



Foreign & Commonwealth Office

**FCO Services**

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FCO Services  
**Annual Report and Accounts**  
2006 - 2007

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An Executive Agency of the Foreign & Commonwealth Office



INVESTOR IN PEOPLE



**FCO Services**  
**Annual Report 2006 - 2007**

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## **FCO Services Annual Report and Accounts 2006/07**

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## **Foreword by Lord Malloch-Brown**

*Chairman of the Ministerial Advisory Board*

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On 1 April 2006, FCO Services became an Executive Agency of the Foreign and Commonwealth Office (FCO). As the Minister responsible to the Secretary of State for Foreign and Commonwealth Affairs for setting FCO Services' strategic direction and supporting them in achieving its objectives, I am pleased to have this early opportunity to provide this foreword to its first Annual Report and Accounts.

FCO Services has moved a long way from its former role as an internal department providing support services to the FCO. In keeping with this Government's drive to increase the value added by public service to the taxpayer, FCO Services became an Executive Agency with the aim of moving to Trading Fund status by 1 April 2008.

In order to make this transition, FCO Services will have to pass a number of stringent tests to demonstrate that it has the skills, processes and resources it needs to operate on a more independent basis. The resulting organisation will be more customer-oriented, accountable, streamlined, efficient and focused on its area of greatest competitive advantage - the provision of secure services. The results published in this Annual Report and Accounts demonstrate that FCO Services is already making huge progress in this direction and is beginning to operate more effectively.

At the same time, to make best use of FCO Services' assets and reduce the cost to the taxpayer, the move to Agency and then Trading Fund status encourages it to seek opportunities to earn money from outside customers. In this too the results show that

it has had a successful year, with 10.8% of revenue coming from the wider market as at 1 April 2007.

I know that many changes have taken place across FCO Services this year to make such progress and they have naturally involved great effort. It is a tribute to FCO Services' staff that they have risen to these challenges so enthusiastically while still determinedly pursuing their work in some of the most trying places in the world for the benefit of the UK.

We cannot underestimate the challenge ahead as FCO Services moves towards Trading Fund status and beyond. However, I am confident that FCO Services will meet this challenge with enthusiasm and I wish the organisation every success.

A handwritten signature in black ink that reads "Lord Malloch-Brown". The signature is written in a cursive, slightly slanted style.

Lord Malloch-Brown  
Chairman of the Ministerial Advisory Board

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## Foreword by Dickie Stagg

*Chairman of the Executive Board*

In moving from being Director-General for Corporate Affairs in the FCO to my new role as High Commissioner in New Delhi, I am delighted that I have been able to maintain my close association with FCO Services through my appointment as Chairman of its Executive Board.

I took over last month from Neil Masom, who chaired the Board throughout the period under review, and who brought invaluable outside commercial experience to bear on the issues facing FCO Services. I would like to express my and the Board's deep appreciation for his contribution and for his agreement to continue chairing the FCO Services' Audit Committee.

FCO Services is a prime strategic partner to the FCO, essential in enabling it to deliver its key objectives whether counter-terrorism or climate security. FCO Services' success in this is well illustrated by a few examples of our work during the year:

- The new Deputy High Commission in Chennai - environmentally sustainable and secure construction at its best, enabling FCO staff to work efficiently and safely on priorities such as migration and sustainable development, and to provide effective consular help to British citizens.
- The themed visit arranged for foreign journalists in November to showcase the role of Muslims in the UK was a model of its kind.
- Our role in the delivery of biometric visas which will play a vital

part in protecting the UK's borders, while also helping the UK's economy;

- Work on technical security training, without which we could not operate efficiently on any of our priorities.

The first year as an Executive Agency has been a success, and FCO Services is on track to becoming a Trading Fund next April. FCO Services has embraced a new, more commercial status and has thrived against growing market competition. I am encouraged to see that we are expanding our customer base while, at the same time, retaining FCO Services' role as an essential partner for the FCO. The catch-phrase "doing more with less" is now a mantra across government: we believe FCO Services can help the FCO do exactly this.

FCO Services' sound start in its first year as an Agency is most encouraging and I look forward to further continued growth in 2007/08 as we push energetically towards Trading Fund status.

Dickie Stagg  
Chairman of the Executive Board



## **Foreword by Christopher Moxey**

*Chief Executive Officer*

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2006/07 has been a remarkable year, encompassing both a radical change programme and some notable results. In addition to a solid increase in efficiency savings, and an unprecedented increase of 10% in our customer satisfaction rates, we have generated an operating surplus of £8.2m in 2006/07, with 10.8% of our revenue coming from the wider market. Our net surplus, after providing for the likely cost of restructuring the business, was £4.5m.

It has been a challenging but crucial time for our organisation. Our comprehensive change programme has involved colleagues across FCO Services as well as external specialists in a grass-roots review of the business, looking at what we do, how we do it, and where our comparative advantages lie. The results were striking, and have laid a solid foundation upon which we can build our future.

We are highly expert in a number of important areas. Our analysis of the business has shown with great clarity that it is on these areas – the provision of strategic secure services – that we should focus. We will move away from the highly diverse range of services we currently provide. We will concentrate on what we do best, do it excellently, and grow our business opportunities in these areas. In doing so, we will be more cost-effective, provide a better service to our customers, and be able to compete more successfully in wider markets. In short we shall create a healthy and vibrant organisation, with exciting long-term prospects.

In growing our business with non-FCO customers, we will not be neglecting the needs of the FCO. As an Executive Agency (and indeed as a future Trading Fund), we remain an integral part of the FCO. The FCO will continue to be our priority and we will work together in close partnership to ensure that the FCO has the mission-critical services it needs to deliver on its Strategic Priorities.

I want to pay tribute to all our colleagues, whose efforts have resulted in the successes I have described, while coping with the challenges of our transformation. This most definitely includes colleagues whose businesses are being discontinued. These decisions are no reflection on their personal commitment or contribution, but are decisions that we have taken on the basis of careful and rigorous analysis of our business.

We are working to support all our staff who are affected by the changes. At the same time, we also need to look to the future. The coming year will be equally challenging, with the first hurdle September's Fit-to-Trade Review. We are already working hard to ensure a positive result.

A handwritten signature in black ink, appearing to read 'Chris Moxey', written in a cursive style.

Christopher Moxey  
Chief Executive Officer

## Management Commentary

### FCO Services Aims and Objectives

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As noted in the forewords, this has been a year of considerable change and this is reflected in our evolving objectives. Below are the aims and objectives applying during the 2006/07 year.

#### Mission and vision

FCO Services' mission at the establishment of the Agency was to become the most trusted and best value for money provider of packaged support services for the FCO and UK public sector organisations at home and overseas, by:

- focusing our business on those activities where we add value
- building and maintaining a highly flexible and skilled workforce
- working in partnership with our customers and suppliers
- continuous innovation
- growing wider markets business and harvesting the benefits this will offer

FCO Services' vision was to provide effective support services to the FCO, thus assisting it in meeting its Public Service Agreement targets and demonstrating value for money service provision.

FCO Services' mission was pursued through achievement of the long-term goals which follow:

#### Financial Objectives

- To make a financial surplus
- To deliver efficiency benefits to the FCO
- To identify and develop new wider market opportunities and increase income from them

#### Customer related Objectives

- To improve customer service and satisfaction
- To maximise innovation in service delivery

#### Process related Objectives

- To continue to develop business systems that allow us to operate commercially
- To develop a common set of business

processes to enable us to operate in a coherent and integrated way

#### Learning and Growth related Objectives

- To be a worthwhile place to work
- To continue to embed the service delivery culture into FCO Services staff
- To build relevant skills for the organisation's future

Towards the end of the year, as we prepared to demonstrate our fitness to become a Trading Fund, we reviewed our business in some depth and concluded that although we had progressed significantly during 2006/07, we needed to develop a new mission and vision for the future in order to optimise our opportunities. This involved confirming our relationship with the FCO as our principal customer, agreeing which services added value and which should be subject to greater competition, and considering a new business model and organisational design.

We refocused our mission and vision, and the goals to achieve them, and our future will be built on the following:

#### New Mission:

"To deliver a unique combination of secure services, enabling customers to build a safer future."

#### And Vision:

"To be the leading UK authority delivering innovative solutions for customers facing a world of changing security priorities."

We are at an advanced stage of working through the details needed to support this new mission and vision and are confident from our initial work that FCO Services will be able to provide services in the future that have a greater customer focus, closer alignment to the FCO's core objectives and provide the platform for long term financial stability and growth.

## Overview of Business

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As part of the FCO's strategy to bring a more customer-focused approach and improved value for money to service delivery, FCO Services became an Agency of the FCO on 1 April 2006. As such FCO Services is not a separate legal entity, but operates autonomously under powers delegated by Ministers. The change to Agency status has allowed us to manage our operations in a more business-like fashion and work towards the realisation of the benefits in customer focus, service delivery and efficiency that a business culture enables. We are working towards Trading Fund status which we believe will allow us to accelerate the realisation of these benefits.

We are a unique multi-service organisation, delivering around 348 products and services from five main business units. Many of these call upon our strengths in security work.

Our new business strategy focuses down on the provision of a secure environment, secure logistics, and secure IT solutions.

FCO Services operates from five sites in the UK: Hanslope Park outside Milton Keynes; the Old Admiralty Building, Lancaster House and the King Charles Street offices in central London; and Apollo House in Croydon.

### Governance

FCO Services is established as an Executive Agency of the Foreign & Commonwealth Office and operates under a separate accounts direction from HM Treasury.

The Parliamentary Under Secretary of State (PUSS) for the FCO is responsible for setting the strategic direction of FCO Services. The PUSS is advised on matters relating to the strategic management of the Agency by the FCO Services' Ministerial Advisory Board, which comprises the PUSS, two additional Non-Executive Directors and senior officials from the FCO and from FCO Services.

The Chief Executive Officer (CEO) of FCO Services has responsibility for the day-to-day management of the Agency and, as its Accounting Officer, is also personally responsible and accountable to Parliament for the management and organisation, including the use of public money and the stewardship of its assets.

The activities of the Agency are overseen by an Executive Board which usually meets six times each year and which consists of two Non-Executive Directors (one of whom has been appointed as the Chairman), and a number of senior executives including the Chief Executive Officer. The Board supports the Chief Executive Officer in directing the Agency and principally advises the Chief Executive Officer on the strategic direction of the Agency, its broad allocation of resources and the management and controls required to ensure effective governance and control.

An Audit Committee supports the Chief Executive Officer and the Board in their respective responsibilities on issues of risk policy, control and governance and associated assurance. The Audit Committee meets at least four times each year, usually with both external and internal auditors present and its Chairman is a non-executive member of the Agency Board.

An Operations Board supports the Chief Executive Officer in all matters relating to the administration and operation of the Agency, its use of resources, and its performance in accordance with the agreed business plan for the Agency. This Board usually meets weekly to deal with day-to-day operational issues of the Agency and, amongst these duties, it reviews risk on a regular basis.

## Overview of Business

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The Executive Board

### Executive Board

1. Dickie Stagg - Non-Executive Director, Chairman
2. Neil Masom - Non-Executive Director
3. Christopher Moxey - Chief Executive Officer
4. Sarah Phelan (FCIPD) - HR Director (Appointed 30 April 2007)
5. Clive Heaphy (CIPFA) - Finance Director
6. Kerry Simmonds (ACA) - Group Director, Change Management, Supply Chain
7. Steven Rymell - Group Director, ICT Operations
8. Graham Smith (C.Eng.MCIBSE) - Group Director, Client Services

## Overview of Business

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### Our Services during 2006/07

#### Secure Environment

We are able to design, project-manage and operate any buildings anywhere in the world under a one-stop-shop package. This ranges from new build, to refurbishment, to fitting-out works. We ensure that security and health and safety have the highest priority. This service is delivered by specialised teams including project managers, architects, engineers of all disciplines (civil, electrical, mechanical, technical) and quantity surveyors.

Our security services comprise:

- technical security, a service which has been maintained with significant success for more than 60 years, both nationally and internationally;
- protective security, including CCTV, intruder detection systems, access controls, intruder and incident alarms;
- security clearance for all personnel through our vetting services;
- translation and interpreting services.

In addition, an Overseas Property Management service is provided to assist in the efficient technical day-to-day running of an estate, as well as ensuring that electrical and mechanical systems are maintained to the highest standards.

Our staff have delivered services as far afield as Astana, Basra, Baghdad, Beijing, Buenos Aires, Chennai, Istanbul, Kabul, Lashkar Gah, Ljubljana, Rabat, Sana'a and Tokyo, in often difficult circumstances, and our customers have been very satisfied with the results.

#### Secure Logistics and Facilities

Operating with our strategic partners our contract management experts provide a range of logistical services with worldwide reach for the FCO, UK Government Departments, friendly governments

and other wider market customers. Services comprise:

- worldwide logistical support services, including air and road freight;
- handling and delivery of classified and unclassified mail worldwide; including Queens Messengers;
- UK and European courier and freight services;
- UK based goods in, stores and despatch functions;
- facilities management for FCO sites in the UK.

The Service operates on a scheduled regular basis worldwide, and on demand as required. Diplomatic bags are carried under the Vienna Convention and all our Diplomatic Courier staff are fully trained in the rules and regulations contained within the Convention which ensures full security for classified shipments on a worldwide basis. Additionally all Courier staff are approved by BAA for airside access thereby providing full end-to-end visibility and additional security.

#### Secure IT Solutions

We provide full life-cycle secure IT services to our customers. This covers everything from analysis and design through project management and implementation to support and training. We also have a range of standard solutions that can be tailored to meet customer requirements. All of our solutions are accredited by the UK's leading authority on IT security.

We provide a highly competitive service within our chosen sector. This is especially true when taken together with our unique position within government; we are trusted, secure and have true global reach.

## Overview of Business

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We currently share a strategic partnership with the FCO and Hewlett Packard in the design and development of the FCO's Future Firecrest system. This is a challenging project which involves a great deal of business change. Future Firecrest has the potential to change fundamentally the way the FCO currently works. It introduces new security concepts and will also deliver a very different architecture to that in use today.

Our IT and Technical Training service provides people from the FCO and other Government Departments with the necessary IT and technical skills training to do their jobs and is a key partner in the delivery of the FCO's IT Strategy. We are looking to build our range of partnerships as we move forward. Key customer alliances within the FCO include UKVisas and Consular Directorate (both FCO). Externally, we seek to gain a greater foothold in the UK Law Enforcement area, and are developing key relationships for this purpose.

### Event and Visits management.

We produce a highly-rated and unique package of conference, event and visit services. Our professional team has experience of working in both the private and public sectors from the initial concept and design right through to the production of an event.

Our Events work has included conferences, exhibitions, receptions, garden parties, gala dinners, charity events and weddings. We deliver a full event management package including:

- arranging venues and accommodation;
- a full delegate management package;
- transport management;
- on-site management throughout the event;
- media facilities management;
- arranging entertainment;
- post-event evaluation;

We have special arrangements with top-class professional caterers, allowing us to offer competitive prices.

Our Visits work covers programmes for visitors from all over the world, covering any subject from commercial to media, politics to logistics.

Our services can include:

- accommodation, transport and all UK travel arrangements;
- experienced Liaison Officers to accompany visitors and ensure that the visit runs smoothly from arrival to final departure;
- experienced interpreters;
- professionally printed visit programme.

### Language Training

We have for many years provided training in London and overseas in an extensive range of up to 85 world languages from Arabic to Zulu.

As part of preparations for our move towards Trading Fund status, we carried out a rigorous analysis of our business and the competitive environment in which we operate. Amongst other things this review concluded that, despite the high quality of service delivered by the Language Training team, maintaining a permanent in-house language training function in such a highly competitive market was not a tenable proposition in commercial terms.

At the same time, and in consultation with stakeholders across the FCO, the FCO carried out a policy review of language training provision. This concluded that there was a need to introduce a new, more flexible business model for language training than could be provided by the current in-house training function. The FCO will outsource its language training provision during the course of the current year to external suppliers and in-house provision will therefore be phased out during 2007.

## Performance vs Key Performance Indicators

Objectives	KPI	Target for 2006/07	Progress
<p><u>Financial Performance</u></p> <p>To recover the full cost of operations from FCO customers</p> <p>To identify and develop new wider market opportunities and increase income from them</p>	<p>% net margin on turnover on FCO work, before exceptional costs</p> <p>% net margin on turnover on wider market work, before exceptional costs</p>	<p>Break even (with cost of capital at 3.5%)</p> <p>Return on capital employed of between 5.5% and 10%</p> <p>Resulting in a weighted average ROCE target of 3.8%</p>	Achieved
<p><u>Productivity</u></p> <p>To offer efficiency savings to the FCO</p>	<p>Average utilisation rate across FCO Services</p>	<p>For 2006/07a minimum of 10% increase in utilisation rate compared to 2005/06.</p>	Achieved
<p><u>Volume</u></p> <p>To increase income from wider markets</p>	<p>Growth in income from wider markets</p>	<p>Increase by 5%.</p>	Achieved
<p><u>Quality</u></p> <p>To improve customer service and satisfaction</p>	<p>Overall quality measure identified from independent customer survey results</p>	<p>70% good or excellent.</p>	Achieved

## Review of Operating Performance

### Overview

FCO Services operates across the world supporting not only the needs of its main customer and partner, the Foreign and Commonwealth Office, but also those of its other customers. During the year, it saw its customer satisfaction levels rise significantly on the back of both a more customer-focused approach and the greater commercial freedoms that Executive Agency status allows.

With a turnover of some £141.4m, 89.2% of which is derived from the FCO, FCO Services divided its activities into 5 main areas whose principal activities and achievements during the year are set out below.

These activities generated a gross operating surplus, before provision and a capital charge, of some £8.2m representing a margin of 5.8%. Performance against key indicators is shown on page 10 with all targets being achieved.

### Estates and Security operations.

Much of our work during the year was dictated by events in areas of conflict. Thus the focus of our Technical & Protective Security services, which ensure maximum security of our overseas environments, was in Iraq and Afghanistan, although the Group also provided secure building services to Embassies throughout the world.

Technical Security Countermeasures continued to meet an increased requirement for maintaining the security integrity of specific overseas FCO Missions. This included a number of special projects. The demand for technical security services from other UK Government customers also continued to grow.

We also conducted the security fit-out of the new British Embassy Sana'a involving construction, power, lighting, air conditioning and security products; and technical and physical security refurbishment of the existing Embassies in

Beijing, Tunis, Abu Dhabi, Panama and Cairo.

In new construction we would highlight the new Deputy High Commission in Chennai: designed by British architects, eco-friendly, with roof and outer walls fully insulated, all timber from sustainable plantations.

Also notable was our project management and construction work on the Tehran Embassy, a difficult refurbishment project conducted amid tight security.

The Property Management service throughout the year provided technical advice and support to customers, with a particular emphasis on Health and Safety issues.

We have also improved the quality of our processes. We would highlight here the minimising of the time spent by FCO staff ordering small-value catering. We developed a web-based ordering system, utilising Government Procurement Cards linked to the FCO's internal budget holder codes as the payment mechanism. As a result, customers are able to process hospitality catering orders quickly and easily, and the supplier is paid within days of the transaction being completed. The facility is under constant review and additional features are added as required.



Our Technical and Protective Security systems team at Lashkar Gah

## Review of Operating Performance

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### Events and Visits

A successful year for FCO Services, with the following highlights:

#### **Islamic Themed Visit**

In November we launched a 'themed' visit focusing on the UK and Islam. The visit was aimed at foreign journalists and the objective was to show the role of Muslims in the UK in a way that went behind the headlines. This was a highly successful initiative and the feedback from participants and Posts has been very positive.

#### **Baltic States**

In July, the Presidents of Estonia, Lithuania and Latvia visited the UK. These visits were managed by the VIP Visits team and were timed to take place in advance of HM The Queen's State Visit to the Baltic States in October. Two of the visits took place in Scotland which provided a superb backdrop.

#### **Official launch of Langeded gas pipeline - 16 October 2006**

The Norwegian Embassy in London wanted a suitable venue for the launch of a new gas pipeline from Norway to the UK - the world's longest subsea export pipeline at 1200 kms long - which, in the future, will supply up to a fifth of the UK's gas. We provided a comprehensive service, providing a whole event management package in Lancaster House and made sure the security arrangements were in place for the Prime Minister, his Norwegian counterpart and 250 specially invited guests.

#### **Miss Potter Premiere - 3 December 2006**

Momentum Pictures wanted a unique and historic venue at which to hold a party to follow the World Premiere of their latest production, Miss Potter. We provided not only the venue but also the facilities and decoration to make a spectacular party fit for its star-studded guest list.



The India/UK Investment Summit

#### **India/UK Investment Summit – 10 October 2006**

We worked with UKTI to arrange the latest India/UK Investment Summit, the second in a series of high profile dialogues involving the Indian and UK governments and businesses.

#### **Antarctic Treaty Consultative Meeting 12 - 23 June 2006**

We arranged the Antarctic Treaty Consultative Meeting (ATCM) in Edinburgh from 12 - 23 June 2006 attended by 35 delegations. The UK hosted the conference for the first time since 1977 and was widely congratulated for its successful organisation of the meeting, as well as running the first ever two-week public outreach campaign to coincide with an ATCM. HRH The Princess Royal and Lord Triesman delivered opening addresses to over 250 delegates.

These successes were underpinned by generic improvements in Service Delivery:

The two Visits teams were merged to ensure that work levels could be met by fewer officers. Further efficiencies have been achieved by reducing staff numbers to meet the average level of demand throughout the year. In busy periods, temporary staff are brought in as necessary.

Throughout the year we reviewed our arrangements with suppliers - hotels, caterers, transport companies - putting in place contracts to ensure that costs for customers are kept as low as possible. Aggressive marketing of our services to wider market customers has seen a significant increase in business, allowing economies of scale that benefit all customers, including the FCO.

In 2006/07 we introduced for the first time differential pricing for sponsored visits to try to spread the workload more evenly throughout the year. For the quietest period from April-June we offered a discounted price.

We also streamlined our procedures for supplying quotes to customers. This enabled quotes to be provided within five working days, in line with Service Level Agreement KPI requirements. All quotes provided are now fixed against the Statement of Requirements giving customers more certainty over their budgets.

## Review of Operating Performance

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### People and Best Practice

#### **IT & Technical Training**

IT Training services have been benchmarked for a second year in accordance with the requirements of the Institute of IT Training's Gold Standard. The award of this accreditation has enabled IT Training to market themselves as a professional training organisation and the Gold Accreditation has played a part in IT Training securing work on the delivery of the Pyramid and Fortress replacement projects.

We have run UK classroom-based courses to 1341 students over a range of 20+ different subjects totalling 1724 student days, successfully fulfilling our KPI requirements.

We have delivered IT courses at a number of overseas Posts during the year where we worked with the customer in delivering Post-specific training needs. We have recently begun working with the FCO's Regional Training Centres to develop this theme further. The advantage to overseas Posts is that staff do not have to travel to the UK and more of their staff can be trained by the professional IT trainers on local Firecrest systems, so making the training more relevant to each Post.

We have also continued to operate the European Computer Driving Licence (ECDL) test centre in accordance with British Computer Society standards and have made this facility available to all staff in the UK. 1050 FCO and FCO Services officers have used the facility. 275 officers have sat ECDL examinations with 249 successfully passing.

We have run 209 classroom-based technical courses to 374 students covering a range of 47 different subject areas totalling 1937 student days. The number of individual courses has risen from 149 in FY 2005/06 to 209 in FY 2006/07. Specifically the increase in wider markets training

in Technical Surveillance Counter-Measures (TSCM) has seen an increase of 40% on last year's figures. Students have attended the courses from as far afield as New Zealand, Switzerland and the Netherlands. The UK National Authority-backed courses are market leading in terms of technology and expertise. A new range of intermediate level TSCM courses is currently under development.

#### **Translation & Interpreting**

In April 2006, the DTI Translation Service came under FCO Services' umbrella. Other fundamental changes included a more operationally effective team structure and streamlined work processes. The merger enabled us to expand our wider markets customer base considerably. A Service Level Agreement was signed with DTI internal customers and separate agreements were negotiated and signed with a number of Agencies which had previously obtained translation services from the DTI. These include Companies House, the Patent Office, National Audit Office and the Office of Fair Trading.

We have also pursued other wider market opportunities, and efforts in this sphere have led to the signing of SLAs with Ofcom and the National Lottery Commission. In addition, we have successfully tendered for five contracts with the European Court of Justice.



## Review of Operating Performance

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### Supply Chain Operations

A major objective for the year was to develop the partnerships with DHL Global Forwarding (DGF), FCO Services' newly appointed freight and logistics contractor, and British Forces Post Office (BFPO), the new partner in the provision of secure mail services. The objective was met in both cases. The continued development of both partnerships is vital to Supply Chain Group's success because of their major contribution to the Group's business.

The partnership with BFPO is still in its early days. The initial objective, to maintain service levels during the transition period, was achieved and the challenge now is to work with BFPO as it prepares to move to a new, automated facility in the second half of 2007.

We played a major part in the successful, urgent operation to supply thousands of protective kits to help fight bird flu in Nigeria. Teams across the whole of the logistics operation were involved and 15,000 kits were despatched to Abuja within 72 hours. The overseas teams also contributed to the new embassy projects in Iraq and Afghanistan and won the contract to supply furniture for the new ICT building at Hanslope Park.

An internal review ran throughout the year. The review had two objectives: to ensure that the existing procurement strategy and the organisational structure that supports it provide end users with goods and services of the right quality, at the right price and at the right time; and to ensure that legal requirements are fully complied with. A number of recommendations have been implemented and these have resulted in significant improvements in service delivery, value for money and corporate governance.

Examples include the introduction of formal contracts covering the sourcing of recurring requirements for the provision of goods and services; making more use of the Government

Procurement Card (GPC) for low value purchases which has resulted in a reduction in the number of Prism orders; regularising the levels of delegation to the Buyers and rationalising the numbers of individuals who have access to approve purchase orders on Prism. And we have successfully piloted an online stationery ordering facility that uses lodged procurement cards to simplify the process, enabling faster delivery of goods to the end user.

A further result of the review has been the creation of a Buying Community in FCO Services under the leadership of the Head of Procurement. The first Buyers' Forum has been held and resulted in the creation of a communications link with the Buyers who now seek the advice of Supply Chain Purchasing on a regular basis.



Loading secure cargo for shipment

## Review of Operating Performance

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### ICT Operations

During the last year our secure video-conferencing (SECVIEW) network expanded to 11 overseas Posts and 30 sites in King Charles Street, OAB, Hanslope Park, 10 Downing Street and the Cabinet Office. The system has a high usage and has become a valuable tool for FCO departments.

High Definition video conferencing is now possible between London and Hanslope Park, and the overall quality and satisfaction has increased since this has become available. The FCO's Information and Technology Directorate have been using SECVIEW on a daily basis, reducing the requirement to travel between FCO sites, increasing productivity and reducing the carbon footprint in accordance with FCO and British Government policy.

There are proposals for a further 81 overseas Posts to have video conferencing installed in the next financial year.

During 2006 and continuing through 2007, FCO Services has collaborated with UKVisas to provide the delivery of integrated solutions to meet the identity-verification needs for securing the UK's borders.

The biometric visas first phase was installed last year providing biometric finger-scanning facilities at some 60 overseas Posts. The system is connected to the Home Office fingerprint system in Croydon and was implemented at Posts overseas between September and December. Biometric visas phase two will provide enhanced biometric data.

FCO Services is presently working with UKVisas to define and implement a Disaster Recovery facility for the biometric visas system. This will allow the continued operation of visa issuing processes with little or no impact on service levels in the event of a crisis.

During 2007, FCO Services plan to provide an integrated service for the replacement of the UKVisas case working system (Proviso).

### **BRIT (Biometric Recognition Information Technology)**

This is the FCO's new passport issuing system overseas. The signing system used with BRIT was developed in-house by FCO Services who also planned and coordinated the rollout in liaison with Posts and other interested parties. Although the project had very tight political deadlines in order to meet the US Visa Waiver Programme, it was delivered on time and under budget.

BRIT is designed as a hub and spoke solution and is installed in 91 main Posts with a further 45 secondary posts. The system has already issued approximately 360,000 passports.

### **Temporary Passports World Cup**

This project was to provide consular staff with the ability to produce temporary passports to British fans during the World Cup from roaming Embassies. The systems were used to produce around 40 temporary passports to members of the British public during the tournament. The project was viewed as a great success, delivering on time and to budget.



## Sustainability

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We have been working with our customers to incorporate environmental sustainability into our business. We plan to:

### 1. Climate Change and Energy

Implement consultants' recommendations to develop plans to apply the Carbon Trust's Carbon Management Programme on our estate. It is our longer term intention to move towards carbon neutrality.

Where feasible, install renewable energy at our Hanslope Park site (2007-2009).

When rolled out, our global IT network, Future Firecrest, will remotely power-down workstations out of hours.

Purchase Combined Heat and Power (CHP) from the Whitehall District Heating System, should this become available. If not, consider alternative means of sourcing CHP.

Expand the scope and increase the rate of the installation of energy-efficient lighting and lighting systems (2006-2008).

Design energy efficient measures into new builds and major refurbishments, resulting in the closure of some energy-inefficient buildings.

Continue to purchase replacement vehicles taking into account emission standards, environmental impacts and fuel efficiency; 25% of our UK car fleet are alternatively powered (LPG and electric).

### 2. Sustainable Consumption and Production

Incorporate Sustainable Procurement into our overall Procurement Strategy (2006) - for instance, all timber used in our new Hanslope Park building is purchased only from sustainable sources.

Continue to train staff on sustainable procurement.

### 3. Natural Resource Protection

A pilot project on water-saving measures will be conducted. If the pilot is successful we will install the upgraded water management equipment tested in the pilot. If not, we will identify and install other equipment (2006-2008).

New water-saving requirements to be included in specifications for new office builds and major office refurbishments (2006 onwards).

Install a grey water recycling system in a major new build at Hanslope Park (2007).

We hope to use renewable energy at our Hanslope Park site



© Christopher Furlong / Getty Images

## Review of our Financial Performance

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FCO Services has, throughout its first year of operation as an Agency, been operating on a full trading basis with both its main customer, the FCO and with other external customers. This means that all work has been invoiced to customers and that in overall terms, there is net operating income from FCO Services within the FCO Departmental Resource Account.

### Financial Outturn

FCO Services financial statements for 2006/07 are shown on page 37 to 51. As this is the first year that the Agency has been in existence, there are no comparative figures for the previous year although opening balances have been shown reflecting the transfer of assets and liabilities from the FCO on 1 April 2006.

The operating surplus before provision for the year ended 31 March 2007 was £8.2m against total revenues of £141.4m representing a margin of 5.8%. Some 89.2% of the total turnover was generated via the FCO (£126.2m) with the remaining 10.8% (£15.2m) being earned through wider market sources.

For the FCO generated activity, the original annual revenue forecast of £97.0m was exceeded by some 30.1% with an outturn of £126.2m. With wider market revenues, the outturn of £15.2m was 5.0% higher than the like-for-like baseline target of £14.5m. FCO Services key performance indicator for growth in wider market revenues was therefore achieved.

The provision for restructure (£3.4m) relates to a new strategic model for FCO Services to be implemented during the financial year 2007/08 and to the cessation of certain activities and the transfer back to the FCO of others.

The surplus for the year, after the provision for restructuring and a capital charge, was £4.5m. This has been transferred to reserves.

At the year-end, FCO Services accounts showed total taxpayers equity of some £3.8m represented by £2.8m of tangible fixed assets, £1.5m stock, £5.9m of work in progress, restructure provision (£3.4m) and the remaining (£3.0m) in net liabilities.

### Financial Performance Targets

FCO Services is measured against two key performance measures; Return on capital employed (ROCE) and growth in wider market revenues.

Return on Capital Employed (ROCE) calculation based on average net assets of £16.3m, was 50.4% against a weighted average target of 3.8% which, when taken together with a 5.8% margin, shows a financially healthy position for the year.

Although this figure may appear high, the ROCE achieved is largely a function of the lack of fixed assets in FCO Services (it is people not asset rich) and hence a 3.8% ROCE target appears inconsistent with the margin of 5.8% which is eminently reasonable.

The target for growth in wider market revenues was set at 5% and thus the actual growth was equal to this. This was achieved against a backdrop of considerable change within the Agency as it developed and moved towards its new business strategy and model.

### Payments from customers

Over the course of the year, FCO Services improved significantly its billing processes (time to initiate invoices and quality of billing information) and its debt recovery functions and was able to reduce its billing debt over the course of the year by more than 46% through its actions.

## Review of our Financial Performance

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Our aim is to continue this improvement in 2007/08 with an average target time from job completion to invoice initiation of 10 days – a challenging target but necessary to improve cash efficiency as FCO Services moves towards Trading Fund status.

As a result of this improvement, the year end provision for bad and doubtful debts has reduced from £2.7m in March 2006 to £0.5m in March 2007 – an improvement of £2.2m.

The Late Payment of Commercial Debts (Interest) Act 1998 (effective from 1 November 1998) and the Late Payment of Commercial Debts Regulations (effective from 7 August 2002) provide FCO Services with the right to claim interest for late payments from all businesses and public sector bodies including the FCO under a Terms of Business Agreement.

### Payments to suppliers

FCO Services is committed to the prompt payment of bills for goods and services received. Payments are normally made in accordance with specified contract conditions or where this is not specified, with 30 days. The Agency met this target in 93.9% of cases.

### Post Balance Sheet events

Various activities and functions are being transferred to the FCO and others are to be discontinued. The turnover in 2006-07 for these Activities was £28.8m and contribution to corporate overheads was £2.8m.

### Discontinuing activities:

**People and Best Practice:** Language Training

**Events Management Group:** Publishing, Films

### Transferring activities:

**Events Management Group:** Lancaster House, Government Hospitality, VIP Visits, Sponsored Visits, Conferences and Events

**Supply Chain Group:** Supply Solutions Overseas, Travel and Movements (part), Supply Solutions Purchasing (part)

**ICT Group:** Comcen (Communication Centre)

### Auditors

These accounts have been audited by the Comptroller and Auditor General whose certificate and report appears on page 35. The total audit fee for 2006/07 is £75,000. There were no fees in respect of non-audit work.

## Investing in our People

### People Policies

#### Staff Consultation Mechanisms

We have a number of formal and informal staff consultation mechanisms. A formal Whitley Meeting is held half-yearly with the Trade Unions, chaired by the CEO. We also hold monthly informal meetings with the Trade Unions.

We consult the Trade Unions on changes and developments of policies/procedures in accordance with the FCO Facilities Agreement. Staff have the opportunity to become involved in many of the key changes in FCO Services including the culture change project and many of the HR change workshops being run as FCO Services prepares for the move to Trading Fund.

The CEO holds regular staff forums, at Hanslope Park, London and Croydon. This gives staff the opportunity to speak to him directly and also to hear updates on major changes and initiatives. He has also held roadshows throughout the year on the Corporate Action Plan. For those staff who may have been unable to attend he can be contacted via email.

The 'Your Say' Survey for 2007 was an opportunity to help improve working life and job

satisfaction by telling us about jobs and the organisation as a whole. The questionnaire covered a range of issues with questions on leadership, staff morale, HR processes, learning and development, line management, communications, managing change as well as many other aspects of the job.

#### Diversity

The Diversity Action Plan was implemented in September 2006. Diversity is about valuing differences. It is about valuing every individual in the organisation and the contribution they make, regardless of their race, gender, religion/belief, sexual orientation, age or any disability they may have. As at 19 April 2007 our staff complement included 29% women, 8.4% ethnic minority and 5.4% disabled. We facilitate flexible working, and are particularly proud of our on-site nursery facilities.

FCO Services has been involved with Equal Choices for four successful years. Equal Choices gives young people from ethnic minority communities in Milton Keynes the opportunity to experience the workplace and gain an understanding of the skills required in the world of work, through interaction with employees acting as positive role models.



The Chief Executive Officer at one of the regular Staff Forums



Lord Triesman opens the new onsite Nursery

## *Investing in our People*

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### **Harassment Advisers Network**

The Harassment Advisers are independent of HR. These trained staff provide confidential and impartial advice and guidance for FCO Services staff who believe they are suffering from harassment or bullying.

### **Health and Safety**

It is essential as FCO Services moves towards Trading Fund status that we develop our own Occupational Health and Safety (OH&S) management system to ensure that our employees, and others who may be affected by the organisation's activities, are adequately protected. FCO Services recognises that it will require professional assistance in this endeavour and is in the process of recruiting a professional OH&S Advisor. The OH&S Advisor will develop an appropriate OH&S management system, and ensure that our employees have the requisite skills, knowledge, expertise, and competences to work and deliver our services in a safe manner.

The Operations Board will review the organisation's OH&S management system, at planned intervals, to ensure its continuing suitability, adequacy and effectiveness.

### **Whistleblowing**

FCO Services encourages members of staff to report any acts that they come across in the course of their work which they believe to be illegal, improper or unethical. All approaches will be treated in confidence and will be taken seriously. FCO Services will not tolerate victimisation of anyone who comes forward to raise a genuine concern. The Public Interest Disclosures Act 1998 provides protection for employees who make disclosures about suspected malpractice in the workplace.

FCO Services is committed to dealing responsibly and professionally with any genuine concern any members of staff may have about malpractice, be it danger to members of staff or to customers, financial malpractice, breach of legal obligations, damage to the environment, or violations of human rights.

Each Government Department now has Nominated Officers to whom Civil Servants can turn if they have concerns that they are being asked to act in a way which is inconsistent with the Civil Service Code.

It should normally be possible to resolve concerns through the management line in the first instance. However, Departments also have Nominated Officers outside the line management who can also be approached in confidence.

### **Investors in People**

FCO Services retained its Investors in People (IiP) status when it was reviewed in 2004. We have put in place a system for continuous assessment of performance in this area, and have 16 trained reviewers who will carry out internal IiP reviews throughout the business during the course of this year to ensure that this is maintained and any issues addressed.

### **Training**

In the workplace it is essential that all staff develop the knowledge, skills and attitudes to carry out their roles and hence deliver the services our customers require.

FCO Services ensures that learning is available to staff to meet both their immediate needs as well as their long-term development. It embraces the cultural changes taking place and, in particular, the move towards more self-driven and empowered staff and a shift in balance where the primary responsibility for learning rests with the learner.

In addition to job-specific specialist training, we also run an annual training programme for core developmental training and health and safety; organise tailored and bespoke training activities to meet specific needs; provide support to evaluate the effectiveness and value for money of learning activities undertaken by FCO Services staff; and network and benchmark with other organisations to ensure synergy and value for money.

## Investment for the Future

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### Customer relationships

Our Secure Focus and Growth mission and vision underpin the recurring security needs and themes of our customers' strategic priorities in both the FCO and wider UK Government.

The first point of contact between customers and FCO Services is our Customer Relations team comprising Customer Account Managers (CAMs), and our Customer Care Help Desk (01908 852222).

Our overall objective is to work with customers and service providers to ensure that together we meet our customers' needs and exceed their expectations. We strive to deliver continuity and customer care in providing value for money services.

We have received greatly improved customer satisfaction ratings from our 2006/07 Customer Survey. We have also received candid feedback on where we can improve further. We are acting upon customer concerns, which include improved billing and invoicing and increased CAM proactivity. We have had particularly good feedback from customers about the Help Desk who, with the CAMs, have resolved a multitude of customer issues. These range from clearing disputed invoices, to liaising with the business to ensure resources are available for major projects in Afghanistan, to taking security clothing to an MOD airbase to ensure FCO colleagues in the Middle East receive it as quickly as possible.

### Change management (STEP Programme).

After rigorous analysis of our business, we have agreed a new strategic direction for FCO Services that will give us the platform to operate successfully as a commercially-focused organisation, building a close working relationship with customers to deliver an enhanced service that meets their needs. We aim to develop a full understanding of their requirements through

in-depth dialogue, provide them with expert and authoritative advice on security issues and, above all, deliver value for money. We will do this by focusing on our real strengths and areas of expertise, by providing a unique combination of strategic secure services. These services fall into three broad areas:

- Secure Environment
- Secure Logistics and Facilities
- Secure IT Solutions

These services have been core activities for FCO Services over many years and will provide continuity into our future. During the period under review we also provided a number of other services which have now been identified as non-core activities. Consequently, since the end of the year, a number of business units and the service lines they offer (principally in the event management and training fields) have been discontinued to allow the business to focus on developing core services.

To put this strategy into action, we will build on the changes we have implemented so far, with an ambitious programme of change – "Success through Excellence" or STEP. STEP brings all of the initiatives, either previously identified or new within Secure Focus and Growth, together under one banner, ensuring effective resource management, coordination (sequencing and linking), prioritisation, governance and guidance.

STEP comprises five main workstreams. The Branding and Offer portfolio workstream addresses all the elements of the offer – product innovation, pricing service innovation, marketing channel development and brand expression. The Customer and Business Development workstream addresses how we understand customers, development of sale processes and a customer relationship approach. The Operational Improvement workstream has a broad remit including the immediate development of strategic purchasing, the development of required project

## Investment for the Future

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management processes and measurement and control systems. The Financial Capability and Controls workstream will address immediate requirements for the Fit-to-Trade review together with development of stronger business controls and greater financial capability. Finally, the People Skills and Competencies workstream addresses the development of a high performance culture together with a complete re-work of HR process and policies.

Our new mission and vision, and the goals to achieve them going forward are:

### **New Mission:**

“To deliver a unique combination of secure services, enabling customers to build a safer future.”

### **And Vision:**

“To be the leading UK authority delivering innovative solutions for customers facing a world of changing security priorities.”

### **To be achieved by creating:**

#### **A financially successful sustainable business**

- Financial Strength. To be a financially successful and sustainable business delivering value through maximising opportunities with the FCO and an expanding wider market customer base.

#### **An efficient and effective business delivering for customers**

- Effective Customer Acquisition. To operate an effective customer acquisition model to identify and win new business.
- Product and Service Innovation. To deliver focused product and service innovation to achieve and

consolidate a position as the leading UK authority on security solutions.

- High Customer Satisfaction. To constantly improve customer satisfaction in all aspects of our products, services and service delivery.
- Effective and Efficient Service Delivery. To be an efficient organisation with an ethos of continuously improving business operations.

#### **An enabled, flexible organisation**

- Business in Control. To implement structural, system and process changes that allow effective measurement, understanding and control of the business.
- High Performance Culture. To create a high performance, customer-focused and innovative culture.
- Enabled Workforce. To build key skills in areas which support the strategic direction of the business to ensure best in class performance.
- Rewarding Employer. To be a rewarding organisation, where people are empowered to contribute actively towards its success.

## KPI Targets for 2007/08

TARGETS for 2007 / 08		
Objectives	KPI	Target for 2007/08
Recover full cost of operations	% Return on Capital Employed on FCO and wider market work, before exceptional costs	Weighted average Return on Capital Employed of at least 4% (note 1)
Make efficiency gains through increased utilisation	Utilisation rate	An increase of 5% over the rate achieved in 2006/07
Increase income from wider markets	Growth in wider markets	An increase of 5% on that achieved in 2006/07 (note 1)
Improve customer satisfaction	Customer satisfaction rating in customer survey	85% satisfied or very satisfied

Notes:

Note 1: for the continuing operation excluding business units that will transfer to the FCO or close during the course of 2007/08

## Remuneration Report

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### Remuneration Policy

The remuneration of senior executive members of FCO Services is set in accordance with the FCO's agreed pay structure according to a framework of delegations administered through the FCO's governance structure.

In setting such remuneration for each senior member of staff, regard has been taken to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- likely funds available to FCO Services from its trading relationship with the FCO and wider markets and the need to provide appropriate levels of service to customers in accordance with SLA and contractual agreements;
- the requirement to meet agreed efficiency or headcount targets.

Evidence about wider economic considerations and affordability is also considered alongside the need to recruit the appropriate calibre of staff.

### Service Contracts

All appointments including Senior Executive members of FCO Services are made in accordance with the FCO's stated Selection and Recruitment policy, the intended aim of which is "the selection of the most suitable person for the job." This Policy incorporates practices for the furtherance of equal opportunities and will be conducted on an objective basis, dealing solely with the candidate's suitability for appointment.

Unless otherwise stated below, the Senior Executive members of FCO Services hold appointments which are open-ended until retirement.

Christopher Moxey was appointed on a four year contract commencing on 6 February 2006. Clive Heaphy was appointed on a three year contract commencing on 4 July 2006. Steven Rymell was appointed on a four year contract commencing on 5 February 2007.

The above are Civil Servants and early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Neil Masom's contract was renewed on 1 April 2007 for twelve months and no compensation is payable for early termination.

The Nesco Agency contract for the Interim Human Resources Director is from 31 October 2006 to 23 September 2007 and no compensation is payable for early termination.

### Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Senior Executive members of FCO Services.

## Remuneration Report

### Remuneration

	2006-07	
	Salary £000	Benefits in kind (to nearest £100)
Neil Masom Board member	5 - 10	Nil
Chris Moxey Chief Executive	105 - 110	Nil
Clive Heaphy Finance Director (Appointed 4 July 2006)	65 - 70	Nil
Elaine Kennedy Group Director Human Resources (Resigned 31 October 2006)	50 - 55	Nil
Interim Human Resources Director (Lynn Hugo) (note 1)	-	-
Steven Rymell Group Director ICT (Appointed 5 February 2007)	15 - 20	Nil
Kerry Simmonds (note 2) Group Director	75 - 80	Nil
Graham Smith Group Director Client Services	70 - 75	Nil

The above table has been subject to audit.

Note 1. Nesco Agency provides the Interim Human Resources Director and the total fees paid to the Agency amounted to £90k - £95k.

Note 2: Kerry Simmonds was Finance Director until 3rd July 2006, after which he has continued to be employed on the same terms and conditions as both Director of Change Management and Acting Director Supply Chain.

### Salary

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

This report is based on payments made to members of the Executive Board and thus recorded in these accounts.

### 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.

## Remuneration Report

### Pension Benefits

	Accrued pension at age 65 as at 31/03/07	Lump sum at age 65 as at 31/03/07	Real increase in pension at age 65	Real increase in lump sum at age 65	CETV at 31/03/07	CETV at 31/03/06	Real increase in CETV
	£000	£000	£000	£000	£000	£000	£000
Neil Masom (note 1) Board member	-	-	-	-	-	-	-
Christopher Moxey (note 2) Chief Executive	-	-	-	-	-	-	-
Clive Heaphy (note 2) Finance Director (Appointed 4 July 2006)	-	-	-	-	-	-	-
Elaine Kennedy Group Director Human Resources (Resigned 31 October 2006)	25 - 30	75 - 80	0 - 2.5	0 - 2.5	633	622	10
Interim Human Resources Director (Lynn Hugo) (note 3)	-	-	-	-	-	-	-
Steven Rymell (note 2) Group Director ICT (Appointed 5 February 2007)	-	-	-	-	-	-	-
Kerry Simmonds Group Director	10 - 15	20 - 25	0 - 2.5	0 - 2.5	183	179	15
Graham Smith Group Director Client Services	25 - 30	80 - 85	0 - 2.5	5 - 10	489	439	40

The above table has been subject to audit.

Note 1: The above noted board member is a fixed term contract appointee to whom a Civil Service Pension is not available.

Note 2: Nil real increase in CETV and qualifying service under two years pension

Note 3. The Interim Human Resources Director is provided by Nesco Agency and a Civil Service pension is not available.

### Pensions

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS).

Liability for the payment of future benefits is a charge to the PCSPS and there is a separate scheme statement for the PCSPS as a whole. FCO Services is one of a large number of employers whose staff participate in the scheme.

### Civil Service Pensions

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

## Remuneration Report

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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). None of the above have joined a partnership pension scheme.

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.civilservicepensions.gov.uk](http://www.civilservicepensions.gov.uk)

### Cash Equivalent Transfer Values

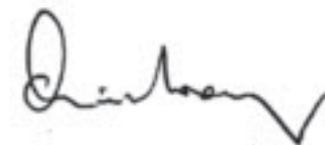
A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and

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 Civil Service 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.

### 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.



Christopher Moxey - Accounting Officer  
18 July 2007

## ***Accounts***

## Accounts

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## Statement on Internal Control

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### 1. Scope of responsibility

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

My responsibilities as Agency Accounting Officer are defined more fully in a letter to me from the Permanent Under-Secretary and Accounting Officer of the Foreign and Commonwealth Office. This confirms that I am responsible to the Secretary of State for Foreign and Commonwealth Affairs and accountable to Parliament for the Agency's use of resources in carrying out its functions.

### 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 the Agency's policies, aims and objectives;
- to evaluate the likelihood of those risks being realised and the impact should they be realised; and
- to manage them efficiently, effectively and economically.

FCO Services is a new Executive Agency that commenced its operations on 1 April 2006. Prior to that, it operated as an internal department of the Foreign and Commonwealth Office. FCO Services has been working towards implementing an appropriate system of internal control, which accords with HM Treasury guidelines throughout the year and up to the date of approval of these accounts.

### 3. Capacity to handle risk

As Accounting Officer I am personally responsible for ensuring that FCO Services has an effective risk

management process including the regular review and updating of risk registers. We have a documented risk policy that follows HM Treasury's guidance on risk management and processes, defines what is meant by risk and risk management and outlines the key principles underpinning our approach to the management of risk.

All identified strategic and significant operational risks are managed by the Operations Board and are allocated to an appropriate member of the Executive Group to manage as primary risk owners.

We have adopted detailed guidance on standards of behaviour and conduct, equal opportunities, fraud, whistle blowing and Health and Safety matters. Our staff has access to these policies through the FCO Services Intranet.

During the last year, we have made good progress in implementing a common risk framework across FCO Services and embedding it throughout the organisation through a series of training and workshop sessions. The top risks register is reviewed regularly not only by the Operations Board but also by the Executive Board and Audit Committee in order to ensure that it remains up-to-date and relevant and that controls are strengthened in areas of greatest exposure.

### 4. The risk and control framework

Our system of internal control is based on a framework of regular management information, financial regulations and procedures, a system of delegations and accountability and segregation of duties. Key elements of our framework of control include:

- (i) an Executive Board that meets regularly to consider the strategic direction and key monitoring information for FCO Services and which considers the Risk Register at each meeting;
- (ii) An Audit Committee that considers all aspects of internal control including the consideration of reports from the internal and external auditors;
- (iii) Regular reports from Directors and senior managers on operational and financial aspects of their activities;
- (iv) An annual process of budget setting through the Corporate Plan;
- (v) Monthly monitoring of key performance measures and indicators including a comprehensive pack of memorandum trading accounts;
- (vi) A quarterly business review process;

## Statement on Internal Control

(vii) A system of cascaded delegations supported by clear mandate letter and enforced through system controls;

(viii) Project management controls designed to ensure the management of key programme and projects using project management methodologies and Internet based tools.

An important issue when considering response actions to risk is the level of risk we are prepared to accept or tolerate before action is considered necessary. This is known as "risk appetite". We recognise that it is not possible to have a "one size fits all" risk appetite and that we are unlikely to achieve good value for money in trying to eradicate a risk completely. Each risk is therefore judged on its perceived importance to the business objectives and the response resources available when deciding an acceptable risk tolerance level.

During 2006-07 we continued to adopt a "top down and bottom up" approach to risk identification to ensure completeness of risks identified. My Operations Board and I identified, assessed and recorded in a risk register the key risks that we consider threaten the achievement of FCO Services' main objectives and its ability to prosper as a business. Each identified risk was allocated to an appropriate executive to own and manage.

Our operational staff identified and assessed the risks and opportunities relevant to their work. Details of operational risks identified were recorded in a separate register with the "top ten" risks reported to the Operations Board. In turn, the Operations Board presented key risks to the organisation to the Audit Committee (and in turn the Executive Board) on a regular basis.

The most significant potential risks that were identified and monitored during 2006/07 include:

(i) The impact of non-compliance with government accounting regulations and a lack of integrity in accounting systems. During this period the organisation has had to establish an opening balance sheet, independent accounting process and a sound framework of financial reporting in order to ensure that it is able to operate as an independent agency. This work has continued throughout the year although further work is needed to achieve fully independent accounting.

(ii) The control of cash resources. The organisation has needed to adapt to a commercial culture, with a focus on effective cash management, involving the strengthening of its billing, debtor control and cash

management processes. Although work is not yet fully complete, significant progress has been made to ensure that the organisation is able to operate effectively.

(iii) The skills and cultural ethos needed in a commercial organisation. The change from an internal department to a trading organisation reliant upon commercial skills and competencies is one that has required considerable cultural change and a constant reinforcing of education, training and process change.

(iv) Business continuity plans. Although disaster recovery plans covering the IT functions were in place throughout the year, wider business continuity plans covering all business activities were not developed until the year end. These are now being tested for robustness.

(v) Health and Safety. Improvements have been made in increasing awareness of and monitoring Health and Safety issues.

(vi) Our service to customers / customer satisfaction. As an Executive Agency seeking to develop its customer network and to provide service both to the FCO customer and a range of wider market customers, it is imperative that we closely monitor customer satisfaction in order to defend against deteriorating revenue. Accordingly, we have been active in developing and promoting mechanisms to ensure that our customers are satisfied with our services and we have been improving the means by which we monitor and act upon customer feedback.

Although we have made significant progress in identifying, assessing and recording our risks, further work is planned to ensure that the scope of our risk framework reflects appropriately our corporate business objectives. Key risk indicators are identified and monitored and risk registers are more regularly reviewed, updated and reported to the Executive Board.

The following processes and actions have helped us to embed risk management in our organisation although we continue to work on improving this:

- The availability to staff of comprehensive, intranet-based risk management policies within the context of a 'no blame culture' so that risks can be openly discussed and dealt with.
- a rigorous system of checks and controls, such as automated 3-way invoice matching together with detailed staff guidance that help prevent and detect fraud;

## Statement on Internal Control

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- the requirement for all colleagues and Board members to adhere to the highest standard of propriety as set out in Nolan's 'seven principles in public life;
- the utilisation of the Office of Government Commerce (OGC) processes and tools and of the Overseas Journal of the European Union (OJEU) to ensure value for money;
- the development of project management processes including the establishment of programme and project boards to oversee the delivery of key projects and deliverables;
- effective financial control processes that are subject to regular review and improvement where necessary;
- identification through the performance appraisal mechanism of staff development and training needs; and
- the development of an effective internal audit function and an appropriate corporate governance framework.

We are continually looking at ways to improve how we manage risks with external stakeholders and maintain continuity and growth in our revenues. For example:

- It is important that we remain an active partner of our key customer, the FCO, and we have developed a strategy designed to closely meet their needs. This is based on a deep understanding of the FCO's key objectives in the areas of Information Technology, Security and Logistics and our organisational structure is in the process of being realigned to be more responsive in these key strategic areas.
- We already work with a wide range of customers outside the FCO and enjoy good relations and high levels of customer satisfaction. In order to maintain and deepen those relationships and thus ensure continuity and growth, we continue to improve our relationships and provide the services that they need ensuring that our services are high quality and prices competitive.

### 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 and the executive managers within the organisation 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.

The Executive Board and the Audit Committee have advised me on the implications of the result of my review of the effectiveness of the system of internal control and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The following organisational forums and processes help me maintain and review the effectiveness of the system of internal control:

- Operations Board members – I usually meet weekly with the other members of my executive team to consider and discuss the Agency's operational plans and objectives and to discuss day-to-day management issues;
- the Executive Board – which comprises a non-Executive Chair, a further non-Executive Director and Executive Board colleagues. We meet at least four times a year to discuss the Agency's strategy and performance, risks and progress on major projects;
- the Audit Committee – which is chaired by an independent non-Executive member. The Audit Committee meets at least four times a year, usually with both Internal and External Auditors present, to receive and respond to reports, to consider and advise me on the appropriateness of our corporate governance and internal control arrangements and to review the financial statements;
- Annual Assurance Statements – members of my Executive team conduct self-audits and are required to give me documented assurances regarding compliance with their operational risk management and internal control responsibilities;
- Financial Control Framework – this is in place to ensure the integrity of the financial information received and the adequacy of the financial process;
- Internal Auditors – The FCO Internal Audit Department (IAD), supported by PricewaterhouseCoopers (PwC), undertake internal audits to Government Internal Audit Standards and provide regular reports and an overall annual opinion on risk management, control and governance within FCO Services;

## Statement on Internal Control

- external auditors – The National Audit Office (NAO) who provide internal control comments in their management letters and other reports; and
- other specific risk reviews – these include Health and Safety reviews, OGC Gateway reviews of certain projects; and commissioned third party reviews of certain policies and processes.
- We have identified areas for improvement in the way in which procurement is being undertaken. We identified the need for further work in developing a procurement strategy, maximising OGC and other procurement opportunities, improving contract management skills and increasing staff awareness of procurement procedures.
- We have commenced work on addressing key strategic HR issues to enable FCO Services to ensure that it can be sufficiently flexible in the way it utilises its people and attractive enough to be able to recruit and retain.

processes. The move to Executive Agency status has implied a major cultural shift and has emphasised the need to ensure compliance with key processes such as those relating to billing and debt collection. During the year, it was evident that certain processes were not always being applied as stringently as needed and as a result, a major campaign of education, training and enforcement was put in place in order to resolve these issues.

Although largely successful by the year end, this effort will continue to be backed by an extensive training programme and an improvement in management information to ensure that core processes are applied as intended.

(iii) Control over operations in Hong Kong. The FCO Services operation in Hong Kong, a small unit of 15 staff with an annual turnover of £1.5 million, has lacked a degree of control, visibility and rigour in the way in which it has operated throughout the year, in part because it does not operate on the same systems as the rest of the organisation. At the year end, considerable work was undertaken to verify its transactions. The unit is now reporting appropriately and during 2007/08, the operations will transfer back to the FCO.

### 6. Significant internal control issues

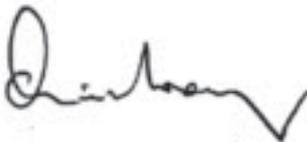
2006/07 was the first year of operation of the Agency and marked a major change in strategy, ethos and outlook as well as in culture, processes and systems. Our work during the year has been focused on developing and embedding controls that support this change and thus a number of issues have been identified during the year.

The principal issues were:

(i) The integrity of financial systems and processes. The financial systems and process inherited from the FCO were not suited to a commercially focused organisation and indeed, with little control over those systems and processes and no visibility of our balance sheet or chart of accounts, the organisation was exposed. A considerable amount of work has been undertaken by the Finance team throughout the year to ensure that FCO Services moved towards full control and understanding of its finances and to ensure that accounts are of sufficient integrity and depth to meet the exacting standards required by the business and the FReM.

Most aspects of ensuring adequate integrity have been completed and work now is focused on greater independence for the future.

(ii) Cultural change and compliance with key



Christopher Moxey  
Chief Executive and Accounting Officer of FCO Services  
18 July 2007

## ***Statement of FCO Services Agency's and Accounting Officer's Responsibilities***

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Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction detailing the resources acquired, held or disposed of during the year and the use of resources by the Agency during the year.

The accounts are prepared on an accruals basis and must provide a true and fair view of the Agency's state of affairs at the year end and of its income and expenditure, recognised gains and losses and cashflows for the financial year.

In preparing the accounts the Agency is required to comply with the requirements of the Financial Reporting Manual (FReM) prepared by HM Treasury

- observe 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 FReM, have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

As far as I, as the Accounting Officer am aware, there is no relevant audit information of which the National Audit Office are unaware, and I have taken all reasonable steps to ensure that I have made myself aware of any relevant audit information and to establish that the Agency's auditors are aware of this information.

The Principal Accounting Officer of the Foreign and Commonwealth Office has appointed me as the Accounting Officer for the Agency. My relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances for which I am answerable and for the keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.

Christopher Moxey  
Chief Executive and Accounting Officer  
18 July 2007

## ***The Certificate of the Comptroller and Auditor General to the House of Commons***

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I certify that I have audited the financial statements of the Foreign and Commonwealth Office Services for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Account and Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement 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 Agency, the Chief Executive and auditor**

The Agency and Chief Executive, as Accounting Officer, are 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 Forewords, the Management Commentary and the 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 Agency 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 Agency'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 Agency'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 Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency'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

## **The Certificate of the Comptroller and Auditor General to the House of Commons**

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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:

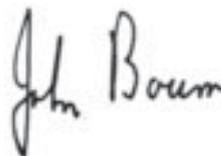
- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2007, and of the surplus, recognised gains and losses and cashflows for the year then 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
- The information given within the Annual Report, which comprises the Forewords, the Management Commentary and the 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  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria, London, SW1W 9SP  
20 July 2007

## Income and Expenditure Account

Income and Expenditure Account for the year ended 31 March 2007		
	Note	2006-07 £000
Turnover	2	141,439
Cost of sales	4(a)	(93,644)
<b>Gross surplus</b>		<b>47,795</b>
Operating expenses	4(a)	(39,603)
<b>Operating surplus before provision</b>		<b>8,192</b>
Provision for restructure	4(b)	(3,447)
<b>Operating surplus after provision</b>		<b>4,745</b>
Cost of capital	5	(272)
<b>Surplus for the financial year</b>	13	<b>4,473</b>

All income and expenditure are derived from continuing operations in the year

## Statement of Total Recognised Gains and Losses

Statement of total recognised gains and losses for the year ended 31 March 2007		
	Note	2006-07 £000
Surplus for the financial year		4,473
Unrealised surplus on revaluation	14	8
Realised gains transferred to Income and Expenditure Account	14	(2)
<b>Total recognised gains and losses relating to the year</b>		<b>4,479</b>

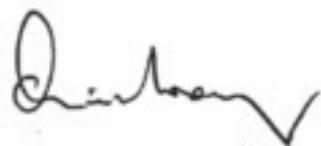
Note: There are no comparatives for the year ended 31 March 2007 as the assets and liabilities were transferred in from the Foreign and Commonwealth Office on 1 April 2006.

The notes on pages 40 to 51 form part of these accounts

## Balance Sheet

Balance sheet as at 31 March 2007	Note	31 March 2007		Transfer 1 April 2006	
		£000	£000	£000	£000
<b>Fixed assets</b>					
Tangible assets	6		2,756		2,776
<b>Current assets</b>					
Stocks and work in progress	7		7,392		8,076
Debtors	8(a)		22,989		34,120
Cash at bank and in hand	9		13,095		2,645
			<u>43,476</u>		<u>44,841</u>
<b>Creditors (amounts falling due within one year)</b>	10(a)		<u>(38,993)</u>		<u>(22,344)</u>
<b>Net current assets</b>			<b>4,483</b>		22,497
<b>Total assets less current liabilities</b>			<u>7,239</u>		<u>25,273</u>
<b>Provisions for liabilities and charges</b>	11		<b>(3,447)</b>		-
<b>Net Assets</b>			<u><b>3,792</b></u>		<u>25,273</u>
<b>Taxpayers equity</b>					
General fund	12		<b>(721)</b>		25,239
Income and expenditure account	13		<b>4,473</b>		-
Revaluation reserve	14		<b>40</b>		34
			<u><b>3,792</b></u>		<u>25,273</u>

Note: With effect from 1 April 2006, FCO Services commenced operation as an Agency of the Foreign and Commonwealth Office (FCO). On 1 April 2006 FCO transferred to FCO Services various assets and liabilities and these are shown as the Balance Sheet comparison.



Christopher Moxey - Accounting Officer  
18 July 2007

The notes on pages 40 to 51 form part of these accounts

## Cash Flow Statement

Cash flow statement for the year ended 31 March 2007

		£000
	Note	
<b>Net cash inflow from operating activities</b>	15(a)	<b>22,490</b>
<b>Capital expenditure</b>	15(c)	<b>(912)</b>
<b>Financing</b>	12	<b>(11,128)</b>
		<hr/>
<b>Increase in cash in the period</b>		<b>10,450</b> <hr/> <hr/>

The notes on pages 40 to 51 form part of these accounts

## Notes to the Accounts

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### 1. Accounting policies

#### 1.1 Basis of accounting

These financial statements have been prepared in accordance with the accounts direction issued by HM Treasury on 19/12/2006 pursuant to section 7(2) of the Government Resources and Accounts Act 2000, which requires the Agency to comply with the accounting principles and disclosure requirements of the Government Financial Reporting Manual (FReM).

#### 1.2 Accounting convention

These accounts have been prepared in accordance with the accruals and historical cost convention, modified for the revaluation of fixed assets and stocks where material, at current costs or value to the business.

#### 1.3 Turnover

Turnover excluding value added tax and discounts, comprises sales to the internal market (Foreign and Commonwealth Office) and the wider market (other UK Government bodies and other organisations). Significant contracts are included in the turnover on the basis of the sales value of work performed during the year by reference to the total sales value and stage of completion of these contracts and in compliance with Statement of Standard Accounting Practice (SSAP) 9.

#### 1.4 Capital charge

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

#### 1.5 Value added tax

Output tax is applied where applicable but some of the activities of FCO Services are outside the scope of VAT. 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. FCO Services is part of the FCO group VAT registration.

#### 1.6 Operating leases.

Leases are regarded as operating leases, unless substantially all risks and rewards of ownership of a lease are borne by FCO Services. Operating leases and the rentals are charged to the income and expenditure account over the term of the lease.

#### 1.7 Stock, work in progress and long term contracts

Stocks of raw materials and components are valued at cost or where materially different at current replacement cost. Obsolete and damaged stock is written down to net realisable value.

Work in progress is valued at the lower of cost, including appropriate overheads and net realisable value.

Long-term contract balances included in stocks comprise costs incurred, net of amounts transferred to cost of sales, after deducting foreseeable losses and related payments on account.

Costs include all direct material and labour costs incurred in bringing a contract to its state of completion at the year end, including an appropriate proportion of indirect expenses.

Long-term contract balances do not include attributable profit.

The excess of payments received over amounts recorded as turnover is classified under creditors due within one year. Amounts recoverable on contracts, being the amount by which recorded turnover is in excess of payments on account, is classified under debtors.

## Notes to the Accounts

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### 1.8 Transfer of assets and liabilities.

With effect from 1 April 2006, FCO Services commenced operation as an Agency of the Foreign and Commonwealth Office (FCO). On 1 April 2006 FCO transferred to FCO Services various assets and liabilities. These are shown on the Balance Sheet comparison as at 1 April 2006 and in note 16 as assets transferred in from FCO. As this is the first year of trading as an Agency there are no comparative figures for the income and expenditure account.

### 1.9 Fixed assets and depreciation

Tangible fixed assets are stated at current value using appropriate indices or at valuation. The minimum level for capitalisation of a single tangible asset is £3k, subject to grouping conventions where appropriate. Furniture and fittings are not capitalised.

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.

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. Assets under construction are not depreciated until the asset is brought into use. Asset lives have been set in the following ranges:

Information Technology	- up to 8 years
Transport equipment	- 2 to 8 years
Plant and machinery	- 5 to 20 years

Fixed assets are reviewed annually for impairments and any impairment is charged to the income and expenditure account.

### 1.10 Bad debts provision

Provisions for bad and doubtful debts are only made in respect of wider market (external) debtors and no provision is made for internal market debtors.

### 1.11 Pension costs

Past and present UK-based employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described in note 3(c). PCSPS defined benefit schemes are unfunded. FCO Services 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, FCO Services recognises the contributions payable for the year.

### 1.12 Foreign exchange gains and losses.

Transactions 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. These translation differences are dealt with in the income and expenditure account.

## Notes to the Accounts

<b>2. Turnover</b>	<b>2006-07</b>
	<b>£000</b>
Internal Market (Foreign and Commonwealth Office)	<b>126,208</b>
Wider Market (other UK Government bodies and other organisations)	<b>15,231</b>
	<b><u>141,439</u></b>

### 3. Staff numbers and costs

3(a) The average number of whole-time equivalent persons employed during the year was follows.

Staff numbers	Permanent	Agency	Other	2006-07
				Total
Operations	957	131	11	<b>1,099</b>
Sales & Marketing	24	2	-	<b>26</b>
Corporate Services	51	7	-	<b>58</b>
	<u>1,032</u>	<u>140</u>	<u>11</u>	<b><u>1,183</u></b>

3(b) Staff costs (for the above persons)

	2006-07		Total £000
	UK £000	Other £000	
Wages and salaries	37,709	196	<b>37,905</b>
Social Security costs	2,790	-	<b>2,790</b>
Other pension costs	5,931	22	<b>5,953</b>
Permanent staff	<u>46,430</u>	<u>218</u>	<b><u>46,648</u></b>
Agency staff	<u>3,705</u>	<u>-</u>	<b><u>3,705</u></b>
	<u>50,135</u>	<u>218</u>	<b><u>50,353</u></b>

Agency staff costs and employee numbers include Fee Paid Officers (ex employees employed on a temporary basis).

### 3(c) Pensions

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit scheme but FCO Services 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](http://www.civilservice-pensions.gov.uk)).

For 2006-07, contributions of £ 5,946,000 were payable to the PCSPS 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 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.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. No payments have been made to partnership pension accounts. Three individuals retired early on ill health grounds; the total additional accrued pension liabilities in year amounted to £5k.

## Notes to the Accounts

### 4. Cost of sales, indirect costs and provision.

4(a) Cost of sales	Cost of sales	Operating Expenses	2006-07 Total
	£000	£000	£000
Staff costs	27,989	18,659	46,648
Agency staff and Fee Paid Officers	2,768	937	3,705
Training and recruitment	153	2,899	3,052
Travel	11,817	3,333	15,150
Consultants and contractors *	16,816	2,967	19,783
Communications	6,389	1,309	7,698
Supplies, services & facilities management	7,584	4,963	12,547
Freight	10,718	219	10,937
Maintenance	6,122	2,264	8,386
Operating leases:			
Land and buildings	368	207	575
Other	-	43	43
Accommodation charges	2,015	1,134	3,149
Loss on exchange	-	22	22
Other	-	539	539
Depreciation	772	5	777
Loss on disposal of fixed assets	-	28	28
Impairment losses on fixed assets	133	-	133
Auditors' remuneration and expenses (no non-audit work)	-	75	75
Total costs	<b>93,644</b>	<b>39,603</b>	<b>133,247</b>

\* Consultants and contractors charged to cost of sales are fee earning.

### 4(b) Provision for restructure

	2006-07 £000
<b>Provision</b>	<b>3,447</b>

The provision for restructure relates to a new strategic model for FCO Services to be implemented during the financial year 2007/08 and to the cessation of certain activities and the transfer back to the FCO of others (note 24).

### 5. Cost of capital

	2006-07 £000
<b>Cost of capital charge at 3.5%</b>	<b>272</b>

## Notes to the Accounts

### 6. Tangible assets

					31/03/2007
	Assets under construction	Information technology	Transport equipment	Plant and machinery	Total
	£000	£000	£000	£000	£000
Cost or valuation					
Transfer at 1 April 2006	-	1,429	970	1,976	4,375
Additions	168	139	46	569	922
Disposals	-	-	(138)	-	(138)
Impairments	-	-	-	-	-
Revaluation	-	(106)	11	21	(74)
As at 31 March 2007	<u>168</u>	<u>1,462</u>	<u>889</u>	<u>2,566</u>	<u>5,085</u>
Depreciation					
Transfer at 1 April 2006	-	527	603	469	1,599
Provided during the year	-	254	109	414	777
Disposals	-	-	(98)	-	(98)
Impairments	-	36	-	52	88
Revaluation	-	(50)	8	5	(37)
As at 31 March 2007	<u>-</u>	<u>767</u>	<u>622</u>	<u>940</u>	<u>2,329</u>
Net book value					
As at 31 March 2007	<u>168</u>	<u>695</u>	<u>267</u>	<u>1,626</u>	<u>2,756</u>
Transfer at 1 April 2006	<u>-</u>	<u>902</u>	<u>367</u>	<u>1,507</u>	<u>2,776</u>
Asset Financing					
Owned	<u>168</u>	<u>695</u>	<u>267</u>	<u>1,626</u>	<u>2,756</u>

At 1 April 2007, a full review of fixed assets was undertaken and this resulted in the identification of unaccounted fixed assets (£1,247m). These were valued, on the basis of existing use, by senior management, as specialist knowledge was required.

All assets have been revalued at 31 March 2007 using appropriate indices.

### 7. Stocks and work in progress

	31/03/2007	01/04/2006
	£000	£000
Raw materials and consumables	1,502	1,376
Long-term contract balances and work in progress	5,890	6,700
	<u>7,392</u>	<u>8,076</u>

## Notes to the Accounts

### 8. Debtors

#### 8(a) Analysis by type

	31/03/2007 £000	01/04/2006 £000
Amounts falling due within one year		
Trade debtors	20,487	30,656
Other debtors	1,076	44
Prepayments and accrued income	1,426	3,420
	<u>22,989</u>	<u>34,120</u>

#### 8(b) Intra-Government balances

	31/03/2007 £000
Foreign and Commonwealth Office	17,635
Other central government bodies	4,062
Local authorities	-
NHS Trusts	6
Public Corporations and trading funds	-
Subtotal: intra -government bodies	<u>21,703</u>
Balance with bodies external to government	<u>1,286</u>
	<u>22,989</u>

### 9. Cash at bank and in hand

	31/03/2007 £000	01/04/2006 £000
Balance at 31 March	<u>13,095</u>	<u>2,645</u>

The following balances at 31 March were held at:

Office of HM Paymaster General	12,382	1,159
Commercial banks and cash in hand	713	1,486
Balance at 31 March	<u>13,095</u>	<u>2,645</u>

## Notes to the Accounts

### 10. Creditors

#### 10(a) Analysis by type

Amounts falling due within one year	31/03/2007 £000	01/04/2006 £000
Trade creditors	12,198	11,352
Accruals	7,261	8,192
Payments on account	7,812	1,569
Deferred income	-	1,100
Other creditors	11,611	127
VAT*	111	4
	<u>38,993</u>	<u>22,344</u>

\* The amount shown is actually due to the FCO, as FCO Services is part of the FCO VAT Registration.

#### 10(b) Intra-Government balances

	31/03/2007 £000
Foreign and Commonwealth Office	22,631
Other central government bodies	2,818
Local authorities	3
NHS Trusts	-
Public Corporations and trading funds	-
Subtotal: intra -government bodies	<u>25,452</u>
Balance with bodies external to government	<u>13,541</u>
	<u>38,993</u>

### 11. Provisions

	Restructure Provision £000
Provided in year	<u>3,447</u>
Balance at 31 March 2007	<u>3,447</u>

The provision for restructure relates to a new strategic model for FCO Services to be implemented during the financial year 2007/08 and to the cessation of certain activities and the transfer back to the FCO of others.

## Notes to the Accounts

### 12. Reconciliation of movements in general fund

	31/03/2007	
	£000	£000
Balance at 1 April		25,239
<b>Non cash charges:</b>		
Notional cost of capital charge	272	
Audit fee	75	
	<u>          </u>	
<b>Settlement of balances with FCO:</b>		347
<b>Intercompany transfers</b>		
Transfer to clear FCO trade debts	(26,998)	
Transfer to clear FCO Services trade creditors	11,819	
	<u>          </u>	(15,179)
<b>Intercompany cash financing</b>		
FCO invoices paid by FCO Services	(14,628)	
Funding to the FCO	(22,000)	
Funding from the FCO	25,500	
	<u>          </u>	(11,128)
Balance at 31 March 2007		<u><u>(721)</u></u>

While the intention was that FCO Services should trade from 1st April 2006 as a separate cash entity, with all transactions between itself and the FCO being settled in cash, during the year a number of transactions were settled by intercompany transfer.

### 13. Reconciliation of movements in income and expenditure account

	31/03/2007
	£000
Surplus for the year	<u>4,473</u>
Balance at 31 March 2007	<u><u>4,473</u></u>

### 14. Revaluation reserve

	31/03/2007
	£000
Balance at 1 April	34
Arising on revaluation during the year (see note 6)	19
Transfer to impairment	(11)
Realised gains	(2)
Balance at 31 March 2007	<u><u>40</u></u>

## Notes to the Accounts

### 15. Notes to the Cash Flow Statement

#### 15(a) Reconciliation of surplus to operating cash flows

		2006-07 £000
	Note	
<b>Net surplus</b>		<b>4,473</b>
Adjustments for non-cash items	15(b)	<b>(10,447)</b>
Decrease in stock		<b>684</b>
Decrease in debtors		<b>11,131</b>
Increase in creditors		<b>16,649</b>
Net cash inflow from operating activities		<u><b>22,490</b></u>

#### 15(b) Adjustments for non-cash items

		2006-07 £000
	Note	
Depreciation		<b>777</b>
Loss on disposal of fixed assets		<b>28</b>
Impairment		<b>133</b>
Cost of capital		<b>272</b>
Transfer to clear FCO trade debts	12	<b>(26,998)</b>
Transfer to clear FCO Services trade creditors	12	<b>11,819</b>
Auditors remuneration		<b>75</b>
Provisions provided in year		<b>3,447</b>
		<u><b>(10,447)</b></u>

#### 15(c) Capital Expenditure

	2006-07 £000
Tangible fixed asset additions	<b>(922)</b>
Proceeds from disposal of fixed assets	<b>10</b>
	<u><b>(912)</b></u>

### 16. Transfer of assets and liabilities.

With effect from 1 April 2006, FCO Services commenced operation as an Agency of the FCO. On 1 April 2006 the FCO transferred to FCO Services various assets and liabilities. These are shown on the Balance Sheet comparison as at 1 April 2006.

	01/04/2006 £000
Fixed assets	<b>2,776</b>
Stocks	<b>8,076</b>
Debtors	<b>34,120</b>
Cash at bank and in hand	<b>2,645</b>
Creditors falling due within one year	<b>(22,344)</b>
	<u><b>25,273</b></u>

## Notes to the Accounts

### 17. Commitments under 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.

#### Obligations under operating leases comprise:

	<b>31/03/2007</b>
	<b>£000</b>
Land and buildings:	
Expiry within one year	<b>149</b>
Expiry after 1 year but not more than 5 years	-
Expiry thereafter	-
	<u><b>149</b></u>
Other	
Expiry within one year	-
Expiry after 1 year but not more than 5 years	<b>43</b>
Expiry thereafter	-
	<u><b>43</b></u>

There are no obligations under finance leases.

### 18. Capital commitments

There are no contracted capital commitments at 31 March 2007 for which provision has not been made.

### 19. Other financial commitments

FCO Services has not entered into any non-cancellable contracts (which are not leases).

### 20. Contingent liabilities

There are no contingent liabilities to be disclosed under Financial Reporting Standard (FRS) 12.

There are no contingent liabilities to be disclosed under Parliamentary reporting.

### 21. 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. Financial instruments play a more limited role in creating or changing risk than would be typical of the listed companies and financial institutions to which FRS 13 mainly applies.

FCO Services 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 FCO Services 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.

## Notes to the Accounts

### Liquidity risk

FCO Services is not exposed to significant liquidity risk as liquidity requirements are met by financing from the FCO.

### Interest rate risk

FCO Services has no external borrowings and is not therefore exposed to significant interest rate risk.

	Interest bearing financial assets	Non- interest bearing financial assets	Non- interest bearing financial liabilities
	31/03/2007 £000	31/03/2007 £000	31/03/2007 £000
<b>Currency</b>			
Sterling	-	12,400	(3,447)
Hong Kong Dollar	695	-	-
<b>Gross financial assets/(liabilities)</b>	<u>695</u>	<u>12,400</u>	<u>(3,447)</u>

### Foreign Currency risk

The majority of the assets and liabilities are denominated in sterling and there is no associated currency risk. There are, however, some assets in one of the FCO Services business areas that is subject to currency fluctuations. Any gains or losses are taken to the income and expenditure account in the year.

### Fair values

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

	Book value 31/03/07 £000	Fair value 31/03/07 £000
<b>Primary financial instruments</b>		
<i>Financial assets</i>		
Cash at bank and in hand	<u>13,095</u>	<u>13,095</u>
<i>Financial liabilities</i>		
Provisions	<u>(3,447)</u>	<u>(3,447)</u>

## Notes to the Accounts

### 22. Related party transactions

FCO Services is an Executive Agency of the FCO. The FCO (The Department) is regarded as a related party. During the year FCO Services had various material transactions with the Department.

In addition, FCO Services has had numerous material transactions with other government Departments and other central government bodies.

None of the Board members, key managerial staff or other related parties has undertaken any material transaction with FCO Services during the year.

### 23. Losses and special payments

There are no losses and special payments to be disclosed.

### 24. Post balance sheet events

Various activities and functions are being transferred to the Foreign and Commonwealth Office and others are to be discontinued.

	<b>Turnover</b> <b>2006-07</b> <b>£000</b>	<b>Contribution</b> <b>2006-07</b> <b>£000</b>
Transferring activities	<b>22,566</b>	<b>2,586</b>
Discontinuing activities	<b>6,259</b>	<b>177</b>
	<b><u>28,825</u></b>	<b><u>2,763</u></b>

	Actual date of transfer or cessation	Planned date of transfer or cessation
<b>Transferring activities</b>		
Events Management Group: Lancaster House	01/07/2007	-
Events Management Group: Government Hospitality	01/07/2007	-
Events Management Group: VIP Visits	01/07/2007	-
Events Management Group: Sponsored Visits	01/07/2007	-
Events Management Group: Conferences & Events	01/07/2007	-
Supply Chain Group: Supply Solutions Overseas	01/06/2007	-
Supply Chain Group: Travel and Movements (part)	01/06/2007	-
Supply Chain Group: Supply Solutions Purchasing (part)	-	01/10/2007
ICT Group: Comcen (Communication Centre)	01/07/2007	-

### Discontinuing activities

People and Best Practice: Language Training	-	30/09/2007
Events Management Group: Publishing	-	30/09/2007
Events Management Group: Films	-	30/09/2007

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