



FCS/03/154

CHIEF SECRETARY TO THE TREASURY

Iraq-Related Costs

1. Earlier this month I saw for myself the excellent work British staff are doing to rebuild Iraq. We are making a mark but more has to be done to generate change and set Iraq securely on its feet following the neglect of the previous regime. UK Government secondees to the Coalition Provisional Authority (CPA) are working under challenging conditions and tight security to get the Iraqi administration functioning again. This is a huge task.
2. The Special Representative and British Office Baghdad have been influential in CPA decision-making on the political process, security sector reform and strengthening the relationship with the UN. In Baghdad I met Iraqi political leaders involved in this process, including women - who will be making their mark at a pioneering Conference in Baghdad this week. Considerable efforts are still needed to drive planning on the transitional administration, institution building, economic and security reform and in establishing new bilateral political relationships. We have demonstrated our commitment to the CPA, but they need more help, particularly in the south.
3. The intense security surrounding my visit reminded me of the duty of care we have towards UK nationals working Iraq. The British Office in Baghdad is currently putting up the Flat Pack Embassy under 24-hour sniper watch. CPA secondees, DFID and FCO staff have their movements restricted due to security



concerns. We need to provide the resources required to fulfil our responsibilities to UK civilian staff working in Iraq. The long-term solution lies in restructuring the Iraqi security sector. Work has begun on policing, and in Basrah I was able to meet Iraqi officers training at the Police Academy. I was pressed for more British expertise to help mentor and train Iraqi officers. We shall have to provide this as part of our institution and security sector reform as a whole.

4. This new activity comes at a cost. In my letter of 17 February, I warned that in the event of conflict in Iraq, I would need to revert with a claim for additional costs. I estimate that total expenditure in 2003/04 on Iraq-related activity will be around £38 million. I have been reluctant to put in a Reserve claim, not least because of Gordon's strictures about the pressure on it. I have been determined that the FCO should absorb as much of this as we can and we are doing this. But I have reached the point where I reluctantly have to make a claim on the Reserve for £20,364,122 administration and £10,107,752 capital funding for this financial year. I would hope that the elements of this that represent ongoing costs could be added to the FCO's baseline in the financial year 2004/05. Assuming the worst in that the security situation does not improve by then, these could amount to £21,668,588 resource and £6,290,000 in capital (but do not include the possible costs of establishing a presence in Mosul in the North, which may be a possibility in the next financial year). Costs associated with the CPA will also continue, and I will need extra provision for them, in the 2004/05 financial year. Details are in the ... attached tables. I would of course address the issue of costs beyond that period in the 2004 Spending Review process.

5. We face a variety of commitments:

- establishing a presence in Baghdad and Basrah: both the British Offices (Estates, IT and running costs) and support for the in-country Special representative;



- support for the visits of the Prime Minister's Iraq Human Rights envoy, Ann Clwyd MP;
- the associated security costs for the British Offices and for other posts in the region (and more widely, eg South East Asia);
- establishing the Iraq Policy Unit and Correspondence Section in London;
- running the Iraq Emergency Unit, during the conflict and its aftermath;
- costs arising from the consular emergency, particularly the evacuation from Kuwait;
- Public Diplomacy work;
- the costs of a UN mission in Baghdad.

In addition, we are managing on behalf of HMG the provision of security to the Coalition Provisional Authority (CPA), and are ultimately responsible for providing adequate security to meet our duty of care towards them.

Reprioritisation

6. The FCO is absorbing a significant proportion of the costs of work on Iraq. For example, we shall make every effort to find resources through reprioritisation to fund UK staff salaries, Public Diplomacy, the Emergency Unit and costs arising from the consular emergency. Thus only parts of the first three commitments listed above will require support from the reserve, as well as additional security costs for CPA secondees.



7. We have, however, reached the limit of our ability to manage the constant new demands on our resources. And we have had to absorb a series of major additional costs in the last eighteen months - notably the continuing need to fund Afghanistan operations in Kabul and London; Iraq costs; and the costs of increased security around the world in the light of the al-Qaeda threat, heightened by Britain's role in Iraq. This has been tough: unlike many Departments, we have few large programmes that can be flexed or stopped quickly in response to new demands. Our assets, and the main call on our budgets, are people and the buildings and equipment that allow them do their job effectively. To help manage this, we have budgeted in a 5% reprioritisation of our Directorate baselines though the SR2002 period. This has required cuts into the muscle of our operation - including the closure or localisation of nearly a dozen diplomatic posts. We have also applied the limits of flexibility to the Iraq crisis - the FCO redeployed 5% of its London-based staff to work on it.

British Offices in Baghdad and Basrah

8. We have managed to get people onto the ground quickly and effectively in Iraq. The Baghdad Embassy will soon be up to full strength of eight UK-based officers. We are currently funding the usual running costs, eg, UK and LE staff paybills together with estate, communications, travel, information services and other costs by reprioritising internally. But this is not sustainable for the whole year - on top of the reprioritisation exercise already undertaken as part of the SR2002 Resource Allocation Round. I accept that UK-based salaries should be borne by us - we have redeployed, not recruited new, staff. But the capital and associated costs due to setting up and staffing a new Embassy are new unplanned expenditure, and therefore meet the criteria for a reserve claim.

9. When Iraqi central, regional and local government begins to function and the CPA role evolves into a supporting advisory capacity, there will be an

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increasing need for separate UK representation in Basrah, not least to help meet our PSA targets on reducing tension in the Middle East and counter-proliferation. We shall also need to establish a commercial and consular presence, develop local political links and continue liaison with the CPA and the UK military. The mission would also operate in support of other Government Departments' and Agencies' objectives in Basrah and the surrounding area. Our presence will build on the success of our military effort in the region and should give us a head start over commercial rivals. My target for opening an office in Basrah is December 2003, and the reserve claim covers the costs of its establishment and its running costs for four months.

CPA-related costs

10. The Prime Minister has made clear that he expects the UK collectively to achieve an exemplary effect in our military Area of Operations in southern Iraq, bringing together the political, military and reconstruction efforts. A key element in this is an effective performance by the CPA South East regional office in Basra. So far this has not been happening. We have concluded that we need to replace the Danish official in charge hitherto with a senior UK secondee to provide leadership to the CPA and act as a focal point for the UK effort, and are about to make an appointment. Raising our profile in this way will inevitably lead to support and security costs. We shall also need to make a contribution to the Governorate Teams (GTs) now being established to implement the work of the CPA across Iraq. We expect to be asked to provide the leadership for four such teams: these too will imply support and security costs.

11. Other unpredictable Iraq-related costs include the Prime Minister's Special Representative and the mission of Ann Clwyd.

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Security

12. A new, growing and directly Iraq-related call on our budgets is security for our staff. This claim covers the cost of a 13-man close protection team in Baghdad, close protection for the Prime Minister's Special Representative, and close protection for other posts in the region and more widely. CPTs also had to be deployed to Amman, Bahrain, Kuwait and Sana'a as a direct result of reports indicated a threat to our posts because of the conflict. The teams in Amman and Kuwait have now been withdrawn, but we have now had to deploy a team to Baghdad to protect the Special Representative.

13. The impact of the military action has also generated considerable additional security costs at other posts in the region and world-wide. The UK's involvement in the coalition has raised our profile and made our posts the target of attacks, threats and political protest. The fact that US missions are so well protected has often made our posts a softer target, not least because continues to show that terrorist groups regard US and UK targets as having equal value; but many of our posts have not needed additional security measures, even following 9/11. The number of Posts where our Heads of Mission are at particular risk has doubled. We have had to provide Close Protection for those affected. These requirements have meant that we have deployed twice the manpower allowed for in our Service Level Agreement with the MOD. To fulfil our duty of care to staff, we have to implement the recommendations of our Overseas Security Advisers for enhancing physical protection at a wide range of posts that have very poor defences. We cannot meet their recommendations within our present budget provision.

14. As we expand the number of FCO staff in Iraq, both in FCO offices in Baghdad and Basrah, and through secondments to CPA, the requirement for security measures to protect them will increase. Since the threat level in Iraq



remains at critical, it is essential that staff can work in a safe environment. Armoured cars, close protection, good perimeter guarding and rapid communications are all essential. We currently have British Army protection for the British compound in Baghdad, but this cannot be retained long-term. We are therefore taking forward work to contract this work commercially.

CPA Security

15. The FCO was given an additional £4.8 million to fund travel and allowances for secondments from the FCO and other Departments to the Coalition Provisional Administration during this financial year. A joint FCO/DfID team visited Baghdad and Basra earlier this month to review the security of HMG secondees to CPA and found significant weaknesses in the security. To do their jobs effectively they have to travel outside the secure zone established by the US forces in Baghdad. The rules require them to be accompanied by US military escorts, thereby making them vulnerable to attack by those who oppose the US military presence. There are not enough vehicles or armed escorts.

16. The security situation in Baghdad is now very dangerous. To meet our duty of care to staff, we need to provide armoured vehicles, armed escorts and a communication system for UK civilian secondees to CPA. This expenditure is unprecedented, unforeseen and cannot be funded by reprioritisation, nor, I understand, in part from the money we have received for CPA secondees' costs. Funding these measures will ensure that the contribution of the UK staff, which is crucial to the government's key aim of returning Iraq to stability, can continue. And I should flag up here that the CPA's work will certainly continue into the following financial year.



Iraq Policy Unit/Correspondence Section

17. We are absorbing the additional staff costs of the 22-strong Iraq Planning Unit in London. We also forecast that this unit will be responsible for overseeing significant programme expenditure, mostly to fund specific projects related to the process of creating Iraqi self-government. The FCO is also likely to need to find programme spending on environmental projects in Iraq. Again, we aim to fund all this through reprioritisation of our existing programme spend.

Emergency Unit

18. The Unit's last day of operation was 2 May, but operating costs were expensive. The figures in the table do not include UK-based staff salaries – the volunteers to staff the unit were found among evacuees from Middle East posts and through a reprioritisation of more than 5% of our staff in London. We shall meet the operating costs through yet further reprioritisation of our existing settlement.

Consular Emergency/Evacuation from Kuwait

19. The lion's share of the cost is for the evacuation flight from Kuwait. This took place at the very end of the last FY and has not yet been charged, but has accrued in a suspense account for 2002/03 that has been rolled forward to 2003/04. We are hoping that this will eventually be chargeable to the Emergency Disaster Reserve (EDR), but you are aware of the legal difficulties in accessing it. Pending resolution of these difficulties, I am not including this charge in the claim, but may need to revert if they cannot be resolved.



Public Diplomacy Work

20. These costs mostly cover the initial "hearts and minds" public diplomacy work that has already taken place – that and any further significant public diplomacy work could be funded from reprioritising existing resources.

UN Mission in Baghdad

21. We still do not know the size of the mission, or whether its costs will be put on the UN Regular Budget (UNRB), through the Peacekeeping scale, or be funded by voluntary contributions. If the costs are put on the UNRB, and are reasonable, then they could probably be met through the FCO's Departmental Reserve. The worst case could require a requirement of up to £4 million beyond existing FCO resources. In that case, I may need to revert again. But the most likely scenario is that existing FCO resources will meet our needs

22. I am copying this minute to the Prime Minister, Geoff Hoon, Valerie Amos and Sir Andrew Turnbull.

(JACK STRAW)

Foreign and Commonwealth Office

18 July 2003

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Projected additional Iraq related costs 2004/05

	Admin	Programme	Capital
Establishing the British Office and Special Representative in Baghdad	1,758,100		1,150,000
Baghdad Security	6,427,000		450,000
Basra Representation	832,173		3,725,000
Basra Security	4,814,000		500,000
CPA Security	7,420,000		465,000
Associated Security Costs for other Posts	233,335		0
Envoy on HR in Iraq	183,990		
Totals	21,668,598	0	6,290,000
	27,958,598		

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Costs subject to a Claim on the Reserve 2003/04

	Admin	Programme	Capital
Establishing the British Office and Special Representative in Baghdad	2,359,750		2,926,000
Baghdad Security	6,433,000		1,295,000
Basra Representation	515,060		1,545,952
Basra Security	3,290,000		650,000
CPA Costs (security, secure comms etc)	6,247,560		2,215,800
Associated Security Costs for other Posts	1,273,000		1,475,000
Envoy on HR in Iraq	138,000		
Totals	20,256,370	0	10,107,752
	30,364,122		

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Total Iraq Related Costs

2003/2004

	UK Paybill	LE Paybill	Other Admin
Iraq evacuation	0	0	456,019
Iraq Emergency Unit during the conflict & aftermath			125,000
Iraq Planning Unit/ Correspondence Section	303,972		465,000
Envoy on HR In Iraq	0	0	138,000
Public Diplomacy Work			0
Consular Emergency/Evacuation from Kuwait			318,000
Establishing the British Office and Special Representative In Baghdad	534,034	341,480	2,018,270
UN Mission in Baghdad			0
Baghdad Security			6,433,000
Associated Security Costs for other Posts			1,273,000
OSA security visits to Baghdad, Basra, Mosul			37,500
Basra Representation	121,530	60,600	454,460
Basra Security	0	0	3,290,000
CPA Security, Secure Comms etc	0	0	5,985,000
Totals	959,536	402,080	20,993,249

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Capital Charges	Total Admin	Programme	Total Resource	Capital	Grand Total
0	456,019	0	456,019	0	456,019
0	125,000	0	125,000	0	125,000
6,000	774,972	400,000	1,174,972	115,000	1,289,972
0	138,000	0	138,000	0	138,000
0	0	393,000	393,000	0	393,000
0	318,000	0	318,000	0	318,000
49,890	2,943,674	0	2,943,674	2,926,000	5,869,674
0	0	4,250,000	4,250,000	0	4,250,000
	6,433,000	0	6,433,000	1,295,000	7,728,000
13,000	1,286,000	0	1,286,000	1,475,000	2,761,000
	37,500		37,500		37,500
140,000	776,590	0	776,590	1,545,952	2,322,542
0	3,290,000	0	3,290,000	650,000	3,940,000
126,000	6,329,800	0	6,174,500	2,112,000	8,223,000
334,890	22,908,555	5,043,000	27,796,255	10,118,952	37,851,707

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