office or No10? What can be subcontracted to the private sector and what is best done by Civil Servants with their greater degree of accountability (e.g. assess how well our current system for issuing visas to foreign visitors advances our national interests, however "efficiently" it might be administered)? What should the balance be in our Embassies of UK diplomats and locally employed staff? How should we reward different sorts of expertise; for example, should managerial expertise be more valued in a diplomat than regional or linguistic expertise? These are not trivial considerations.

The current reform being pursued within the FCO is of process. But the rethink stimulated by the Brexit challenge points to the urgent need to revive our ability for strategic thinking to guide our steps. We need to reassess our understanding of where diplomacy fits in the whole system of statecraft and governance. Under the impetus of Brexit, we have a unique opportunity to reconfigure our national institutions so that they are no longer outdated by the speed of global change but become agile and adaptable, more able to advance our national interests in an increasingly challenging world.

It would be a shame not to take full advantage of this opportunity.

Chris Donnelly

[2] The loss of the Civil Service Staff College and consequent ability of different Government Departments to understand and to communicate effectively with one another makes this discussion within Government more difficult to hold.

UK Government "Social Welfare" spending vs all other Government spending, 1983-2015

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