Presented pursuant to the Government Resources & Accounts Act 2000 c.20 s.6

Foreign and Commonwealth Office

Resource Accounts 2006-07

(For the year ended 31 March 2007)

LONDON: The Stationery Office
HC 856

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Contents

Annual Report

These accounts have been prepared in accordance with directions given by HM Treasury in pursuance of the Government Resources and Accounts Act 2000.

1. Scope

1.1 Entities within the Departmental Accounting Boundary

The Foreign and Commonwealth Office (FCO) includes FCO Services (executive agency) and Wilton Park Executive Agency within its Departmental Accounting Boundary. The accounts of these three entities are consolidated within these resource accounts. Formerly part of the FCO, FCO Services became an agency with effect from 1 April 2006 and the resource accounts disclosure formats have been revised to show Core FCO and Consolidated figures. Comparatives are given for the consolidated entity only, as on grounds of materiality Wilton Park Executive Agency accounts were previously included within the FCO resource accounts.

1.2 Associated Public Corporations and Non Departmental Public Bodies (NDPB) outside the Departmental Accounting Boundary

FCO programmes include payments to :

- BBC World Service (Public Corporation).
- British Council (Charity established by Royal Charter, Public Corporation).
- The Westminster Foundation for Democracy (Executive NDPB).
- The Marshall Aid Commemoration Commission (Executive NDPB).
- Certain other small non-departmental public bodies (NDPBs).

Further details are included in the Notes to the Accounts.

2. Management Commentary

2.1 The role of the FCO

The staff of the FCO work in the UK and in over 250 diplomatic Posts abroad. The FCO's purpose is to work for UK interests in a safe, just and prosperous world. To do that the FCO:

- develops and delivers the Government's international policies through its global network of Posts and close co-operation with other government departments.
- identifies and influences developments overseas which affect the UK's international priorities and the Government's domestic policy objectives.
- provides consular, visa and commercial services to British nationals, business and others.

2.2 FCO priorities

The White Paper "Active Diplomacy for a Changing World: The UK's International Priorities" was published on 28 March 2006. (The full document is available on www.fco.gov.uk). It analyses the changes we are likely to see in the world over the next decade and the UK's role in the international system; and identifies the international priorities for the UK over that period. The White Paper builds on the first international strategy launched in December 2003.

Following wide consultation across Government (and beyond), the following were identified in the White Paper as being the highest international priorities for the UK over the next five to ten years:

- SP 1: Making the world safer from global terrorism and weapons of mass destruction.
- SP 2: Reducing the harm to the UK from international crime, including drug trafficking, people smuggling and money laundering.
- SP 3: Preventing and resolving conflict through a strong international system.
- SP 4: Building an effective and globally competitive EU in a secure neighbourhood.
- SP 5: Supporting the UK economy and business through an open and expanding global economy, science and innovation and secure energy supplies.
- SP 6: Achieving climate security by promoting a faster transition to a sustainable, low carbon global economy.
- SP 7: Promoting sustainable development and poverty reduction underpinned by human rights, democracy, good governance and protection of the environment.
- SP 8: Managing migration and combating illegal immigration.
- SP 9: Delivering high quality support for British nationals abroad, in normal times and in crises.
- SP 10: Ensuring the security and good governance of the UK's Overseas Territories.

The FCO Board of Management is responsible for delivering the Strategic Priorities and Directors General are responsible for making progress towards individual targets. In turn, the FCO's Strategic Priorities determine objectives and business plans throughout the organisation in the UK and overseas.

The FCO's settlement under the 2007 Comprehensive Spending Review will determine the resource levels that the FCO is able to bring to bear on the longer-term delivery of these priorities.

In 2006-07, the FCO played a leading role in international peace-building efforts in Iraq and Afghanistan, led UK work to secure unanimous UN Resolutions to curb Iran's nuclear programme, and participated actively in diplomacy to promote peace between Israel and Palestine, and a durable ceasefire and stronger international military presence in Darfur. The FCO cooperated closely with other Government Departments to deliver internationally many Government policies including climate security, migration and counter-terrorism. More information can be found in the FCO's Departmental Report for 2006-07 (Chapter 1, Highlights of the Year, for an overview).

2.3 Key relationships with stakeholders

Some of the more important stakeholder categories are:

- foreign governments and international organisations who we seek to influence and work in partnership with these bodies in order to promote UK interests.
- other UK government departments – the March 2006 White Paper represents a clear cross-government agenda. FCO Posts overseas operate as a platform for the international work of other government departments.
- customers of services provided by the FCO – these include British nationals travelling or living overseas, UK companies seeking to do business abroad and foreign nationals seeking to enter the UK.
- partners in service delivery – key among these are UKVisas, UK Trade and Investment, public diplomacy partners (e.g. BBC World Service, British Council) and consular partners (travel industry, insurance industry, certain Non-Governmental Organisations (NGO's).

- broader stakeholders – these include Parliament, especially the Foreign Affairs Committee, the international NGO community, faith communities, the media and the wider public.

2.4 Public Service Agreements

The FCO publishes progress reports twice yearly on meeting its Public Service Agreement (PSA) targets.

- The Autumn Performance Report 2006 (published online only) contained a summary of progress between April and September 2006 and was published on 19 December 2006. The report is available at www.fco.gov.uk.
- The Departmental Report 2006-07 (Command Paper CM 7099) was published in May 2007 and contained progress assessments for all PSA targets the FCO was working towards between April 2006 and March 2007. The report is available at www.fco.gov.uk.
- Between April 2006 and March 2007, the FCO was working towards the nine PSA targets set during the 2004 spending review (SR 2004) covering 2005-2008.
- Progress assessments were made using scorecards. These are developed from PSA technical notes which detail the full PSA text and contain background information and performance indicators for all PSA targets. A summary can be viewed at www.fco.gov.uk.
- Progress assessments for the nine 2005-2008 PSA targets were all rated as "on course" in the Departmental Report 2006-07.

2.5 Comparison of 2006-07 Outturn against Estimate (see Notes 2 and 3 to the accounts)

The FCO is voted resources under two main headings, Request for Resources 1 (RfR1): Promoting internationally the interests of the UK and contributing to a strong world community, and Request for Resources 2 (RfR2): Conflict prevention.

Net total resources expended was £1,925,518,000 against the Estimate of £1,983,313,000, resulting in an overall underspend of resources of £57,795,000 (2.9%). RfR 1 was underspent by £37,845,000 (2.3%) and RfR 2 was underspent by £19,950,000 (5.5%).

RfR1 Administration costs expenditure is £40,573,000 below budget. This is as a result of lower than expected IT and security costs and a prudent approach to spending, particularly towards the end of the financial year.

The Winter Supplementary Supply Estimate included £11,000,000 non-operating income from the Home Office for biometric passports. The income was not received during the year and the FCO intends to effect the transfer in 2007-08.

Note 2 to the Accounts shows the expenditure by Estimate line. Explanations of underspends exceeding 10% on individual lines are shown below.

- Non-budget expenditure RfR1 Line F: Re-imbursement of certain duties, taxes and licence fees was £2,487,000 above Estimate as a result of the FCO receiving more claims than forecast.
- Expenditure on RfR2 Line A: Sub-Saharan Africa – Progamme expenditure is £14,939,000 below Estimate because of a transfer from DFID being allocated in error to Line A in the Spring Supplementary Estimate rather than to Line C. Virement to correct this error has been agreed by HM Treasury.
- Expenditure on RfR2 Line B: Global – Peacekeeping is £8,607,000 below Estimate because of the delay of some major projects as a result of political environments and the need to keep back significant uncommitted funds in order to be able to meet the need for urgent additional spending early in 2007-08.

- Expenditure on RfR2 Line C: Sub-Saharan Africa – Peacekeeping was £12,614,000 above Estimate (see Line A above).
- Expenditure on RfR2 Line D: Global – Peacekeeping was £9,018,000 below Estimate. Reasons include the favourable exchange rate movements in respect of the UN and OSCE bills and the Peacekeeping share of the Iraq cost sharing agreements being less than expected.

Capital expenditure is £23,888,000 below Estimate.

This was due to the timing of milestone payments for Future Firecrest falling outside the financial year and fine tuning of spend across programmes towards the end of 2006-07 to get as close to our annual targets as possible. A prudent approach was taken which resulted in an underspend.

Net capital expenditure was £12,457,000 below budget, including £11,000,000 non-operating income from the Home Office for biometric visas, as noted above, that was not received during the year.

2.6 Resources available to the FCO

Assets

- The FCO's Departmental Investment Strategy was published in April 2005 (available at www.fco.gov.uk.) It gives details of the FCO's asset base and our strategies for the Estate, Information & Communication Technology and Security investment for the 2004 Spending Review period (2005-06 to 2007-08).
- During 2006-07 we rationalised our home estate by moving out of leased offices in Albert Embankment (Vauxhall), and started our move from Apollo House (Croydon) to Central London; concentrating our home estate in London (King Charles Street and Old Admiralty Building), and Hanslope Park (Milton Keynes).
- The current overseas estate consists of some 4,800 properties, ranging from Embassy buildings to staff accommodation and other facilities. The overseas estate accommodates not only FCO staff, but also personnel from other Government Departments and public sector organisations.
- The FCO estate is actively managed using Key Performance Indicators (KPIs) to inform our estate decisions on the composition of the estate and the balance between leased and owned properties. Approximately 40% of FCO properties are leased and 60% are owned. We assess a property's worth to us in terms of value for money criteria, fitness for purpose, physical condition and size relative to our needs. Our portfolio is therefore not static: the estate mix responds to operational needs as well as the performance of properties. To inform decisions on our estate investment proposals we use a prioritisation model to compare KPI benefits with life cycle costs.

People

- The FCO have a total permanent staff of around 16,000, of whom 6,000 are recruited in the UK and 10,000 recruited overseas. There are plans to make efficiency savings of 310 UK staff over the period 2005 to 2008. Information on Human Resources policies can be found in Part 2 of the FCO Departmental Report.

2.7 Risk

The FCO's Risk & Control Framework is described in the Statement of Internal Control.

2.8 Key Contractual Arrangements

The FCO has the following business contracts which are considered to be essential to the running of our business (business critical):

Company	Type of Contract
3M – Ait	Biometric visas
3M – SPSL	Biometric visa books supply
American Express	Travel
Atkins	Programme management office (UKvisas)
Barkers	Volume and specialist recruitment services
Cap Gemini	Prism (FCO's financial, HR, procurement & payroll system)
Computacenter/Sun	Hardware and software support (UKvisas)
Control Risks Group	Security guarding services for certain overseas Posts
DDAO (DHL)	Airfreight and logistics contract
Fujitsu	Software and hardware support (UKvisas)
Global Crossing UK	Provision of FTN (telecommunications network)
Hewlett Packard	Future Firecrest (ICT infrastructure)
International SOS	Healthcare management
Pegasus	Security guarding services in the UK
SPSL	Vignettes for visas
Steria Limited	Hardware and software (UKvisas)
World Reach	Software for Compass Next Generation & LOCATE Consular systems

The FCO's largest ICT project is the contract with Hewlett Packard (HP) for the management, support and development of its global ICT desktop infrastructure, 'Future Firecrest'. Under the 7-year contract, the private sector partner will have overall responsibility for the end to end delivery of the desktop services to a pre-agreed level of performance.

2.9 Contingent Liabilities

Note 31.1 to the Resource Accounts states that the FCO has £5,525,000 of contingent liabilities which are disclosed under parliamentary reporting requirements but which are not disclosed under FRS12 as the likelihood of payment resulting is remote.

These relate to the indemnity cover for British Council exhibitions overseas. The present arrangements for government indemnities for works of art loaned to British Council overseas were agreed with the Treasury and the British Council in 2003 with the aim of minimising risk to the government reserve and ensuring alignment of such activities with overall UK public diplomacy priorities. The key features of the arrangement are:

- The maximum total liability available to the Council at any one time is £50 million.
- The £50 million limit does not include "high value" exhibitions (i.e. single exhibitions valued at £30 million or over), which are treated separately. In the case of "high value" exhibitions the Council will submit proposals at least two years in advance.
- For all exhibitions the Council will have to show evidence of having approached the government of the host country for cover and of having sought sponsorship for commercial insurance.

2.10 Sustainable Development Strategy

The FCO Sustainable Development Strategy was published in March 2005. It set out how the FCO will help deliver UK's international priorities on sustainable development through its network of diplomatic Posts overseas; through working with international organisations such as the EU, UN and G8; through international partnerships; through working with the governments of the UK's Overseas Territories; and through the FCO's own corporate activities and estate management. In 2006-07 we focussed on embedding sustainable development in multilateral institutions, improving environmental democracy and governance of natural resources, strengthening links between business and development and building stronger relationships with the major emerging economies. In January 2007 we set out our aim and role in our Sustainable Development Action Plan.

The full text of the Sustainable Development Strategy, the Action Plan, a paper summarising the key achievements so far and the Sustainable Development Commission's audit of our SD Stategy and progress is available at http://www.fco.gov.uk/International Priorities/Sustainable Development.

3. Corporate Governance

3.1 The role of the FCO Board is to provide corporate leadership to the Department in delivering the policies and services decided by Ministers by:

- Ensuring the organisation delivers the Strategic Priorities and service delivery targets set by Ministers.
- Ensuring effective allocation and management of resources, in line with the Strategic Priorities.
- Communicating the FCO's purpose, Strategic Priorities and vision to staff and other stakeholders.
- Monitoring and improving performance and accountability.
- Protecting and enhancing the FCO's reputation for professionalism, effectiveness, integrity and efficiency.

3.2 The FCO Board is currently made up of: the Permanent Under-Secretary of State (PUS), 5 Directors-General, the Director for Human Resources, the Chief Information Officer, the Chief Executive of UKTI, and two independent Non-Executive Directors. Board members are appointed by the FCO's Senior Appointments Board (the "No. 1 Board") on which a non-executive director sits. Decisions are ratified by the Secretary of State and, in the case of Directors-General and above, the Prime Minister.

3.3 External agencies are used to recruit independent non-executive Board members openly and transparently. They are appointed by the PUS, after the approval of the Secretary of State. The Non-Executive Directors are involved in a range of FCO corporate activities: one chairs the Audit and Risk Committee and the other sits on the Senior Appointmernts Board. Both have also visited a range of Posts. Induction procedures are in place for new Board members, including non-executives, and for newly appointed members of FCO senior management.

3.4 The Board agrees opening budget allocations and reviews a monthly Key Performance Report (including budgets, expenditure-to-date, resource accounting and position management), and financial performance at mid year and year end.

3.5 During the year, the Board strengthened its capacity to lead and supervise the ambitious change programme the FCO is implementing. In the process, the Board is bringing in professional skills from outside the FCO in key areas (e.g. new Chief Information Officer and Director General Finance). The policy planning function has also been strengthened.

3.6 FCO Ministers' portfolios and responsibilities are set out in regular all-staff communications. The Foreign Secretary, joined by other Ministers as appropriate, holds quarterly meetings with the Board, to set strategic direction.

3.7 The Board has agreed and published a schedule of reserved decisions. The Board has five sub-committees on Human Resources, Finance, Change, Investment and Audit & Risk. These act as a filter for the Board and, with the exception of Audit & Risk, take executive decisions on issues that do not need to go to the Board, and advise on issues that do. All Board sub-committees are chaired by a full Board member and have published terms of reference setting out their delegated authority. The Board receives a monthly record of sub-committee decisions, and Board sub-committee chairs regularly brief the full Board on the work of their committees. There are also meetings for all Directors with the whole Board at least quarterly.

3.8 The Board reports on how it operates through the annual Board Assessment. It measures performance against published objectives and business indicators. The Board regularly considers the FCO's corporate governance structures as a whole.

3.9 The Audit and Risk Committee (ARC) was created in 2002 to provide support to the Board. It is chaired by an independent non-executive director and achieved a majority non-executive membership in 2006-07. The committee's remit is strategic as well as technical and accounts based. It has an important responsibility in reviewing the work of Internal Audit and the National Audit Office and providing advice on the adequacy of controls in place – both to the Board and personally to the PUS as the FCO's Accounting Officer. The ARC takes the lead on counter-fraud measures (e.g. whistleblowing) and the work of the FCO's dedicated counter-fraud teams, the Financial Compliance Unit (FCU) and UKvisas Operational Integrity Section (OIS). The ARC encourages an appropriate and proportionate approach to handling operational risks, that balances the extent of the controls with the magnitude of the risk they are designed to address. Formal terms of reference for the ARC are available on FCO web site (www.fco.gov.uk) together with the Committee's membership.

3.10 A Senior Leadership Forum (SLF), made up of the Board, the most senior Heads of Mission, and a representative of small Posts, meets every six months to discuss strategic and corporate policy issues, and also comments on Board papers. The purpose of the SLF is to promote more integrated corporate leadership across the FCO network.

3.11 The FCO Board holds regular meetings with the boards of key partner government departments and, from 2007, the British Council. In addition, there are formal and effective mechanisms for co-ordination with and oversight of NDPBs. The arrangements are set out in framework documents based on Treasury best practice. They include at least Quarterly meetings with senior representatives of the British Council and BBC World Service to maintain strategic and financial oversight, regular bilateral meetings at Ministerial level and regular bilateral meetings at Permanent Under-Secretary level. The new Public Diplomacy Board is also responsible for agreeing overall public diplomacy strategy, advising on resource allocation, and for performance management and monitoring. This Board is chaired by the Parliamentary Under Secretary of State and includes the British Council, FCO Communications Director, BBC World Service and two independent members. The BBC World Service has observer status in recognition of its editorial independence. Further details on the FCO Public Diplomacy Board and strategy, and FCO corporate governance, are contained in the FCO Departmental Report (Cm 7099).

4. Senior Management

4.1 Ministers

Ministerial portfolios and responsibilities during the year were as follows :

Secretary of State for Foreign and Commonwealth Affairs: Rt Hon Margaret Beckett MP (from May 2006; Rt Hon Jack Straw MP until May 2006)
Overall responsibility for the work of the FCO; Press Office, Internal Communications, Stakeholder Management, Parliamentary Relations Team; Information and Technology Directorate; Information Management Group; Legal Advisers; Policy Planning, Research Analysts; Honours; Whitehall Liaison Department.

Minister of State for Europe: Rt Hon Geoff Hoon MP (from May 2006)
EU and Europe; Russia, South Caucasus and Central Asia; Balkans; Ukraine, Belarus and Moldova. OSCE and Council of EU and Europe; NATO.

Minister of State for the Middle East: Dr Kim Howells MP
Middle East and North Africa; Gulf States, Iran, Afghanistan and South Asia; Iraq; Engaging with the Islamic World; UN; Drugs and International Crime; Counter-Terrorism; Counter-Proliferation.

Minister of State for Trade: Rt Hon Ian McCartney MP (from May 2006; Rt Hon Douglas Alexander MP and Ian Pearson MP until May 2006)
Trade and Trade Policy; UKTI; Economic Policy, including Science and Technology; Global Issues (including sustainable development, energy, climate change); Human Rights; North America; South East Asia, East Asia (China and Japan) and Oceania.

Parliamentary Under-Secretary of State: Lord Triesman of Tottenham
Responsibility for all FCO business in the House of Lords; Africa; Latin America, the Caribbean and Overseas Territories; the Commonwealth; UKvisas; FCO Services; Migration Policy; Consular Policy (casework to be handled according to geographical responsibilities); Public Diplomacy, including the British Council and BBC World Service.

4.2 Members of the Board of Management

The composition of the FCO's Board of Management during the year was as follows :

Sir Peter Ricketts (from July 2006; Sir Michael Jay until July 2006)
Chairman of the Board, Permanent Under-Secretary and Head of the Diplomatic Service

Andrew Cahn
Chief Executive, UK Trade and Investment

Martin Donnelly
Director General – Europe and Globalisation

David Richmond
Director General – Defence and Intelligence

John Sawers (until February 2007; Mark Lyall Grant from February 2007)
Director General – Political

Keith Luck (from February 2007)
Director General – Finance

Richard Stagg
Director General – Corporate Affairs

Nicola Brewer (until February 2007)
Director General – Europe

David Warren
Director – Human Resources

Anne Pringle (until February 2007)
Director – Strategy and Information

Ric Todd (until February 2007)
Finance Director

Tony Mather (from March 2007)
Director and Chief Information Officer

Alistair Johnston
Non-executive Director

Alison Platt
Non-executive Director

4.3 Senior Official Appointments

The Permanent Under-Secretary of State and Head of the Diplomatic Service was appointed by the Prime Minister or the Secretary of State, following an inter-departmental trawl and interview. Other members of the Board of Management were appointed by the Secretary of State on the advice of the Permanent Under-Secretary and the Senior Appointments Board; Directors-General appointments are also agreed by the Prime Minister. The Executive appointments are for an indefinite term: the rules for termination are set out in chapter 11 of the Civil Service Management Code. Non-Executive Directors are appointed for two years, once renewable.

5. Remuneration report

5.1 Remuneration policy

Ministers' remuneration is set by the Ministerial and Other Salaries Act 1975 and the Ministerial and Other Pensions and Salaries Act 1991.

The salary of the Permanent Under-Secretary is set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. The Committee's membership and terms of reference were announced by the Prime Minister on 9 February 1995.

The salary of the Chief Executive of UKTI is set by the Department of Trade and Industry.

The salaries of the next thirty most senior Foreign and Commonwealth Office staff are set by the Secretary of State on the advice of the Senior Heads of Mission Remuneration Committee, which is chaired by Sir Michael Perry.

The salaries of other members of the Board of Management are set by the Payband 2 Remuneration Committee, which is chaired by the Director General for Corporate Affairs, on advice from the Senior Salaries Review Board.

5.2 Salary and pension entitlements of Ministers and members of the Board of Management

The information given above relates to the Ministers and other senior managers of the FCO. Equivalent information relating to FCO Services and Wilton Park Executive Agency is given in their own accounts.

Remuneration

	2006-07		2005-06	
Ministers	**Ministerial salary**	**Benefits in kind**	**Ministerial salary**	**Benefits in kind**
	£000	£000	£000	£000
Rt Hon Margaret Beckett MP (from May 2006)	60–65	–	–	–
Rt Hon Jack Straw MP (until May 2006)	10–15	–	70–75	–
Rt Hon Geoff Hoon MP (from May 2006)	30–35	–	–	–
Dr Kim Howells MP	35–40	–	30–35	–
Rt Hon Ian McCartney MP (from May 2006)	30–35	–	10–15	–
Lord Triesman of Tottenham	100–105	–	55–60	–
Rt Hon Douglas Alexander MP (until May 2006)	5–10	–	35–40	–
Ian Pearson MP (until May 2006)	5–10	–	30–35	–

Members of the Board of Management	2006–07 Salary	2006–07 Benefits in kind	2005–06 Salary	2005–06 Benefits in kind
	£000	£000	£000	£000
Sir Peter Ricketts (from July 2006)	110–115	–	–	–
Sir Michael Jay (until July 2006)	70–75	–	220–225	–
Andrew Cahn *	–	–	–	–
Martin Donnelly	125–130	–	115–120	–
David Richmond	125–130	–	105–110	–
Mark Lyall Grant (from February 2007)	20–25	–	–	–
John Sawers (until February 2007)	150–155	–	140–145	–
Keith Luck (from February 2007)	45–50	–	–	–
Richard Stagg	195–200	–	165–170	–
Nicola Brewer (until February 2007)	125–130	–	100–105	–
David Warren	100–105	–	100–105	–
Anne Pringle (until February 2007)	100–105	–	90–95	–
Ric Todd (until February 2007)	85–90	–	120–125	–
Tony Mather (from March 2007)	10–15	–	–	–
Non-executive:				
Alistair Johnston	15–20	–	10–15	–
Alison Platt	10–15	–	10–15	–

* Andrew Cahn is remunerated by the Department of Trade and Industry and relevant disclosures can be found in the resource accounts of that Department for 2006-07.

This table has been subject to audit.

Salary

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

This report is based on payments made by the Department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. There were no benefits in kind for the year.

Pension benefits

Pension benefits

Ministers	**Accrued pension at age 65**	**Real increase in pension at age 65**	**CETV at 31 March 2007**	**CETV at 31 March 2006**	**Real increase in CETV**
	£000	£000	£000	£000	£000
Rt Hon Margaret Beckett MP (from May 2006)	17.5–20	0–2.5	267	245	14
Rt Hon Jack Straw MP (until May 2006)	15–17.5	0–2.5	255	250	3
Rt Hon Geoff Hoon MP (from May 2006)	12.5–15	0–2.5	135	120	4
Dr Kim Howells MP	5–7.5	0–2.5	69	59	5
Rt Hon Ian McCartney MP (from May 2006)	7.5–10	0–2.5	111	89	14
Lord Triesman of Tottenham	5–7.5	0–2.5	63	41	12
Rt Hon Douglas Alexander MP (until May 2006)	2.5–5	0–2.5	32	31	–
Ian Pearson MP (until May 2006)	2.5–5	0–2.5	36	33	1

This table has been subject to audit.

Ministerial pensions

As the House of Commons and House of Lords meet the Exchequer contribution to the cost of pension provision for Ministers, the pension details are included on a ‘for information’ basis.

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument SI 1993 No 3253, as amended).

Those Ministers who are members of Parliament are also entitled to an MP’s pension under PCPF. The arrangements for Ministers provide benefits on an ‘average salary’ basis with either a 1/50th or 1/40th accrual rate, taking account of all service as a Minister. (The accrual rate has been 1/40th since 15 July 2002 but Ministers, in common with other members of the PCPF, can opt to increase their actual rate from 5 July 2001, or retain the former 1/50th accrual rate and the lower rate of employee contribution).

Benefits for Ministers are payable at the same time as MPs’ benefits become payable under the PCPF or, for those who are not MPs, on retirement from Ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate. Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9% to 10% from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the ministerial salary.

The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member’s accrued benefits and any contingent spouse’s pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in the value of the CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the Minister (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Members of the Board of Management	Accrued pension at age 60 at 31 March	Related lump sum at 31 March	Real increase in pension at age 60	Related lump sum at age 60	CETV at 31 March 2007	CETV at 31 March 2006 (restated)	Real increase in CETV
	£000	£000	£000	£000	£000	£000	£000
Sir Peter Ricketts (from July 2006)	60–65	185–190	5–7.5	15–17.5	1,247	1,020	105
Sir Michael Jay (until July 2006)	100–105	285–290	0–2.5	0–2.5	2,481	2,413	19
Andrew Cahn *	–	–	–	–	–	–	–
Martin Donnelly	35–40	115–120	2.5–5	7.5–10	650	506	44
David Richmond	40–45	120–125	2.5–5	12.5–15	764	571	87
Mark Lyall Grant (from February 2007)	40–45	120–125	0–2.5	0–2.5	713	667	1
John Sawers (until February 2007)	45–50	140–145	0–2.5	2.5–5	818	725	25
Keith Luck (from February 2007)**	–	–	–	–	–	–	–
Richard Stagg	45–50	135–140	5–7.5	20–22.5	841	590	127
Nicola Brewer (until February 2007)	30–35	95–100	2.5–5	12.5–15	540	417	85
David Warren	45–50	–	0–2.5	–	815	540	29
Anne Pringle (until February 2007)	30–35	100–105	0–2.5	2.5–5	634	501	22
Ric Todd (until February 2007)	25–30	80–85	0–2.5	0–2.5	407	353	10
Tony Mather (from March 2007)**	–	–	–	–	–	–	–
Non-Executive:							
Alistair Johnston	–	–	–	–	–	–	–
Alison Platt	–	–	–	–	–	–	–

* Andrew Cahn is remunerated by the Department of Trade and Industry and relevant disclosures can be found in the resource accounts of that Department for 2006-07.

** Keith Luck and Tony Mather: nil increase in CETV – qualification service less than 2 years

This table has been subject to audit.

5.3 Pensions

Details of the FCO's pension and early departure cost policies are included in the notes to the accounts. Present and past UK-based employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). Liability for payment of future benefits is a charge to the PCSPS and there is a separate scheme statement for the PCSPS as a whole. Pension arrangements for locally engaged staff have been established at certain posts overseas, and details of these schemes are included in the notes to the accounts.

Civil Service Pension

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium, and Classic Plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, and Classic Plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium and Classic Plus. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution.

Four individuals retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £7,048.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Other information

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit scheme but the FCO is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk). For 2006-07, contributions of £39,119,000 were payable to the PCSPS (2005-06: £38,296,000) at one of four rates in the range of 16.2% to 24.6% of pensionable pay, based on salary bands. Rates will remain the same for the next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

6. Public interest and other matters

6.1 Employment of People with a Disability

The Foreign and Commonwealth Office follows the Civil Service Code of Practice on the employment of people with a disability, which aims to ensure that there is no unfair discrimination on the grounds of disability and that access to employment and career advancement is based solely on ability, qualifications and suitability for the work.

6.2 Equal Opportunities

The Foreign and Commonwealth Office is an equal opportunities employer. Policies are in place to guard against unfair discrimination or barriers to employment and advancement. The Foreign and Commonwealth Office Equal Opportunity policy states that no staff should be exposed to unfair discrimination, including harassment, bullying or victimisation on any grounds, particularly age, gender, marital status, race, disability, religion or sexual orientation. The FCO aims to provide all staff with equality of opportunity in all aspects of their work. Employment and promotion are on merit. Staff whose working patterns are atypical are assessed on exactly the same basis as those working full time. Equal opportunity considerations are at the core of FCO personnel policies.

6.3 Payment of Suppliers

The Foreign and Commonwealth Office follows the CBI Prompt Payment Code and aims to settle suppliers' accounts within 30 days. During 2006-07, this was achieved in 93% of cases (2005-06: 93%). Figures are not available for overseas suppliers.

6.4 Disclosure of relevant audit information

There is no relevant audit information of which the auditors are unaware. As Accounting Officer I have taken all the steps appropriate to ensure that I am aware of relevant audit information, and to establish that the entity's auditors are aware of the information.

7. Auditors

The Comptroller and Auditor General is the statutory auditor for the accounts of the Foreign and Commonwealth Office.

Peter Ricketts
Accounting Officer
18 July 2007

Statement on Internal Control

1 Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the FCO's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I discharge this responsibility in conjunction with Directors-General, Directors and Sub-Accounting Officers (SAOs) who head the FCO's overseas missions. The Department's Executive Agency and Non-Departmental Public Bodies (NDPBs) are also headed by Accounting Officers and overseen by FCO Directors in 2006-07 as follows:

Sponsored Body	Accounting Officer	Responsible FCO Director
FCO Services	Chris Moxey	Richard Stagg
Wilton Park	Donald Lamont	Anne Pringle
British Council	Sir David Green	Anne Pringle
BBC World Service	Nigel Chapman	Anne Pringle
Westminster Foundation for Democracy	David French	Stephen Pattison
Great Britain-China Centre	Katie Lee	Sebastian Wood
British Association for Central & Eastern Europe	Nicholas Jarrold	Anthony Smith
Marshall Aid Commemoration Commission	Jonathan Taylor	Chris Wood

My relationship with these Accounting Officers and Sub-Accounting Officers is set out in statements contained in the respective letters of delegation, Framework Document and Financial Memoranda.

The Foreign Secretary chairs quarterly meetings with the Board to set the strategic direction of the Office. These meetings have ad hoc agenda, but can be used for either Ministers or the Board to raise any risk management issue of concern.

2 The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of FCO policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them economically, efficiently and effectively. The system of internal control has been in place in the FCO for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3 Capacity to handle risk

The FCO Risk Management Framework has been approved by the Board and is designed to spread best practice throughout the office in a way that is relevant to the FCO, drawing on existing mechanisms, while maintaining adequate audit trails.

The FCO has continued to make good progress in embedding risk management throughout the office. There is explicit leadership from senior management and the FCO's framework for managing risks has further evolved and improved. Conscious risk management is an increasingly integral part of how FCO business is done, in both policy and operational areas, and staff expertise is growing. Significant examples of progress include the new Resource Accounting Department Risk Indicators, further development of separate Strategic and Operational Risks Registers and of the Risk in the Network process to improve capture and consideration of operational risks across the FCO's global network.

4 The risk and control framework

The system of internal control in the FCO is based on a framework of regular management information, financial regulations, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular, it includes:

- a Board which meets regularly to consider the strategic direction of the FCO and the operational requirements for meeting its strategic objectives;
- reports from the Audit and Risk Committee advising me on a number of aspects of internal control and risk;
- regular reports from managers on performance against key strategic performance targets and the management of key risks to achieving these;
- comprehensive budgeting systems with annual budgets;
- procedures to review and agree the budgets, which include efficiency savings; and
- clearly defined capital investment control guidelines.

In addition, the FCO Risk Management Framework has the following main components:

1. Top Risks Register (TRR): captures the top risks to the FCO's Operational and Strategic Performance. It is updated quarterly for the FCO Board to consider, though particular risks may be discussed at any Board meeting. Any Board decisions on each risk are logged in the TRR which is then circulated to risk owners, Board members, Directors and the Senior Leadership Forum.

2. Operational Risk Register (ORR): captures the major, high-level risks to the FCO's operations or service delivery. It is updated quarterly for consideration by the Audit and Risk Committee (ARC), a sub-committee of the Board. Those risks requiring Board attention are elevated to the Top Risks Register.

3. Strategic Risks Register (SRR): captures the major, high-level "strategic" risks – risks associated with the delivery of the UK's Strategic International Priorities which have the potential to impact seriously on FCO reputation, resources and / or operations. It is updated quarterly for consideration by the PUS, supported by Policy Planners, and discussed by senior managers at the PUS's Tuesday Morning Meeting. Those risks requiring Board attention are elevated to the TRR.

4. Risk in the Network: a quarterly exercise, which enables operational risks from Posts to be reported and elevated, as appropriate, for attention / action at the right level. Posts report key operational risks to Regional Directors, who in turn flag up common themes and significant risks to DG Corporate Affairs. The most serious, high-level risks from the network can then be included in the Operational Risks Register to be brought to the attention of the Audit and Risk Committee. If appropriate, they may then be elevated to the Top Risks Register for the FCO Board to consider.

5. Internal Audit Department (IAD) facilitates an annual Home and Overseas Self-Audit programme of control risk self-assessment for all FCO Directors-General, Directors and Sub-Accounting Officers overseas.

DG Finance, supported by Financial Planning and Performance Department, works with the Audit and Risk Committee and Board on the practical application of risk management across the FCO's implementation planning, both to achieve strategic objectives and carry out projects with a Department-wide impact. This work includes determining risk tolerance levels where appropriate. The generic risk priorities for the period covered by this Statement on Internal Control were: financial control systems, security (both of staff and physical assets); ICT project risk; and responsiveness to international crises, whether consular (e.g. hurricane) or political in nature.

The FCO's exposure to foreign currency risk could be significant because of the nature of its business and geographical presence. Net expenditures denominated in foreign currency constitute a minor part of total expenditures. To manage exposure risks, the FCO has an Overseas Price Movements (OPM) mechanism that is designed to maintain its purchasing power at a level equivalent to that of Home Departments. Further details are provided in Note 29 to these accounts.

5 Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, other assurance providers, the executive managers within the FCO who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised by the Board and the Audit and Risk Committee on the implications of the result of my review of the effectiveness of the system of internal control and plans to address identified weaknesses and ensure continuous improvement of the system are in place.

The FCO Internal Audit Department operates to Government Internal Audit Standards. The work of Internal Audit is informed by an analysis of the risk to which the FCO is exposed, and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the FCO's Audit and Risk Committee and approved by me. The Head of Internal Audit reports to me, at least annually, on internal audit activity in the FCO. The report includes the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the FCO's systems of governance, risk management and internal control, together with recommendations for improvement.

In addition to this, the Audit & Risk Committee Secretary maintains an Assurance Map of services, both internal and external to the FCO, which contribute to the review of the effectiveness of the system of internal control, but which are outside of the scope of the Audit and Risk Committee. These include: health and safety, security and public appointments. Where appropriate, reports arising from these assurance providers are considered by the Board.

The FCO also has a Financial Compliance Unit and a UKvisas Operational Integrity Section. Their main role is to investigate actual or suspected irregularity or fraud. Various other functional departments perform a compliance-monitoring role with regard to their respective areas of responsibility.

My review of the effectiveness of the system of internal control this year has continued to highlight the need for some improvement in compliance with established financial procedures, in particular the retrospective raising of Purchase Orders after funds have been committed and invoices received. A new Compliance Panel has been established to hold budget managers to account and the FCO Board and Audit and Risk Committee is monitoring performance closely.

The FCO is also launching a programme to reach a 'Five Star Finance' performance level where the office has clear, accurate and reliable accrual based in-year financial and operational information, and the Board can build financial considerations into key strategic and operational decision-making with confidence. To assist we have agreed with the NAO a suite of model key control frameworks for FCO financial systems and I have appointed Global Process Owners to help deliver simplified, standardised, streamlined procedures and improve compliance with our control requirements.

Peter Ricketts
Accounting Officer
18 July 2007

Statement of Accounting Officer Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the FCO to prepare for each financial year resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the FCO and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

HM Treasury has appointed the Permanent Under-Secretary as Accounting Officer of the FCO. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the FCO's assets, are set out in the Accounting Officers' memorandum issued by HM Treasury and published in Government Accounting.

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Foreign and Commonwealth Office for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Management Commentary and Remuneration Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2007 and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Annual Report, which comprises the Management Commentary and Remuneration Report is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
20 July 2007

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

The maintenance and integrity of the Foreign and Commonwealth Office's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Statement of Parliamentary Supply

Summary of Resource Outturn 2006-07

		Estimate			Outturn			2006–07	2005–06 Outturn
Request for Resources	Note	Gross expenditure	A in A	Net Total	Gross expenditure	A in A	Net Total	Net Total outturn compared with Estimate: Saving/ (excess)	Net Total
		£000	£000	£000	£000	£000	£000	£000	£000
RfR 1	2	2,032,721	(414,938)	1,617,783	1,918,355	(338,417)	1,579,938	37,845	1,604,597
RfR 2	2	365,530	–	365,530	345,580	–	345,580	19,950	296,255
Total Resources	3	**2,398,251**	**(414,938)**	**1,983,313**	**2,263,935**	**(338,417)**	**1,925,518**	**57,795**	**1,900,852**
Non-operating cost A in A				**(68,687)**			**(57,256)**	**(11,431)**	**(18,015)**

Net Cash Requirement 2006-07

				2006–07	2005–06
				£000	£000
	Note	Estimate	Outturn	Net Total outturn compared with Estimate: Saving/ (excess)	Outturn
Net cash requirement	4	1,951,973	1,853,428	98,545	1,859,283

Summary of income payable to the Consolidated Fund

In addition to appropriations-in-aid, the following income relates to the Department and is payable to the Consolidated Fund

		Forecast 2006–07		Outturn 2006–07	
		£000	£000	£000	£000
	Note	Income	Receipts	Income	Receipts
Non-supply income	5	**2,401**	**2,402**	**9,212**	**9,212**

Cash receipts are shown in italics.

Further details of variances between Estimates and outturn are given in Note 2 to the accounts and explanations are in the Management Commentary.

The notes on pages 29 to 68 form part of these accounts.

Operating Cost Statement
for the year ended 31 March 2007

	Note					2006–07	2005–06
		£000	£000	£000	£000	£000	£000
		FCO		Consolidated		Consolidated	
		Expenditure	Income	Expenditure	Income	Total	Total
Administration costs							
Staff costs	7	410,765	–	462,906	–	462,906	454,349
Other administration costs	8	755,425	–	717,742	–	717,742	733,237
Operating income	10	–	(82,174)	–	(100,574)	(100,574)	(132,608)
Consular and UKvisas allocated to programme	8, 10	(309,270)	35,954	(309,270)	35,954	(273,316)	(264,016)
		446,155	(46,220)	408,472	(64,620)	343,852	336,613
Total administration costs		856,920	(46,220)	871,378	(64,620)	806,758	790,962
Programme costs							
Request for Resources 1							
Expenditure	9	1,046,977	–	1,046,977	–	1,046,977	1,037,616
Income	10	–	(277,845)	–	(277,845)	(277,845)	(236,297)
Request for Resources 2							
Expenditure	9	345,580	–	345,580	–	345,580	296,255
Income	10	–	(5,164)	–	(5,164)	(5,164)	(6,404)
Total programme costs		1,392,557	(283,009)	1,392,557	(283,009)	1,109,548	1,091,170
Totals		**2,249,477**	**(329,229)**	**2,263,935**	**(347,629)**		
Net operating cost	3, 11					**1,916,306**	**1,882,132**

The notes on pages 29 to 68 form part of these accounts.

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2007

	Note		2006–07	2005–06
		£000	£000	£000
		FCO	**Consolidated**	**Consolidated**
Net change on revaluation of assets:				
Net gain on revaluation of tangible fixed assets	21	50,231	50,207	216,617
Net loss on revaluation of intangible fixed assets	21	(18)	(18)	(5)
Value of assets taken on at nil cost	12	10,933	12,296	–
Change in valuation of current assets	20	1,608	1,608	1,675
Retirement benefit actuarial gain	28	1,696	1,696	849
		64,450	**65,789**	**219,136**

The notes on pages 29 to 68 form part of these accounts.

Balance Sheet

as at 31 March 2007

	Note		2007	2006
		£000	£000	£000
		FCO	Consolidated	Consolidated
Fixed assets				
Tangible Assets	12	1,525,648	1,529,089	1,479,302
Intangible Assets	13	2,301	2,301	409
		1,527,949	**1,531,390**	**1,479,711**
Current assets				
Stocks	15	9,945	11,966	7,547
Debtors	16	211,388	219,617	232,427
Cash at bank and in hand	17	86,106	99,473	117,315
		307,439	**331,056**	**357,289**
Creditors: amounts falling due within one year	18	**(269,477)**	**(299,718)**	**(299,052)**
Net current assets		**37,962**	**31,338**	**58,237**
Total assets less current liabilities		**1,565,911**	**1,562,728**	**1,537,948**
Creditors: amounts falling due after more than one year	18	**(32,850)**	**(32,850)**	**(32,629)**
Provisions for liabilities and charges	19	**(62,979)**	**(66,426)**	**(67,248)**
Net assets before net retirement benefit schemes liability		**1,470,082**	**1,463,452**	**1,438,071**
Net retirement benefit schemes liability				
Retirement benefit schemes asset	28	326	326	352
Retirement benefit schemes liability	28	(2,906)	(2,906)	(4,825)
		(2,580)	**(2,580)**	**(4,473)**
Net assets		**1,467,502**	**1,460,872**	**1,433,598**
Taxpayers' equity				
General fund	20	864,948	858,255	831,825
Revaluation reserve	21	538,217	538,280	541,817
Donated asset reserve	21	64,337	64,337	59,956
		1,467,502	**1,460,872**	**1,433,598**

Peter Ricketts
Accounting Officer
18 July 2007

Authorised for issue on 23 July 2007.

The notes on pages 29 to 68 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 March 2007

	Note	2006–07	2005–06
		£000	£000
Net cash outflow from operating activities	22.1	**(1,748,197)**	**(1,754,680)**
Capital expenditure	22.2	**(104,922)**	**(94,334)**
Payments of amounts due to the Consolidated Fund		**(4,219)**	**(9,469)**
Financing	22.4	**1,838,212**	**1,898,258**
Net change in cash balances	22.5	**(19,126)**	**39,775**

The notes on pages 28 to 68 form part of these accounts.

Consolidated Statement of Operating Costs by Aim and Objectives (Strategic Priorities)

for the year ended 31 March 2007

			2006–07			2005–06
	£000	£000	£000	£000	£000	£000
	Gross	**Income**	**Net**	**Gross**	**Income**	**Net**
Aim: To work for the United Kingdom's interests in a safe, just and prosperous world						
Strategic Priorities (SP):						
SP1 Making the world safer from global terrorism and weapons of mass destruction.	169,817	(6,602)	163,215	181,180	(11,017)	170,163
SP2 Reducing the harm to the UK from international crime, including drug trafficking, people smuggling and money laundering.	87,010	(6,949)	80,061	86,840	(3,550)	83,290
SP3 Preventing and resolving conflict through a strong international system.	763,252	(25,375)	737,877	624,342	(40,430)	583,912
SP4 Building an effective and globally competitive EU in a secure neighbourhood.	207,139	(6,335)	200,804	291,777	(9,137)	282,640
SP5 Supporting the UK economy and business through an open and expanding global economy, science and innovation and secure energy supplies.	298,106	(15,097)	283,009	388,561	(26,385)	362,176
SP6 Achieving climate security by promoting a faster transition to a sustainable, low carbon global economy.	38,412	(932)	37,480	–	–	–
SP7 Promoting sustainable development and poverty reduction underpinned by human rights, democracy, good governance and protection of the environment.	326,093	(11,260)	314,833	287,563	(11,293)	276,270
SP8 Managing migration and combating illegal immigration.	219,801	(212,081)	7,720	187,253	(189,501)	(2,248)
SP9 Delivering high quality support for British nationals abroad, in normal times and in crises.	107,527	(60,935)	46,592	112,521	(46,796)	65,725
SP10 Ensuring the security and good governance of the UK's Overseas Territories.	46,778	(2,063)	44,715	61,646	(1,442)	60,204
Net Operating Costs	**2,263,935**	**(347,629)**	**1,916,306**	**2,221,683**	**(339,551)**	**1,882,132**

Notes

1. *Administration costs in respect of UK Trade and Investment included in SP5 above are further analysed:*

Staff costs	45,995	–	45,995	44,872	–	44,872
Other administration costs	86,446	(8,448)	77,998	88,869	(17,750)	71,119
Depreciation	9,431	–	9,431	21,729	–	21,729
Capital costs	5,770	–	5,770	4,796	–	4,796
	147,642	**(8,448)**	**139,194**	**160,266**	**(17,750)**	**142,516**

2. *See Note 23 for an analysis of programme costs by objective.*
3. *Income includes consular, visas and other income. Other income (e.g. receipts from other departments) is administration income and is allocated across all SPs based on weighted headcount.*
4. *Gross costs include both direct costs (e.g. visa vignettes) and indirect costs (e.g. overheads). Direct costs are allocated to the appropriate SP. Indirect costs are allocated across all SPs based on a derivative of weighted headcount, including weighted space utilised by staff working to SPs.*

The notes on pages 29 to 68 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2006–07 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The Statement of Operating Costs by Aim and Objectives and supporting notes analyse the Department's income and expenditure by our Strategic Priorities (SP) agreed with Ministers.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, and stocks where material, at their value to the FCO by reference to their current costs.

1.2 Basis of consolidation

These accounts comprise a consolidation of the accounts of the FCO with its executive agencies FCO Services and Wilton Park, which fall within the Departmental boundary as defined in the FReM. Transactions between the entities included in the consolidation are eliminated.

1.3(a) Tangible fixed assets

Land and buildings are stated at the lower of replacement cost and recoverable amount using periodic professional valuations. The overseas estate is subject to a three-to-five-year rolling revaluation programme and interim annual review. Antiques and works of art are grouped and valued on a market value basis by professional valuers and are included where the valuations equate to or exceed £3,000. Other tangible fixed assets are stated at current value using appropriate indices. The minimum level for capitalisation of a single tangible asset is £3,000, subject to grouping conventions where appropriate. On initial recognition tangible fixed assets are measured at cost including any costs such as installation directly attributable to bringing them into working condition. Assets are included in the accounts at the cost or valuation applicable as at the balance sheet date; any movements in valuation during the year are taken to the revaluation reserve or treated as impairments where appropriate.

1.3(b) Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £3,000 or more is incurred. Except where reliable evidence of current value cannot be readily ascertained, these are restated to current value each year through the use of indices. Software licences are amortised over the shorter of the term of the licence and the useful economic life.

1.4 Depreciation

Fixed assets are depreciated or amortised at rates calculated to write them down to their estimated residual values on a straight-line basis over their estimated useful lives. Freehold land is not depreciated. Assets under construction are not depreciated until the asset is brought into use. Asset lives have been set in the following ranges :

Freehold buildings	– up to 60 years
Leasehold land and buildings	– term of lease
Information technology	– up to 5 years
Transport equipment	– 2 to 8 years
Plant and machinery	– 5 to 20 years

1.5 Donated assets

Donated tangible fixed assets are capitalised at their current value on receipt, and this value is credited to the donated asset reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the donated asset reserve to the Operating Cost Statement. Restricted right-to-use privileges over property granted to HM Government are treated as donated assets and capitalised at existing use value, or value in use, if appropriate. Restrictions prevail over the use and rights of disposal.

1.6 Private Finance Initiative (PFI) transactions

PFI transactions have been accounted for in accordance with HM Treasury and FReM requirements. Where the balance of the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the FCO has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract. Where at the end of the PFI contract a property reverts to the FCO, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year.

Where the balance of risks and rewards of ownership of the PFI property is borne by the FCO, the property is recognised as a fixed asset and the liability to pay for it is accounted for as a finance lease. Contract payments are apportioned between a reduction in the capital obligation and charges to the Operating Cost Statement for service performance and finance cost.

1.7 Investments

The FCO does not currently hold any fixed asset investments. Other debtors include the FCO's share of the net assets of the Anglo-American School in Moscow which is revalued on an annual basis.

1.8 Stocks

Stocks are valued at cost or, where materially different, current replacement cost, and at net realisable value only when they either cannot or will not be used.

1.9 Research and development

Expenditure on research and development is treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent normal operating work.

1.10 Operating income

Operating income is income which relates directly to the operating activities of the FCO. It comprises, principally, fees and charges for services provided, on a full cost basis, to external customers as well as public repayment work. It includes both income appropriated-in-aid and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income. Operating income is stated net of VAT.

1.11 Administration and programme expenditure

The Operating Cost Statement is analysed into administration and programme costs. Administration costs reflect the costs of running the FCO. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administrative cost limit, and that operating income which is not. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the FCO, as well as certain staff costs where they relate directly to service delivery. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury.

1.12 Capital charge

A charge, reflecting the cost of capital utilised by the FCO, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets and liabilities, except for donated assets and balances with the Office of the Paymaster General, where the charge is nil.

1.13 Foreign exchange

Transactions which are denominated in foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for the period is used. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated at the rates ruling at that date. Differences on translation are dealt with in the Operating Cost Statement.

1.14 Pensions

Past and present UK-based employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described in the Remuneration Report. PCSPS defined benefit schemes are unfunded. The FCO recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the FCO recognises the contributions payable for the year.

1.15 Early departure costs

The FCO meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early retirement and normal retirement date. The FCO provides for this in full when the early retirement programme becomes binding on the Department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2% in real terms (2005-06: 2.2%). In past years the FCO paid some of its liability for early retirement in advance by making a payment to the Paymaster General's Account at the Bank of England for the credit of the Civil Service Superannuation Vote. The balance remaining is a prepayment.

1.16 Terminal benefits for locally engaged staff

The FCO is required to observe local employment laws regarding the payment of pensions, gratuities and terminal benefits at its overseas posts. Where state or other trustee schemes exist, the FCO discharges its obligation in-year by the payment of accrued contributions. Where the final gratuity or terminal benefit has to be met by the FCO, the full cost has been provided for in the accounts. The FCO has adopted the requirements of Financial Reporting Standard 17: 'Retirement Benefits' in respect of its overseas pension schemes.

1.17 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the FCO, the asset is recorded as a tangible fixed asset and a liability is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Operating Cost Statement over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to the Operating Cost Statement over the term of the lease.

1.18 Grants payable

Grants payable are recorded as expenditure in the period that the underlying event or activity giving entitlement to the grant occurs. Where the period for which peacekeeping payments are to be applied is clearly defined the appropriate resource adjustments are made.

1.19 Provisions

The FCO provides for legal and constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rate of 2.2% in real terms.

1.20 Value Added Tax

Most of the activities of the FCO are outside the scope of VAT and, in general, output tax does not apply and input tax is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged, or input VAT is recoverable, the amounts are stated net of VAT.

1.21 Third party assets

The FCO holds monies for disbursement on behalf of the United Nations Compensation Commission. These are not recognised in the accounts, since neither the Department nor the government more generally has a direct beneficial interest in them, but they are shown separately in the Notes to the accounts.

1.22 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the department discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Government Accounting.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

2 Analysis of net resource outturn by section

								2006–07	2005–06
	Admin	Other current	Grants	Gross resource expenditure	A–in–A	Outturn net total	Estimate net total	Outturn compared with Estimate	Outturn net total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
RfR 1: Promoting internationally the interests of the UK and contributing to a strong world community									
Spending in Departmental Expenditure Limits (DEL)									
Central Government spending									
A: Administration, programmes and international organisations subscriptions	871,378	143,656	455,167	1,470,201	(338,417)	1,131,784	1,172,116	40,332	1,158,089
B: BBC World Service broadcasting	–	–	208,543	208,543	–	208,543	208,543	–	208,143
C: British Council	–	–	183,124	183,124	–	183,124	180,324	(2,800)	181,410
D: BBC World Service – Capital grant	–	–	31,000	31,000	–	31,000	31,000	–	31,000
E: British Council – Capital grant	–	–	5,000	5,000	–	5,000	7,800	2,800	7,800
Non-budget									
F: Reimbursement of certain duties,taxes and licence fees	–	–	20,487	20,487	–	20,487	18,000	(2,487)	18,155
Total	**871,378**	**143,656**	**903,321**	**1,918,355**	**(338,417)**	**1,579,938**	**1,617,783**	**37,845**	**1,604,597**
RfR 2: Conflict prevention									
Spending in Departmental Expenditure Limits (DEL)									
Central Government spending									
A: Sub-Saharan Africa – Programme expenditure	–	–	3,485	3,485	–	3,485	18,424	14,939	2,203
B: Global – Programme expenditure	–	–	40,638	40,638	–	40,638	49,245	8,607	42,167
C: Sub-Saharan Africa – Peacekeeping	–	–	198,255	198,255	–	198,255	185,641	(12,614)	164,517
D: Global – Peacekeeping	–	–	103,202	103,202	–	103,202	112,220	9,018	87,368
Total	**–**	**–**	**345,580**	**345,580**	**–**	**345,580**	**365,530**	**19,950**	**296,255**
Resource outturn	**871,378**	**143,656**	**1,248,901**	**2,263,935**	**(338,417)**	**1,925,518**	**1,983,313**	**57,795**	**1,900,852**

Explanations are given for variances between Outturn and Estimate in the Management Commentary in the Annual Report.

3. Reconciliation of outturn to net operating cost and against Administration Budget

3.1 Reconciliation of net resource outturn to net operating cost

	Note	2006–07 Outturn	Supply Estimate	Outturn compared with Estimate	2005–06 Outturn
		£000	£000	£000	£000
Net Resource Outturn	2	1,925,518	1,983,313	57,795	1,900,852
Excess cash receipts surrenderable to the Consolidated Fund		–	–	–	(8,310)
Non-supply income (CFERs)	5	(9,212)	–	9,212	(10,410)
Net operating cost		**1,916,306**	**1,983,313**	**67,007**	**1,882,132**

3.2 Outturn against final Administration Budget

		2006–07 Budget	2006–07 Outturn	2005–06 Outturn
		£000	£000	£000
Gross Administration Budget	2	977,836	871,378	887,812
Income allowable against the Administration Budget	10	(130,505)	(64,620)	(96,850)
Net outturn against final Administration Budget		**847,331**	**806,758**	**790,962**

4. Reconciliation of resources to cash requirement

	Note	2006–07 Estimate	Outturn	Saving/ (excess)	2005–06 Outturn
		£000	£000	£000	£000
Resource Outturn	2	1,983,313	1,925,518	57,795	1,900,852
Capital					
Acquisition of fixed assets	12	186,066	162,178	23,888	112,505
Non-operating A in A					
Proceeds of fixed asset disposals	6	(57,687)	(57,256)	(431)	(18,015)
Proceeds of sale of goods and services		(11,000)	–	(11,000)	–
Accruals adjustments					
Non-cash items	8	(148,719)	(173,665)	24,946	(147,105)
Changes in working capital other than cash	22	–	(20,386)	20,386	3,637
Changes in creditors falling due after more than one year		–	(221)	221	(134)
Use of provisions	19	–	15,367	(15,367)	16,502
Retirement benefit schemes	28	–	1,893	(1,893)	(493)
Excess cash receipts surrenderable to the Consolidated Fund		–	–	–	(8,466)
Net cash requirement		**1,951,973**	**1,853,428**	**98,545**	**1,859,283**

Explanations are given for variances between Outturn and Estimate in the Management Commentary in the Annual Report.

5. Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid the following income and cash receipts relate to the Department and is payable to the Consolidated Fund:

	Forecast 2006–07		Outturn 2006–07	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Other operating income and receipts – not classified as A in A	2,401	2,402	9,212	9,212
Total income payable to the Consolidated Fund	**2,401**	**2,402**	**9,212**	**9,212**

6. Analysis of total income

6.1 Reconciliation of income recorded within the operating cost statement to operating income payable to the Consolidated Fund

	2005–06
	£000
Gross operating income	339,551
Income authorised to be appropriated in aid	(320,831)
Operating income payable to the Consolidated Fund	**18,720**

6.2 Analysis of non-operating income – excess A in A

Proceeds of fixed asset disposals	18,171
Income authorised to be appropriated in aid	(18,015)
Non-operating income – excess A in A	**156**

This note is applicable to 2005-06 only

7. Staff numbers and related costs

7.1 Staff costs comprise:

	Permanent staff		Others	Ministers	Special advisers	2006–07 Total	2005–06 Total
	Local staff	UK staff					
	£000	£000	£000	£000	£000	£000	£000
Salaries	117,966	258,826	13,022	299	341	390,454	385,438
Social Security costs	–	13,746	–	16	18	13,780	13,747
Other pension costs	21,285	39,082	–	–	10	60,377	56,550
Sub total	139,251	311,654	13,022	315	369	464,611	455,735
Less: recoveries in respect of outward secondments	–	(1,705)	–	–	–	(1,705)	(1,386)
Total net costs	**139,251**	**309,949**	**13,022**	**315**	**369**	**462,906**	**454,349**
Of which core FCO	**139,034**	**261,859**	**9,188**	**315**	**369**	**410,765**	

Social Security costs for local staff are paid according to local legislation and are included within salaries costs as appropriate.

7.2 The average number of whole-time equivalent persons employed: (Consolidated, including senior management and staff on secondment)

	Permanent staff		Others	2006–07 Total	2005–06 Total
	Local staff	UK staff			
					Restated
SP 1	157	683	82	922	582
SP 2	138	260	31	429	285
SP 3	254	856	103	1,213	1,135
SP 4	375	546	66	987	1,121
SP 5	3,156	803	97	4,056	4,424
SP 6	88	87	11	186	–
SP 7	388	559	68	1,015	810
SP 8	4,024	1,479	178	5,681	4,999
SP9	1,778	556	67	2,401	2,445
SP10	24	172	21	217	226
Total	**10,382**	**6,001**	**724**	**17,107**	**16,027**
Of which core FCO	**10,371**	**4,889**	**480**	**15,740**	

In addition to the above numbers there were 6 Ministers and 6 Special Advisers whose portfolios can cover all Strategic Priorities and therefore have not been allocated specifically in the table.

In 2006-07, there was an increase in the employment of contract officers required to serve at specific posts abroad in the light of the worldwide security situation.

The Total for 2005-06 has been restated: Strategic Priorities have been revised this year and the allocation of the prior year numbers has been adjusted accordingly.

8. Other administration costs

	2006–07 FCO £000	2006–07 Consolidated £000	2005–06 Consolidated £000
Rentals under operating leases			
Hire of plant and machinery	2,950	6,454	6,704
Property rentals	62,856	63,773	65,237
	65,806	70,227	71,941
Interest charges			
Finance leases	98	98	20
On-balance sheet PFI contracts	2,535	2,535	2,634
	2,633	2,633	2,654
PFI service charges			
Off-balance sheet contracts	23,928	23,928	26,924
Service element of on-balance sheet contracts	1,412	1,412	3,077
	25,340	25,340	30,001
Non-cash items			
Depreciation:			
Tangible fixed assets	79,355	80,616	66,834
Accelerated on furniture no longer capitalised	–	–	41,738
Amortisation:			
Intangible fixed assets	889	889	103
(Gain)/loss on disposal of fixed assets	(570)	(472)	(1,498)
Impairment losses arising on fixed asset revaluation	47,516	47,656	12,721
Impairment reversals arising on fixed asset revaluation	(20,450)	(20,450)	(34,950)
Cost of capital charge at 3.5%	50,211	50,536	44,155
Auditors' remuneration and expenses (no non-audit work)	250	345	270
Provisions:			
Provided in year	11,024	14,471	16,372
Unwinding of discount on provisions	74	74	1,360
	168,299	173,665	147,105
Other expenditure			
(Gain)/loss on exchange	348	370	(2,121)
Training, medical, travel and other allowances	118,252	134,846	117,126
Estate and capital related costs	182,375	193,397	135,772
IT and communications	41,861	78,959	109,797
Other	24,303	38,306	120,962
FCO Services recharges	126,208	–	–
	493,347	445,878	481,536
	755,425	**717,742**	**733,237**
Administration cost of Consular and UKvisas operations worldwide allocated to programme as frontline service	**309,270**	**309,270**	**299,774**

9. Programme costs
Current grants and other current expenditure:

	2006–07 FCO	2006–07 Consolidated	2005–06 Consolidated
	£000	£000	£000
Subscriptions to International Organisations	143,656	143,656	115,939
FCO programmes (including non-cash)	145,897	145,897	170,323
Consular and UKvisas operations	309,270	309,270	299,774
Re-imbursements	20,487	20,487	18,155
BBC Monitoring Service (prior year only)	–	–	5,072
	619,310	619,310	609,263
BBC World Service	239,543	239,543	239,143
British Council	188,124	188,124	189,210
Conflict Prevention/Peacekeeping	345,580	345,580	296,255
	1,392,557	1,392,557	1,333,871
Less: Programme income (Note 10)	(283,009)	(283,009)	(242,701)
Net programme costs	**1,109,548**	**1,109,548**	**1,091,170**
Subscriptions include the following over £1 million:			
UN Regular Budget	79,201	79,201	57,610
Council of Europe	19,018	19,018	18,660
NATO	18,355	18,355	18,611
OECD	15,628	15,628	12,249
Commonwealth Secretariat	5,153	5,153	4,504
OSCE	2,804	2,804	
Western European Union	2,174	2,174	1,858
Other (in total)	1,323	1,323	2,447
	143,656	**143,656**	**115,939**

10. Income

Income recorded in the Operating Cost Statement is analysed as follows:

	2006–07 FCO	2006–07 Consolidated	2005–06 Consolidated
	£000	£000	£000
RfR 1			
Administration income			
General	20,082	23,251	25,731
Fees and charges to external customers	178	15,409	25,649
Fees and charges to other departments	61,154	61,154	80,782
External interest	760	760	446
	82,174	100,574	132,608
Allocated to Consular and UKvisas programme income below	(35,954)	(35,954)	(35,758)
	46,220	64,620	96,850
Programme income			
Consular and UKvisas	273,015	273,015	236,297
Other departments funding	4,830	4,830	–
	277,845	277,845	236,297
RfR 1	324,065	342,465	333,147
RfR 2			
Programme income	5,164	5,164	6,404
Total	**329,229**	**347,629**	**339,551**

An analysis of income and fee-bearing costs from services provided to external customers, provided for fees and charges purposes only, not for SSAP25 purposes, is as follows :

			2006–07			2005–06
	Income	Full cost	Surplus/ (deficit)	Income	Full cost	Surplus/ (deficit)
	£000	£000	£000	£000	£000	£000
Passport and consular income	60,935	(61,239)	(305)	46,796	(47,030)	(234)
Visa income	211,160	(201,743)	9,417	189,501	(187,253)	2,248
	272,095	**(262,983)**	**9,112**	**236,297**	**(234,283)**	**2,014**

11. Analysis of net operating cost by spending body

		2006–07		2005–06
	Budget	Outturn	Budget	Outturn
	£000	£000	£000	£000
Foreign and Commonwealth Office	1,168,127	1,120,634	1,203,087	1,137,303
Wilton Park	699	530	699	713
Government Hospitality Fund	3,290	1,408	3,290	2,685
BBC World Service	239,543	239,543	239,143	239,143
BBC Monitoring Service (prior year only)	–	–	5,074	5,072
British Council	188,124	188,124	189,210	189,210
Others (including international organisations in respect of conflict prevention)	383,530	366,067	378,721	308,006
	1,983,313	**1,916,306**	**2,019,224**	**1,882,132**

The Retained profit for the year of £4,473,000 shown in the accounts of FCO Services is included in the FCO figures for 2006-07.

12. Tangible fixed assets – consolidated

	Non–residential land and buildings	Residential land and buildings	Information technology	Transport equipment	Plant and machinery	Antiques and works of art
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2006	620,530	698,065	100,607	43,066	28,903	19,847
Additions	6,564	1,579	583	1,313	3,275	–
Disposals	(6,517)	(51,892)	(30,666)	(4,323)	(889)	–
Transfer to OGD	(6,696)	–	–	–	–	–
Impairments	(18,145)	(6,263)	(5,449)	–	–	–
Revaluation	22,629	(125)	(107)	374	155	342
Reclassification	54,978	4,765	17,548	16,816	5,451	140
At 31 March 2007	**673,343**	**646,129**	**82,516**	**57,246**	**36,895**	**20,329**
Depreciation						
At 1 April 2006	28,362	2,476	59,932	25,469	12,258	–
Charge for the year	36,138	14,966	16,122	9,291	4,099	–
Charge for the year – donated assets	85	768	–	–	–	–
Disposals	(2,662)	(26)	(30,597)	(3,588)	(631)	–
Transfer to OGD	(12)	–	–	–	–	–
Impairments	–	–	(2,932)	–	52	–
Revaluation	(11,751)	(15,328)	(54)	181	13	–
Reclassification	2	(2)	31	–	–	–
At 31 March 2007	**50,162**	**2,854**	**42,502**	**31,353**	**15,791**	**–**
Net book value						
At 31 March 2007	**623,181**	**643,275**	**40,014**	**25,893**	**21,104**	**20,329**
At 31 March 2006	592,168	695,589	40,675	17,597	16,645	19,847
Asset financing:						
Owned	421,735	472,440	40,014	25,893	20,883	20,329
Leased	189,860	170,835	–	–	221	–
On-balance-sheet PFI contracts	11,586	–	–	–	–	–
Net book value						
At 31 March 2007	**623,181**	**643,275**	**40,014**	**25,893**	**21,104**	**20,329**

Analysis of tangible fixed assets

The net book value of tangible fixed assets comprises:

Core FCO 2006-07	623,181	643,275	38,928	25,615	19,275	20,329
Agencies 2006-07	–	–	1,086	278	1,829	–
At 31 March 2007	**623,181**	**643,275**	**40,014**	**25,893**	**21,104**	**20,329**

12. Tangible fixed assets *(continued)*

	Assets under construction	Total tangible assets
	£000	£000
Cost or valuation		
At 1 April 2006	96,781	1,607,799
Additions	158,161	171,475
Disposals	–	(94,287)
Transfer to OGD	–	(6,696)
Impairments	–	(29,857)
Revaluation	–	23,268
Reclassification	(99,649)	49
At 31 March 2007	**155,293**	**1,671,751**
Depreciation		
At 1 April 2006	–	128,497
Charge for the year	–	80,616
Charge for the year – donated assets	–	853
Disposals	–	(37,504)
Transfer to OGD	–	(12)
Impairments	–	(2,880)
Revaluation	–	(26,939)
Reclassification	–	31
At 31 March 2007	**–**	**142,662**
Net book value		
At 31 March 2007	**155,293**	**1,529,089**
At 31 March 2006	**96,781**	**1,479,302**
Asset financing:		
Owned	155,293	1,156,587
Leased	–	360,916
On-balance-sheet PFI contracts	–	11,586
Net book value		
At 31 March 2007	**155,293**	**1,529,089**
Analysis of tangible fixed assets		
The net book value of tangible fixed assets comprises:		
Core FCO 2006-07	155,045	1,525,648
Agencies 2006-07	248	3,441
At 31 March 2007	**155,293**	**1,529,089**

12. Tangible fixed assets *(continued)*

Tangible fixed assets – FCO only

	Non–residential land and buildings	Residential land and buildings	Information technology	Transport equipment	Plant and machinery	Antiques and works of art
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2006	618,070	698,065	99,535	43,043	28,634	19,847
Additions	6,522	1,579	73	1,252	1,507	–
Disposals	(3,967)	(51,892)	(30,198)	(4,178)	(889)	–
Transfer to FCO Services	–	–	(1,216)	(961)	(835)	–
Transfer to OGD	(6,696)	–	–	–	–	–
Impairments	(18,145)	(6,263)	(5,443)	–	–	–
Revaluation	22,581	(125)	–	363	127	342
Reclassification	54,978	4,765	17,548	16,816	5,451	140
At 31 March 2007	**673,343**	**646,129**	**80,299**	**56,335**	**33,995**	**20,329**
Depreciation						
At 1 April 2006	26,287	2,476	59,169	25,454	12,165	–
Charge for the year	35,746	14,966	15,815	9,178	3,651	–
Charge for the year – donated assets	85	768	–	–	–	–
Disposals	(152)	(26)	(30,149)	(3,482)	(631)	–
Transfer to FCO Services	–	–	(527)	(603)	(469)	–
Transfer to OGD	(12)	–	–	–	–	–
Impairments	–	–	(2,968)	–	–	–
Revaluation	(11,794)	(15,328)	–	173	4	–
Reclassification	2	(2)	31	–	–	–
At 31 March 2007	**50,162**	**2,854**	**41,371**	**30,720**	**14,720**	**–**
Net book value						
At 31 March 2007	**623,181**	**643,275**	**38,928**	**25,615**	**19,275**	**20,329**
At 31 March 2006	591,783	695,589	40,366	17,589	16,469	19,847
Asset financing:						
Owned	421,735	472,440	38,928	25,615	19,054	20,329
Leased	189,860	170,835	–	–	221	–
On-balance-sheet PFI contracts	11,586	–	–	–	–	–
Net book value						
At 31 March 2007	**623,181**	**643,275**	**38,928**	**25,615**	**19,275**	**20,329**

12. Tangible fixed assets *(continued)*

	Assets under construction	Total tangible assets
	£000	£000
Cost or valuation		
At 1 April 2006	96,769	1,603,963
Additions	157,925	168,858
Disposals	–	(91,124)
Transfer to FCO Services	–	(3,012)
Transfer to OGD	–	(6,696)
Impairments	–	(29,851)
Revaluation	–	23,288
Reclassification *	(99,649)	49
At 31 March 2007	**155,045**	**1,665,475**
Depreciation		
At 1 April 2006	–	125,551
Charge for the year	–	79,356
Charge for the year – donated assets	–	853
Disposals	–	(34,440)
Transfer to FCO Services	–	(1,599)
Transfer to OGD	–	(12)
Impairments	–	(2,968)
Revaluation	–	(26,945)
Reclassification *	–	31
At 31 March 2007	**–**	**139,827**
Net book value		
At 31 March 2007	**155,045**	**1,525,648**
At 31 March 2006	96,769	1,478,412
Asset financing:		
Owned	155,045	1,153,146
Leased	–	360,916
On-balance-sheet PFI contracts	–	11,586
Net book value		
At 31 March 2007	**155,045**	**1,525,648**

Notes to tangible fixed assets

The valuations of the home estate and properties in the European Union and Wider Europe were carried out by Colliers CRE. The effective valuation date was 30 June 2005. Desk reviews for revaluation purposes were carried out by in-house valuers on 31 March 2007. The valuations of properties in the Americas were carried out by CB Richard Ellis. The effective valuation date was 30 June 2005. Desk reviews for revaluation purposes were carried out by in-house valuers on 31 March 2007. The valuations of properties in the Middle East and North Africa were carried out by Cluttons. The effective valuation date was 30 June 2005. Desk reviews for revaluation purposes were carried out by in-house valuers on 31 March 2007.

The valuations of properties in Sub-Saharan Africa were carried out by CB Richard Ellis. The effective valuation date was 30 June 2006, with an in-house desk review on 31 March 2007. The valuations of properties in Asia were carried out by Cluttons. The effective valuation date was 30 June 2006 with an in-house desk review on 31 March 2007.

Replacement cost of FCO properties is deemed to be at existing use value subject to the following special assumption: The estate has been valued to provide "value to the business" assessments in accordance with HM Treasury guidelines, on the assumption that all buildings are treated as "non specialised" assets. All properties have been valued on this basis by independent professional firms of valuers in accordance with RICS "Appraisal and Valuation Manual" standards for non specialised properties and have been subject to indexation by FCO chartered surveyors.

Other assets, except for antiques and works of art, have been valued at the lower of existing use and market value.

* Some Information technology assets have been reclassified from Intangible fixed assets (note 13).

13. Intangible fixed assets

Consolidated and FCO

	Purchased software licences
	£000
Cost or valuation	
At 1 April 2006	1,266
Additions	3,000
Impairments	(220)
Revaluation	(70)
Reclassification *	(49)
At 31 March 2007	**3,927**
Amortisation	
At 1 April 2006	857
Charge for the year	889
Impairment losses	(36)
Revaluation	(53)
Reclassification *	(31)
At 31 March 2007	**1,626**
Net book value	
At 31 March 2007	**2,301**
At 31 March 2006	**409**
Asset financing:	
Owned	32
Leased	2,269
Net book value	
At 31 March 2007	**2,301**

* Some assets have been reclassified to Tangible fixed assets (note 12).

14. Investments

The FCO held no investments between 1 April 2006 and 31 March 2007.

15 Stocks and work in progress

	2006–07		2005–06
	£000	£000	£000
	FCO	**Consolidated**	**Consolidated**
Stocks	9,945	10,817	7,547
Long term contracts and work in progress	–	1,149	–
	9,945	**11,966**	**7,547**

16 Debtors

16.1 Analysis by type

	2006–07		2005–06
	£000	£000	£000
	FCO	**Consolidated**	**Consolidated**
Amounts falling due within one year			
Trade debtors	36,462	38,378	64,623
Other debtors	15,382	16,399	19,121
Deposits and advances	7,644	7,688	4,142
Prepayments and accrued income	147,884	153,136	140,845
	207,372	215,601	228,731
Amounts falling due after more than one year			
Other debtors	4,016	4,016	3,696
Total	**211,388**	**219,617**	**232,427**

16.2 Intra-Government Balances – Consolidated

	Amounts falling due within one year		**Amounts falling due after one year**	
	2006–07	**2005–06**	**2006–07**	**2005–06**
	£000	£000	£000	£000
Balances with other central government bodies	29,841	48,869	–	–
Balances with public corporations and trading funds	974	12,567	–	–
Total intra-government balances	**30,815**	**61,436**	**–**	**–**
Balances with bodies external to government	184,786	167,295	4,016	3,696
Total debtors at 31 March	**215,601**	**228,731**	**4,016**	**3,696**

17 Cash at bank and in hand

	2006–07		2005–06
	£000	£000	£000
	FCO	**Consolidated**	**Consolidated**
Balance at 1 April 2006	114,872	115,185	75,410
Net change in cash balances	(32,180)	(19,126)	39,775
Balance at 31 March 2007	**82,692**	**96,059**	**115,185**
The following balances and overdrafts at 31 March are held at:			
Balances			
Office of HM Paymaster General	22,019	34,401	76,181
Commercial banks and cash in hand UK and overseas	64,087	65,072	41,134
	86,106	**99,473**	**117,315**
Overdrafts			
Commercial banks overseas (Note 18)	(3,414)	(3,414)	(2,130)
	82,692	**96,059**	**115,185**

18 Creditors

18.1 Analysis by type

	2006–07		2005–06
	£000	£000	£000
	FCO	Consolidated	Consolidated
Amounts falling due within one year			
Bank overdrafts (note 17)	3,414	3,414	2,130
Other taxation and social security	695	858	1,109
Payments on account	–	714	–
Trade creditors	77,030	85,707	27,138
Other creditors	15,247	15,278	19,207
Accruals and deferred income	80,645	87,934	125,253
Current part of finance leases (note 25)	781	781	83
Current part of imputed finance lease element of on-balance sheet PFI contracts (note 26)	507	507	480
Total excluding amounts due to the Consolidated Fund	178,319	195,193	175,400
Amounts issued from the Consolidated Fund for supply but not spent at year end	77,699	91,066	107,228
Excess cash receipts surrenderable to the Consolidated Fund	8,466	8,466	8,466
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	4,993	4,993	7,958
	269,477	**299,718**	**299,052**
Amounts falling due after more than one year			
Finance leases (note 25)	1,598	1,598	88
Imputed finance lease element of on-balance sheet PFI contracts (note 26)	31,252	31,252	32,541
	32,850	**32,850**	**32,629**
Total	**302,327**	**332,568**	**331,681**

18.2 Intra-Government Balances – Consolidated

	Amounts falling due within one year		Amounts falling due after one year	
	2006–07	2005–06	2006–07	2005–06
	£000	£000	£000	£000
Balances with other central government bodies	14,169	23,662	–	–
Total intra-government balances	**14,169**	**23,662**	–	–
Balances with bodies external to government	285,549	275,390	32,850	32,629
Total creditors at 31 March	**299,718**	**299,052**	**32,850**	**32,629**

19 Provisions for liabilities and charges

Consolidated

	Early departure costs	LE staff terminal gratuities	Other staff provisions	Estate related provisions	FCO Services restructuring	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2006	23,714	29,578	3,856	10,100	–	67,248
Provided in year	15,555	369	–	(4,900)	3,447	14,471
Provisions utilised in the year	(12,349)	–	(3,018)	–	–	(15,367)
Unwinding of discount	74	–	–	–	–	74
Balance at 31 March 2007	**26,994**	**29,947**	**838**	**5,200**	**3,447**	**66,426**
Of which core FCO	**26,994**	**29,947**	**838**	**5,200**	**–**	**62,979**

20 General fund

The General Fund represents the total assets less liabilities of the FCO, FCO Services and Wilton Park to the extent that the total is not represented by other reserves and financing items.

	2006–07		2005–06
	£000	£000	£000
	FCO	**Consolidated**	**Consolidated**
General Fund at 1 April	830,562	831,825	821,021
Net Parliamentary funding – drawn down	1,837,266	1,837,266	1,898,116
Year end adjustment:			
Current year supply creditor	(77,699)	(91,066)	(115,694)
Prior year Consolidated Fund creditor	106,915	107,228	68,394
Net transfer from Operating Activities:			
Net Operating Cost	(1,920,249)	(1,916,306)	(1,882,132)
Consolidated Fund Extra Receipts	(4,993)	(4,993)	(7,958)
Income not appropriated in aid paid to Consolidated Fund	(4,219)	(4,219)	(2,453)
Non-cash charges :			
Cost of capital	50,211	50,536	44,155
Auditors remuneration	250	345	270
Fixed asset revaluation adjustments	51,098	51,080	–
Fixed asset transfer of property to OGD	(6,684)	(6,684)	–
Current asset revaluation adjustments	(5,086)	(5,086)	1,675
Consolidation and other in year adjustments	(769)	(16)	613
Transfer from revaluation reserve (note 21.1)	8,345	8,345	5,639
Transfer from donated asset reserve (note 21.2)	–	–	179
	34,386	**26,430**	**10,804**
General Fund at 31 March	**864,948**	**858,255**	**831,825**

21 Reserves

21.1 Revaluation reserve

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments (excluding donated assets).

	2006–07		2005–06
	£000	£000	£000
	FCO	**Consolidated**	**Consolidated**
Balance at 1 April	541,748	541,817	340,730
Unrealised gain on revaluation of fixed assets	50,213	50,189	206,726
Fixed asset revaluation adjustments through General Fund	(45,399)	(45,381)	–
Transfer to general fund of realised element of revaluation reserve	(8,345)	(8,345)	(5,639)
Balance at 31 March	**538,217**	**538,280**	**541,817**

21.2 Donated assets reserve

The donated asset reserve reflects the net book value of assets donated to the FCO.

	2006–07		2005–06
	£000	£000	£000
	FCO	**Consolidated**	**Consolidated**
Adjustment for assets taken on at nil cost			
Balance at 1 April	59,956	59,956	51,013
Fixed asset revaluation adjustments through General Fund	4,286	4,286	9,886
Unrealised gain on revaluation of fixed assets	948	948	–
Transfer to general fund of realised element of revaluation reserve	–	–	(179)
Release to the operating cost statement	(853)	(853)	(764)
Balance at 31 March	**64,337**	**64,337**	**59,956**

22 Notes to the Consolidated Cash Flow Statement

22.1 Reconciliation of operating cost to operating cash flows

	2006–07	2005–06
	£000	£000
Net Operating Cost	**1,916,306**	**1,882,132**
Adjustments for non-cash transactions	(173,665)	(147,106)
Increase/(decrease) in stock	4,419	(1,184)
Increase/(decrease) in debtors	(6,300)	6,510
Less movements in debtors relating to items not passing through the OCS	–	(2,383)
(Increase)/decrease in creditors	1,345	(49,174)
Less movements in creditors relating to items not passing through the OCS	(11,168)	49,876
Use of provisions	15,367	16,502
Retirement benefit schemes	1,893	(493)
Net cash outflow from operating activities	**1,748,197**	**1,754,680**

22.2 Analysis of capital expenditure and financial investment (all RfR1)

	2006–07	2005–06
	£000	£000
Tangible fixed asset additions	4,017	79,360
Additions to assets in the course of construction	158,161	33,145
Proceeds from disposal of fixed assets	(57,256)	(18,171)
Net cash outflow from investing activities	**104,922**	**94,334**

22.3 Analysis of capital expenditure and financial investment

Request for Resources 1	**Capital expenditure**	**A in A**	**Net total**
	£000	£000	£000
Total 2006-07	**162,178**	**(57,256)**	**104,922**
Total 2005-06	**112,505**	**(18,171)**	**94,334**

22.4 Analysis of financing

	2006–07	2005–06
	£000	£000
From the Consolidated Fund (Supply) – current year	1,944,494	1,966,510
Deemed Supply in respect of unspent prior year Supply	(107,228)	(68,394)
Advances from the Contingency Fund	–	130,000
Repayments to the Contingency Fund	–	(130,000)
Capital element of payments in respect of on-balance sheet PFI contracts	946	142
Net financing	**1,838,212**	**1,898,258**

22.5 Reconciliation of net cash requirement to net change in cash balances

	2006–07	2005–06
	£000	£000
Net financing		
Net cash requirement	(1,853,428)	(1,859,283)
From the Consolidated Fund (Supply) – current year	1,944,494	1,966,510
Deemed Supply in respect of unspent prior year Supply	(107,228)	(68,394)
Amounts due to the Consolidated Fund received in a prior year and paid over	(7,699)	(7,016)
Adjustment to prior year Consolidated Fund creditor	(258)	–
Amounts due to the Consolidated Fund received and not paid over	4,993	7,958
Net change in cash balances	**(19,126)**	**39,775**

23 Notes to the Consolidated Statement of Operating Costs by Aim and Objectives (Strategic Priorities)

23.1 Programme grants and other current expenditures have been allocated as follows :

	2006–07	2005–06*
	£000	£000
Strategic Priorities (SP):		
SP1	81,975	
SP2	44,190	
SP3	592,886	
SP4	97,950	
SP5	42,532	
SP6	15,047	
SP7	173,046	
SP8	(9,618)	
SP9	46,149	
SP10	25,391	
	1,109,548	**1,091,170**

* Strategic Priorities were revised this year and accordingly it is not considered appropriate to restate the analysis of prior year figures.

23.2 Capital employed by aim and objectives

The FCO's capital is employed in the administration of the Department, including Consular and UKvisas activity shown under programme expenditures. In practice, its distribution between Strategic Priorities is therefore not markedly different from the proportion of the related costs.

24 Capital commitments

Contracted capital commitments at 31 March for which no provision has been made:

		2007	2006
	£000	£000	£000
	FCO	**Consolidated**	**Consolidated**
Estates projects	156,085	156,085	95,170
IT infrastructure	86,322	86,322	77,000
Other	–	–	568
	242,407	**242,407**	**172,738**

25 Commitments under leases

25.1 Operating leases

Commitments under leases to pay rentals during the year following the year of these accounts are given in the tables below, analysed according to the period in which the lease expires.

	2007		2006
	FCO	Consolidated	Consolidated
	£000	£000	£000
Obligations under operating leases comprise			
Land and buildings:			
Expiry within 1 year	27,466	27,466	13,976
Expiry after 1 year but not more than 5 years	46,678	46,678	27,640
Expiry thereafter	7,556	7,556	9,076
	81,700	**81,700**	**50,692**
Other:			
Expiry within 1 year	314	314	486
Expiry after 1 year but not more than 5 years	308	308	489
Expiry thereafter	7	7	–
	629	**629**	**975**

25.2 Finance leases

	2007		2006
	FCO	Consolidated	Consolidated
	£000	£000	£000
Obligations under finance leases comprise			
Land and buildings: nil			
Other:			
Rentals due within 1 year	845	845	93
Rentals due after 1 year but within 5 years	1,632	1,632	98
	2,477	2,477	191
Less: interest element	(98)	(98)	(20)
	2,379	**2,379**	**171**

26 Commitments under PFI contracts

26.1 Off-balance sheet

Global Crossing

The contract is in respect of the provision of a worldwide telecommunications network for a term of ten years from 10 May 2000. The estimated capital value of the contract is £200 million but it is considered by the Board that the equipment brought into use under the contract is not an asset of the Department. The present unitary payment charged to the operating cost statement is £24 million per annum.

26.2 On-balance sheet

Arteos

The contract is in respect of the building, operation and maintenance of the British embassy in Berlin for a term of 30 years from 23 June 1998 with an option to extend for a further 30 years. Overall, the balance of the risks and rewards of ownership of the property are borne by the Department, and, therefore, the embassy is included in these accounts as a tangible fixed asset. The initial capitalisation of the contract was reflected in the 2002-03 accounts.

The unitary charge which covers the occupation of the building has been discounted over the remaining life of the contract and capitalised. The service element of the contract remains an operating cost. In 2006-07 this amounted to £1,412,000 (2005-06: £3,077,000).

The liability to pay for the property is in substance a finance lease obligation. Contractual payments therefore comprise two elements: imputed finance lease charges and service charges. The imputed finance lease obligation is as follows:

		2007	**2006**
	FCO	**Consolidated**	**Consolidated**
	£000	£000	£000
Imputed finance lease obligations under on-balance sheet PFI contracts comprises:			
Rentals due within 1 year	3,004	3,004	3,077
Rentals due within 2 to 5 years	12,014	12,014	12,310
Rentals due thereafter	54,197	54,197	58,609
	69,215	69,215	73,996
Less: interest element	(37,456)	(37,456)	(40,975)
	31,759	**31,759**	**33,021**

26.3 Charge to the Operating

The total amount charged in the Operating Cost Statement in respect of off-balance sheet PFI transactions and the service element of on-balance sheet PFI transactions was £25,340,000 (2005-06: £30,001,000).

The payments to which the department is committed during 2006-07, analysed by the period during which the commitment expires, are as follows:

		2007	**2006**
	FCO	**Consolidated**	**Consolidated**
	£000	£000	£000
Expiry within 1 year	–	–	–
Expiry within 2 to 5 years	24,000	24,000	–
Expiry within 6 to 10 years	–	–	22,193
Expiry within 11 to 15 years	–	–	–
Expiry within 16 to 20 years	–	–	–
Expiry within 21 to 25 years	1,217	1,217	1,220
Expiry within 26 to 30 years	–	–	–
	25,217	**25,217**	**23,413**

27 Other financial commitments

The Department has entered into non-cancellable contracts (which are not leases or PFI contracts) for facility management, logistics and computer services. The payments to which the FCO is committed during 2007-08, analysed by the period during which the commitment expires, are as follows:

		2007	2006
	FCO	Consolidated	Consolidated
	£000	£000	£000
Expiry within 1 year	38,098	38,098	2,237
Expiry within 2 to 5 years	22,811	22,811	8,197
Expiry thereafter	–	–	3,000
	60,909	**60,909**	**13,434**

28 Retirement benefit schemes

As stated in notes 1.14 to 1.16, UK-based employees are covered by the provisions of the Principal Civil Service Pension Scheme and for staff engaged overseas the FCO observes local employment laws regarding the payment of pensions and terminal gratuities.

Defined contribution schemes

The FCO operates defined contribution schemes in: Barbados, Denmark, New Zealand and Zambia. The schemes operated in Belgium and Holland are defined benefit but multi-user, where the individual insurers' assets cannot be identified; these are treated as direct contribution schemes. The value of contributions in 2006-07 was £471,567 (2005-06 – £492,921).

Defined benefit schemes

		2007		**2006**
	Fair value of assets	Present value of future liabilities	Fair value of assets	Present value of future liabilities
	£000	£000	£000	£000
				Restated
Retirement benefits schemes – asset				
Irish Republic (2006 – deficit)	1,510	(1,473)	–	–
Jamaica	509	(374)	499	(329)
Trinidad and Tobago	319	(165)	327	(145)
	2,338	**(2,012)**	**826**	**(474)**
Surplus	**326**		**352**	
Retirement benefits schemes – liability				
Canada	4,704	(5,214)	4,918	(5,432)
Irish Republic (2007 – asset)	–	–	1,297	(1,451)
Mauritius	129	(156)	129	(163)
Portugal	299	(305)	142	(245)
South Africa	3,761	(3,937)	4,244	(4,531)
USA	24,497	(26,684)	26,656	(30,423)
	33,390	**(36,296)**	**37,386**	**(42,245)**
Deficit		**(2,906)**		**(4,859)**
Net deficit		**(2,580)**		**(4,507)**

All of the FCO's known defined benefit schemes have been subject to actuarial valuation or review as at 31 March 2007. The schemes in USA, Canada, Ireland, Jamaica and Portugal have been reviewed and updated as at 31 March 2007; the schemes in South Africa and Trinidad and Tobago have been estimated based on last year's figures. The scheme in Zimbabwe was wound up in 2005 and the staff transferred to a terminal gratuity arrangement. The major part of the net pension liabilities in Colombia have been crystallised and an annuity contract agreed with a major insurance company; the full liability against this contract was discharged in March 2006. Residual liabilities of some £570,000 for long-serving members of staff remain; these are fully covered by insurance investments pending final acceptance/discharge by the Colombian Department of Social Security. The scheme in Mauritius is now shown in this note and comparatives have been restated throughout this note to reflect this.

Valuations were carried out as at 31 March 2007 by qualified independent actuaries. The major assumptions used by the actuaries were:

	Rate of increase in salaries	Rate of increase in pensions in payment	Discount rate	Inflation assumption
Canada	3.75%	2.75%	5.25%	2.75%
Irish Republic	4.00%	2.25%	4.75%	2.25%
Jamaica	9.00%	3.50%	12.00%	7.00%
Mauritius	8.00%	0.00%	10.00%	8.00%
Portugal	3.00%	0.00%	4.75%	2.25%
South Africa	5.84%	3.87%	8.30%	4.84%
Trinidad and Tobago	5.50%	0.00%	6.50%	5.50%
USA	4.5%–6%	3.00%	6.00%	2.50%

The assets in the schemes and the expected rate of return were:

	Long–term rate of return expected at 31 March 2007		
	Equities	Bonds	Other
Canada	6.50%	3.00%	–
Irish Republic	7.30%	4.30%	5.30%
Jamaica	12.50%	–	12.50%
Mauritius	16.00%	10.00%	6.00%
Portugal	–	–	3.50%
South Africa	–	–	9.80%
Trinidad and Tobago	–	–	7.50%
USA	8.16–8.36%	5.13%	–

	Value as at 31 March 2007				**2006**
	Equities	Bonds	Other	Total	Total
	£000	£000	£000	£000	£000
Canada	2,577	2,127	–	4,704	4,918
Irish Republic	1,094	163	253	1,510	1,297
Jamaica	74	–	435	509	499
Mauritius	58	65	6	129	129
Portugal	–	–	299	299	142
South Africa	–	–	3,761	3,761	4,244
Trinidad and Tobago	–	–	319	319	327
USA	14,928	9,569	–	24,497	26,656
Total market value of assets	**18,731**	**11,924**	**5,073**	**35,728**	**38,212**

Present value of scheme liabilities	**2007**	**2006**
	£000	£000
Canada	(5,214)	(5,432)
Irish Republic	(1,473)	(1,451)
Jamaica	(374)	(329)
Mauritius	(156)	(163)
Portugal	(305)	(245)
South Africa	(3,937)	(4,531)
Trinidad and Tobago	(165)	(145)
USA	(26,684)	(30,423)
Total present value of scheme liabilities	**(38,308)**	**(42,719)**
Net pension liability	**(2,580)**	**(4,507)**

Analysis of the amount charged to the Operating Cost Statement in 2006-07

			2006–07	**2005–06**
	Current service cost	Past service cost	Total operating charge	Total operating charge
	£000	£000	£000	£000
Canada	175	–	175	148
Irish Republic	83	–	83	421
Jamaica	29	–	29	26
Mauritius	6	–	6	7
Portugal	23	–	23	26
South Africa	151	–	151	204
Trinidad and Tobago	9	–	9	9
USA	1,015	–	1,015	1,169
	1,491	**–**	**1,491**	**2,010**

Analysis of the amount credited to other finance income in 2006-07

			2006–07	2005–06
	Expected return on pension scheme assets	Interest on pension scheme liabilities	Net return	Net return
	£000	£000	£000	£000
Canada	230	(267)	(37)	(41)
Irish Republic	79	(62)	17	(7)
Jamaica	52	(32)	20	24
Mauritius	15	(14)	1	(3)
Portugal	7	(11)	(4)	(2)
South Africa	337	(246)	91	126
Trinidad and Tobago	16	(10)	6	8
USA	1,658	(1,549)	109	164
	2,394	**(2,191)**	**203**	**269**

Analysis of amount recognisable in Statement of Recognised Gains and Losses

				2006–07	2005–06
	Actual return less expected return on pension scheme assets	Experience gains and losses arising on the scheme liabilities	Changes in assumptions underlying the present value of the scheme liabilities	Actuarial gain/(loss) recognised	Actuarial gain/(loss) recognised
	£000	£000	£000	£000	£000
Canada	189	–	(260)	(71)	(382)
Irish Republic	18	29	88	135	347
Jamaica	30	(74)	–	(44)	17
Mauritius	(2)	(2)	–	(4)	2
Portugal	(2)	(77)	–	(79)	(42)
South Africa	197	(134)	(35)	28	(207)
Trinidad and Tobago	12	(16)	–	(28)	5
USA	524	981	254	1,759	1,111
	966	**707**	**47**	**1,696**	**851**

Movement in surplus/(deficit) during the year

	Surplus/ (deficit) in scheme at beginning of the year	Movement in year	Surplus/(deficit) in scheme at end of the year
	£000	£000	£000
Canada	(514)	4	(510)
Irish Republic	(155)	192	37
Jamaica	171	(36)	135
Mauritius	(28)	1	(27)
Portugal	(104)	98	(6)
South Africa	(285)	109	(176)
Trinidad and Tobago	181	(27)	154
USA	(3,352)	1,165	(2,187)
	(4,086)	**1,506**	**(2,580)**

Movement in year

	Current service cost	Contributions	Other finance income	Actuarial gain/(loss) recognised	Movement in year
	£000	£000	£000	£000	£000
Canada	(175)	287	(37)	(71)	4
Irish Republic	(83)	123	17	135	192
Jamaica	(29)	17	20	(44)	(36)
Mauritius	(6)	10	1	(4)	1
Portugal	(23)	204	(4)	(79)	98
South Africa	(151)	141	91	28	109
Trinidad and Tobago	(9)	4	6	(28)	(27)
USA	(1,015)	312	109	1,759	1,165
	(1,491)	**1,098**	**203**	**1,696**	**1,506**

History of experience gains and losses

Difference between the expected and actual return on scheme assets

	2006–07 Amount £000	2006–07 Percentage of scheme assets	2005–06 Amount £000	2005–06 Percentage of scheme assets
Canada	189	4.01%	322	6.55%
Irish Republic	18	1.17%	163	12.57%
Jamaica	30	5.82%	(17)	–3.41%
Mauritius	(2)	–1.28%	(3)	–2.14%
Portugal	(2)	–0.61%	4	2.82%
South Africa	197	5.23%	233	5.49%
Trinidad and Tobago	(12)	3.79%	9	2.75%
USA	524	2.14%	1,595	5.98%
	942		**2,306**	

Experience gains and losses on scheme liabilities

	2006–07 Amount £000	2006–07 Percentage of the present value of the scheme liabilities	2005–06 Amount £000	2005–06 Percentage of the present value of the scheme liabilities
Canada	–	0.00%	–	0.00%
Irish Republic	29	1.98%	36	2.48%
Jamaica	(74)	–19.73%	53	16.11%
Mauritius	(2)	–1.56%	5	3.17%
Portugal	(77)	–25.28%	(36)	–14.69%
South Africa	(134)	–3.39%	(294)	–6.49%
Trinidad and Tobago	(16)	–9.76%	(4)	–2.76%
USA	981	3.68%	(1,408)	–4.63%
	707		**(1,648)**	

Total amount recognised in statement of recognised gains and losses

	2006–07		2005–06	
	Amount	Percentage of the present value of the scheme liabilities	Amount	Percentage of the present value of the scheme liabilities
	£000		£000	
Canada	(71)	–1.37%	(382)	–7.03%
Irish Republic	135	9.12%	347	23.91%
Jamaica	(44)	–11.82%	17	5.17%
Mauritius	(4)	–2.62%	2	1.47%
Portugal	(79)	–25.87%	(42)	–17.14%
South Africa	28	0.71%	(207)	–4.02%
Trinidad and Tobago	(28)	17.07%	5	3.45%
USA	1,759	6.59%	1,111	3.65%
	1,696		**851**	

29 Financial instruments

Financial Reporting Standard 13: 'Derivatives and Other Financial Instruments' requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, the FCO is not exposed to the degree of financial risk faced by business entities and a much more limited role in creating or changing risk is played by financial instruments than would be expected in a listed company, to which FRS 13 mainly applies. The FCO has very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated only by day-to-day operational activities and are not held to change the risks facing the FCO in undertaking its activities.

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

An analysis of non-interest bearing financial assets held overseas by currency is shown where the total held exceeds £1 million. The Sterling figure includes sterling balances held in the UK.

Liquidity risk

The FCO's net revenue and capital resource requirements are financed by resources voted annually by Parliament. The FCO is not therefore exposed to significant liquidity risk.

Interest-rate risk

Apart from temporary overdrafts, the FCO has no external borrowings and is not therefore exposed to significant interest-rate risk.

Currency	2007 Non–interest bearing financial assets	Non–interest bearing financial liabilities	2006 Non–interest bearing financial assets	Non–interest bearing financial liabilities
	£000	£000	£000	£000
Sterling	65,076	(34,543)	95,283	(27,815)
Australian Dollar	–	–	1,233	–
Baht	–	–	4,477	–
Euro	2,200	(6,267)	3,327	–
Indian Rupee	13,054	–	–	–
Hong Kong Dollar	–	(1,099)	–	–
Naira	5,548	–	9,515	–
Nepalese Rupee	1,398	–	–	–
Turkisk Lira	–	(1,482)	–	–
US Dollar	3,472	–	3,498	–
Yen	33	(274)	–	–
Other	8,692	(26,175)	(18)	(41,563)
Gross financial assets/(liabilities)	**99,473**	**(69,840)**	**117,315**	**(69,378)**

Foreign currency risk

The FCO's exposure to foreign currency risk can be significant because of the nature of its business and geographical presence. Net expenditures denominated in foreign currency constitute a minor part of total expenditures. To manage exposure risks, the FCO has an Overseas Price Movements (OPM) mechanism that is designed to maintain its purchasing power at a level equivalent to that of Home Departments. The OPM adjustment is based on expenditure incurred in foreign currencies on administration, capital, subscriptions to international organisations and the British Council Grant-in-Aid. Changes in FCO provision are agreed with HM Treasury and, if necessary, Parliamentary approval sought for any increase in provision.

Fair values

Set out below is a comparison by category of book values and fair values of the FCO's financial assets and liabilities as at 31 March.

	2007 Book value	Fair value	2006 Book value	Fair value
Primary financial instruments:	£000	£000	£000	£000
Financial assets				
Cash at bank and in hand	99,473	99,473	117,315	117,315
Financial liabilities				
Bank overdrafts	(3,414)	(3,414)	(2,130)	(2,130)
Provisions	(66,426)	(66,426)	(67,248)	(67,248)
	(69,840)	**(69,840)**	**(69,378)**	**(69,378)**

Where relevant, cash flows in respect of provisions have been discounted at HM Treasury discount rate of 2.2% in real terms.

30 Contingent liabilities disclosed under FRS 12

The nature of the FCO's activities gives rise to certain contingent financial risks. The main ones at the balance sheet date were as follows:

	2007	2006
	£000	£000
Disputed claims for rents payable on overseas properties	788	851
Potential overseas national insurance liabilities and various other related claims	2,230	2,416
	3,018	**3,267**

31 Contingent liabilities not required to be disclosed under FRS 12 but included for Parliamentary reporting and accountability purposes

31.1 Quantifiable

The FCO has entered into the following quantifiable contingent liabilities by offering indemnities. None of these is a contingent liability within the meaning of FRS 12 since the likelihood of a transfer of economic benefit in settlement is too remote.

	1 April 2006	Decrease in year	31 March 2007	Amount reportable to Parliament by Departmental minute
	£000	£000	£000	£000
Indemnities	21,708	(16,183)	5,525	5,525
	21,708	**(16,183)**	**5,525**	**5,525**

31.2 Unquantifiable

The FCO has unquantifiable contingent liabilities in respect of various non-statutory guarantees.

32 Losses and special payments

	2006–07		2005–06	
	Number	£000	Number	£000
Losses total	**167**	**1,777**	**225**	**1,132**
Cash losses	68	218	44	104
Claims abandoned	26	115	17	6
Administrative write-offs	47	365	128	30
Fruitless payments and constructive losses	3	1,058	8	17
Stores losses	11	1	13	6
	155	**1,757**	**210**	**163**
Special payments total	**12**	**20**	**14**	**375**
Losses arising from other causes total	**–**	**–**	**1**	**594**

Details of cases over £250,000:

Included in Fruitless payments and constructive losses is £1,057,000 in respect of costs incurred in developing a proposed site in Warsaw discontinued as a result of revised security requirements.

33 Related party transactions

The Foreign and Commonwealth Office is the parent of FCO Services and Wilton Park Executive Agency and sponsors the BBC World Service and the British Council, as well as the following Executive Non Departmental Public Bodies:

Westminster Foundation for Democracy

British Association for Central & Eastern Europe

GB/China Centre

Marshall Aid Commemoration Commission

These bodies are regarded as related parties with which the FCO has had various material transactions during the year. In addition, the FCO has had regular transactions with other Government Departments and other Central Government bodies. None of the Ministers, Board members, key managerial staff or other related parties has undertaken any material transaction with the FCO during the year, other than:

Alistair Johnston (non-executive Board member) is Vice-Chairman of KPMG. KPMG provided consultancy services to the FCO IT Strategy Unit during the year amounting to £120,000 plus VAT. Mr Johnston had no role in the decision to engage KPMG, nor a role in the firm's proposal or provision of services to the FCO.

34 Third-party assets

	2007	2006
	£000	£000
Funds held by the FCO in designated bank accounts for disbursement to individual beneficiaries on behalf of the United Nations Compensation Commission	400	273
Overall UNCC liability	**400**	**273**

35 Entities within the departmental boundary

The entities within the boundary during 2006-07 were:

On-Vote agency – FCO Services
On-Vote agency – Wilton Park Executive Agency
Non-executive Advisory NDPBs – None
Other entities – None

The annual report and accounts of FCO Services and of Wilton Park Executive Agency are published separately.

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