

Foreign and Commonwealth Office

Resource Accounts 2004–05

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*Ordered by the House of Commons to be printed
19 December 2005*

Contents

	Page
Annual Report	1
Statement on Internal Control	6
Statement of Accounting Officer Responsibilities	9
Certificate of the Comptroller and Auditor General	10
Accounts	
Schedule 1	12
Schedule 2	14
Schedule 3	15
Schedule 4	16
Schedule 5	17
Notes to the Accounts	18
Report of the Comptroller and Auditor General	
Fraud at the British Embassy, Tel Aviv	48

Annual Report

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

1. Scope

a. *Entities within the Departmental Accounting Boundary*

The Foreign and Commonwealth Office (FCO) includes Wilton Park Executive Agency within its Departmental Accounting Boundary.

b. *Associated Bodies outside the Departmental Accounting Boundary*

FCO programmes include payments to:

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

Further details are included in the Notes to the Accounts.

c. *Departmental Report*

The 2004 Departmental Report was published in May 2005. The Departmental Report contains details of FCO activity additional to that shown in these accounts, including expenditure plans looking forward to the year 2006-07 and an analysis of outcomes against FCO Objectives. Supplementary performance information will be published shortly. The Departmental Report for the year covered by these accounts (2004-05) will be published in the first half of 2006.

2. Operating and Financial Review

a. *Objectives and performance*

The aim and objectives of the FCO, as shown below, are subject to measurable Public Service Agreements and target achievement performance assessment. Details of the FCO's performance against its targets are shown in the annual Departmental Report.

The aim of the FCO is to work for the United Kingdom's interests in a in a safe, just and prosperous world. The objectives are:

1. A secure United Kingdom within a safer and more peaceful world;
2. Enhanced competitiveness of companies in the UK through overseas sales and investments; and a continuing high level of quality foreign direct investment (through UK Trade and Investment);
3. Increased prosperity and a better quality of life in the UK and worldwide through effective economic and political governance globally;
4. A strong role for the UK in a strong Europe, responsive to people's needs;
5. International decisions and actions which advance UK objectives and interests. Authoritative advice and support to the whole of Government on international issues. Positive foreign perceptions of the UK and the Government's policies;
6. High quality consular services to British nationals abroad. Effective regulation of entry to, and settlement in, the UK in the interests of sustainable growth and social inclusion (through UKvisas);
7. Secure and well-governed British Overseas Territories enjoying sustainable development and growing prosperity.

b. Principal Departmental activities

There are five main strands to the activities of the FCO:

1. The pursuit of British political, trade and economic interests worldwide;
2. The interpretation of the international scene; the provision of economic and political information and advice to Her Majesty's Government, and the formulation of its key external policies;
3. The provision of advice and assistance to UK economic operators seeking to sell or invest abroad, and the encouragement of inward investment in the UK;
4. The provision of consular, commercial and immigration services worldwide;
5. The management of various programmes which the Government undertakes to support international bodies and activities.

c. Review of the Year

Net total resources expended was £1,762,023,403 against the Estimate of £1,797,257,000 resulting in an overall resource underspend of £35,233,597. The cash expenditure total of £1,668,082,770 was £68,394,230 less than the Estimate of £1,736,477,000.

As shown in Note 9 to these accounts, the FCO was underspent by £12,116,377 under Request for Resources 1, and by £23,117,220 under Request for Resources 2.

d. Post Balance Sheet Events

There are no known post balance sheet events of any significance.

e. The future

A description of how the FCO manages the risks in achieving its aim and objectives is covered by the Statement on Internal Control. The Board remains focussed in 2005-06 on improving its Key Performance Indicators (KPIs) and Top Risks Register.

The following continue to be developed:

1. A major new financial and personnel management system;
2. Enhancements to existing knowledge management systems;
3. Enhancements to the main IT hardware platform and worldwide communications network;
4. Tangible asset identification, management and control; and
5. Improved co-ordination in resource and policy management.

3. Management

a. Ministers

The Secretary of State for Foreign and Commonwealth Affairs is supported by three Ministers of State and two Parliamentary Under-Secretaries of State. Ministerial portfolios and responsibilities during the year were as follows:

Secretary of State: The Rt Hon Jack Straw MP

Overall responsibility for the work of the Foreign and Commonwealth Office; Communications; Parliamentary relations; Strategy and information; Legal advisers; Honours and protocol; Whitehall Liaison Department.

Minister of State: The Rt Hon Baroness Symons of Vernham Dean, Liz Symons

Middle East; International security; Defence; Consular; Human Resources.

Minister of State: Douglas Alexander MP (from September 2004)

Trade and investment (UKTI); Trade policy (DTI); Export Guarantee Department; Economic policy; South East Asia; South Asia; North America.

Minister of State: Denis MacShane MP

European Union; EU neighbourhood: Balkans; Ukraine, Belarus, Moldova.

Minister of State: Mike O'Brien MP (until September 2004)

Trade and trade policy; South East Asia; South Asia and Afghanistan; North America; Outreach; Trade policy and ECGD at the DTI; Human Resources.

Parliamentary Under-Secretary: Bill Rammell MP

Afghanistan; International crime and drugs; UN issues and conflict prevention; Russia, Central Asia and South Caucasus; East Asia and the Pacific; Global issues; Latin America and the Caribbean; Overseas Territories; London 2012 Olympic bid.

Parliamentary Under-Secretary: Chris Mullin MP

Africa; Commonwealth; Migration policy (including immigration and asylum); UKvisas; Public diplomacy.

b. Senior Officers

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

Sir Michael Jay

Chairman of the Board, Permanent Under-Secretary and Head of the Diplomatic Service

Sir Stephen Brown

Chief Executive, UK Trade and Investment

John Sawers

Director General, Political

Richard Stagg

Director General, Corporate Affairs (formerly Director, Information)

Martin Donnelly

Director General, Economic

William Ehrman (until August 2004)

Director General, Defence and Intelligence

David Richmond (from September 2004)

Director General, Defence and Intelligence

Kim Darroch (until June 2004)

Director General, European Union Policy

Nicola Brewer (from August 2004)

Director General, Europe

Simon Fraser (until August 2004)

Director, Strategy and Innovation

Anne Pringle (from September 2004)

Director, Strategy and Information

David Warren

Director, Human Resources

Ric Todd (from April 2004)

Director, Finance

Simon Gass (until April 2004)
Director, Finance

Alistair Johnston (from January 2005)
Non-Executive Director

Allan Gormly (until December 2004)
Non-Executive Director

Lucy Neville-Rolfe
Non-Executive Director

Alison Platt (from January 2005)
Non-Executive Director

c. Senior Official Appointments

The Permanent Under-Secretary of State and Head of the Diplomatic Service was appointed by the Prime Minister with the concurrence of the Secretary of State and on the recommendation of the Diplomatic Service Appointments Board. Other members of the Board of Management were appointed by the Secretary of State on the advice of the Permanent Under-Secretary and the Appointments Board. The Executive appointments are for an indefinite term: the rules for termination are set out in chapter 11 of the Civil Service Management Code. Non-Executive Directors are appointed for two years, once renewable.

d. Remuneration

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

The salaries of the Permanent Under-Secretary and the Chief Executive of UK Trade and Investment are set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. The Committee's membership and terms of reference were announced by the then Prime Minister on 9 February 1995 (Hansard cols 245-247).

The salaries of the next ten most senior Diplomatic Service Officers are set by the Secretary of State on advice from the Grade 1 Ambassadors' Remuneration Committee.

The salaries of other members of the Management Board are determined by the Secretary of State on advice from the Permanent Under-Secretary.

Further details on remuneration are set out in note 2 to these accounts.

4. Public interest and other matters

a. Employment of People with a Disability

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

b. Equal Opportunities

The Foreign and Commonwealth Office is an equal opportunities employer. Policies are in place to guard against unfair discrimination or barriers to employment and advancement.

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

c. Pensions

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

d. Payment of Suppliers

The Foreign and Commonwealth Office follows the CBI Prompt Payment Code and aims to settle suppliers' accounts within 30 days. During 2004-05, this was achieved in 68% of cases (2003-04: 98%), there being a temporary fall in the year whilst a new IT system was being implemented. Figures are not available for overseas suppliers.

5. Auditors

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

Michael Jay
Accounting Officer

30 November 2005

Statement on Internal Control

1. Scope of responsibility

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

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

<i>Sponsored Body</i>	<i>Accounting Officer</i>	<i>Responsible FCO Director</i>
Wilton Park	Colin Jennings	Anne Pringle
British Council	Sir David Green	Anne Pringle
BBC World Service	Nigel Chapman	Anne Pringle
Westminster Foundation for Democracy	David French	Philippa Drew
Great Britain-China Centre	Calum MacLeod	Sebastian Wood
British Association for Central & Eastern Europe	Nicholas Jarrold	Dominick Chilcott
Marshall Aid Commemoration Commission	Jonathan Taylor	Robert Culshaw

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

The Foreign Secretary chairs quarterly meetings with the Board to set the strategic direction of the Office. These meetings have ad hoc agenda, but can be used for either Ministers or the Board to raise any risk management issue of concern. The Foreign Secretary can appoint a Minister to act as sponsor of specific major FCO projects or programmes.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of FCO policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3. Capacity to handle risk

The FCO Risk Management Framework approved by the Board in 2003 aims to meet the risk management requirements of the Statement on Internal Control and to implement relevant recommendations in the Cabinet Office Strategy Unit's November 2002 report on "Risk: Improving government's capability to handle risk and uncertainty".

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

Risk management is becoming a more structured part of decision-making at all levels of the organisation. The FCO has many risk management processes already well embedded, even if they were not previously part of a formal risk management strategy. For example, the Overseas Security Advisers have a regular programme reviewing the security of our missions overseas against threats from terrorism, espionage and law and order, and making recommendations for improvement.

4. The risk and control framework

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

- a Board which meets regularly to consider the strategic direction of the FCO and the operational requirements for meeting its strategic objectives;

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

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

1. A Top Risks Register (TRR) for which named Board-level owners of top risks complete risk assessments (High/Medium/Low) for the risks for which they are responsible. The Audit and Risk Committee reviews the register quarterly;
2. Subsidiary Risk Registers, underpinning the TRR, which have been incorporated into the FCO's Business Planning system and into Programme and Project Management, and are regularly reviewed and updated;
3. Internal Audit Department (IAD) facilitates a Home and Overseas Self-Audit package of control risk self-assessment for all FCO Directorates and a large number of overseas Posts;
4. Risk management modules are delivered on relevant training courses. Financial Planning and Performance Department (FPPD) has developed a core script from which course presenters may draw, to ensure consistency of vocabulary and approach; and
5. The insertion of a standard "risks" paragraph heading in the FCO Submission Template. This is to help ensure that risks are adequately addressed in policy submissions.

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

5. Review of effectiveness

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

The FCO Internal Audit Department operates to Government Internal Audit Standards. The work of Internal Audit is informed by an analysis of the risk to which the FCO is exposed, and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the FCO's Audit and Risk Committee and approved by me. The FCO Audit and Risk Committee also regularly reviews the Board's Top Risks Register, increasingly focussing on the robustness of the risk management process. The Committee is chaired by a Non-Executive Director and has a majority non-executive membership.

The Head of Internal Audit reports to me, at least annually, on internal audit activity in the FCO. The report includes the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the FCO's systems of governance, risk management and internal control, together with recommendations for improvement.

The FCO also has a Financial Compliance Unit. Its main role is to investigate actual or suspected irregularity or fraud. Various other functional departments perform a compliance-monitoring role with regard to their respective areas of responsibilities.

Following the 2003 bombing of the Consulate General at Istanbul, the FCO board commissioned a review of the way the FCO manages security at our overseas Posts. In line with the review's recommendations, the FCO has developed a more effective risk management process tool that takes into account the threat from terrorism, the vulnerabilities of the Post and the assets held at Post. Each Post is given a security score, and as further security measures are completed, the score is adjusted.

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

The issues that I reported last year in relation to the irregularity under investigation in Tel Aviv are the subject of a report from the Comptroller & Auditor General to the House of Commons and forms part of these Resource Accounts.

Issues have also been raised by the irregularity currently under investigation in respect of satellited mobile phones (note 29 to the accounts refers). Our enquiries are continuing and I will ensure that any control weaknesses or specific lapses in compliance with internal control procedures identified by the review are addressed as a priority.

As I reported last year, a number of measures designed to achieve a more cohesive IT governance structure are being introduced. The findings and conclusions from a detailed examination of the lessons to be learnt from the roll-out of the FCO's integrated business IT system (Prism) are being used by the Board and Investment Sub-Committee to provide assurance on all major IT programmes. Programme governance has also been enhanced in key areas such as Knowledge Management, Future Firecrest and Prism and whilst problems persist with Prism infrastructure performance the improvements in management information, and the more risk-based approaches to financial control with this enables, are becoming evident. The Board is focussed on improving its management information and Key Performance Indicators.

The 2004-05 Resource Accounts were the first to be closed on Prism, and problems with the roll-out (UK and overseas) and competing pressures on specialist finance staff have delayed their submission. As a consequence, financial controls weakened in 2004-05 and significant control issues have been identified, particularly in relation to the reconciliation of cash and bank balances, the evidence to support them and the explanation of reconciling items. However, we are working urgently to address them. Additional specialist resources are also being deployed to ensure the faster closing target for the 2005-06 Resource Accounts will be met.

Michael Jay
Accounting Officer

30 November 2005

Statement of Accounting Officer Responsibilities

1. Under the Government Resources and Accounts Act 2000, the FCO is required to prepare resource accounts for each financial year, in conformity with Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of the resources by the Department during the year.
2. The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.
3. HM Treasury has appointed the Permanent Under-Secretary as Accounting Officer of the Department with responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.
4. In preparing the accounts, the Accounting Officer is required to comply with the Resource Accounting Manual prepared by HM Treasury, and in particular to:
 - (i) observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - (ii) make judgements and estimates on a reasonable basis;
 - (iii) state whether applicable accounting standards, as set out in the Resource Accounting Manual, have been followed and disclose and explain any material departures in the accounts; and
 - (iv) prepare the accounts on a going concern basis.
5. The responsibilities of the Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in Government Accounting.

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

I certify that I have audited the financial statements on pages 12 to 47 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 18 to 21.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 9, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and 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. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 6 to 8 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Foreign and Commonwealth Office at 31 March 2005 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- 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.

Fraud at the British Embassy, Tel Aviv

My report on “Fraud at the British Embassy, Tel Aviv” is included on pages 48 to 50.

John Bourn
Comptroller and Auditor General

15 December 2005

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

Schedule 1

Summary of Resource Outturn

for the year ended 31 March 2005 (£000s)

	2004–05						<i>Net total outturn compared with Estimate Saving/ (Excess)</i>	2003–04 <i>Prior year outturn</i>
	Estimate			Outturn				
	<i>Gross expenditure</i>	<i>A-in-A</i>	<i>Net Total</i>	<i>Gross expenditure</i>	<i>A-in-A</i>	<i>Net Total</i>		
Request for Resources 1 (See Notes 5 and 9)	1,737,096	(254,375)	1,482,721	1,715,170	(244,565)	1,470,605	12,116	1,404,253
Request for Resources 2 (See Notes 5 and 9)	314,536	–	314,536	291,418	–	291,418	23,118	193,801
Total resources	<u>2,051,632</u>	<u>(254,375)</u>	<u>1,797,257</u>	<u>2,006,588</u>	<u>(244,565)</u>	<u>1,762,023</u>	<u>35,234</u>	<u>1,598,054</u>
Non-operating cost A-in-A			(30,015)			(11,674)	(18,341)	(26,875)
Net cash requirement			<u>1,736,477</u>			<u>1,668,083</u>	<u>68,394</u>	<u>1,465,346</u>

Summary of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics) (£000s)

	Forecast 2004-05		Outturn 2004-05	
	<i>Income</i>	<i>Receipts</i>	<i>Income</i>	<i>Receipts</i>
Total (see Note 5)	<u>2,402</u>	<u>2,402</u>	<u>10,501</u>	<u>10,501</u>

Explanation of the variation between Estimates and Outturn

RfR 1: The £12 million underspend in the year was caused by lower than forecast non-cash expenditure on depreciation and capital charge.

RfR 2: The £23 million underspend is due to lower than estimated expenditure on global peacekeeping.

Explanation of the variation between Estimate net cash requirement and Outturn net cash requirement

The outturn cash requirement was £68 million lower than the Estimate cash outturn because of the underspends on peacekeeping and on capital. Some capital projects that were assigned capital funds for 2004-05 did not reach completion within the year. Most significant were estate projects in Iraq and the security upgrades to our overseas network after the bombing in Istanbul.

Schedule 1 (continued)

Reconciliation of Resources to Cash Requirement

for the year ended 31 March 2005 (£000s)

		2004–05	<i>Net total outturn compared with Estimate Saving/ (Excess)</i>	2003–04
	<i>Note</i>	<i>Estimate</i>	<i>Outturn</i>	<i>Prior year outturn</i>
Net total resources		1,797,257	1,762,023	1,598,054
Capital				
Acquisition of fixed assets	10	131,548	85,341	72,284
Investments		–	–	–
On-balance sheet PFI and leases	10	–	–	370
Non-operating A-in-A				
Proceeds of fixed asset disposals		(30,015)	(11,674)	(26,875)
Accruals adjustments				
Non-cash items	3, 4	(162,313)	(140,812)	(172,169)
Changes in working capital other than cash	14	–	(30,613)	(10,973)
Changes in creditors falling due after more than one year	18	–	676	960
Use of provisions	19	–	4,955	4,303
Retirement benefit schemes instated in year		–	(1,813)	(608)
Net cash requirement (Schedule 4)		1,736,477	1,668,083	1,465,346

Schedule 2

Operating Cost Statement

for the year ended 31 March 2005 (£000s)

	Note	2004-05	2003-04
Administration costs			
Staff costs	2	417,090	401,544
Non-staff administration costs	3	631,262	593,876
		<u>1,048,352</u>	<u>995,420</u>
Consular & UK Visa costs treated as programme expenditure	3	(221,7481)	–
Gross administration costs		826,604	995,420
Operating income	5	(78,981)	(207,738)
Net administration cost	6	747,623	787,682
Programme costs			
Request for Resources 1			
International organisations, programmes and BBC Monitoring Service			
Expenditure	4	491,358	227,118
Income	5	(170,868)	–
		<u>320,490</u>	<u>227,118</u>
BBC World Service			
Expenditure	4	225,143	220,143
British Council			
Expenditure	4	172,065	165,474
		<u>717,698</u>	<u>612,735</u>
Request for Resources 2			
Conflict prevention			
Expenditure	4	291,419	193,801
Income	5	(5,217)	(5,628)
		<u>286,202</u>	<u>188,173</u>
Net programme costs	4	1,003,900	800,908
Net operating cost	7, 8, 9	1,751,523	1,588,590
Net resource outturn	7, 9	1,762,023	1,598,054

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2005 (£000s)

		2004-05	2003-04
Net gain on revaluation of tangible fixed assets	21	27,375	25,822
Revaluation of donated fixed assets	21	38	(4,250)
		<u>27,413</u>	<u>21,572</u>
Net gain on revaluation of intangible fixed assets		–	1,530
Adjustment for assets taken on at nil cost		–	18,134
Change in valuation of current assets	20	(371)	830
Receipt of donated assets		–	2,524
Retirement benefits actuarial (loss)/gain	27	(2,397)	26
Recognised gains and losses for the financial year		24,645	44,616

Schedule 3

Balance Sheet

as at 31 March 2005 (£000s)

	Note	2004-05	2003-04
Fixed assets			
Tangible Assets	11	1,254,059	1,227,362
Intangible Assets	12	516	1,032
		1,254,575	1,228,394
Current assets			
Stocks	15	8,731	8,040
Debtors	16	225,916	140,306
Cash at bank and in hand	17	76,047	38,667
		310,694	187,013
Creditors: amounts falling due within one year	18	(250,012)	(96,901)
Net current assets		60,682	90,112
Total assets less current liabilities		1,315,257	1,318,506
Creditors: amounts falling due after more than one year	18	(32,495)	(31,618)
Provisions for liabilities and charges	19	(66,018)	(46,857)
Net assets before net retirement benefit schemes liability		1,216,744	1,240,031
Net retirement benefit schemes liability			
Retirement benefit schemes asset	27	299	99
Retirement benefit schemes liability	27	(4,279)	(2,266)
		(3,980)	(2,167)
Net assets		1,212,764	1,237,864
Taxpayers' equity			
General fund	20	821,021	871,218
Revaluation reserve	21	340,730	314,975
Donated asset reserve	21	51,013	51,671
		1,212,764	1,237,864

Michael Jay
Accounting Officer

30 November 2005

Schedule 4

Cash Flow Statement

for the year ended 31 March 2005 (£000s)

	Note	2004-05	2003-04
Net cash outflow from operating activities (see below)		(1,583,240)	(1,409,143)
Capital expenditure (see below)		(73,667)	(45,409)
Payments of amounts due to the Consolidated Fund Financing (see below)		(4,315)	(27,851)
		1,698,708	1,449,977
(Decrease)/increase in cash in the period		37,488	(32,426)

Reconciliation of operating cost to operating cash flows

Net Operating Cost		1,751,523	1,588,590
Adjustments for non-cash transactions – non-staff costs	3	(116,336)	(172,169)
Adjustments for non-cash transactions - programme costs	4	(24,476)	–
Adjustments for movements in working capital other than cash	14	(30,613)	(10,973)
Use of provisions	19	4,955	4,303
Retirement benefit schemes		(1,813)	(608)
Net cash outflow from operating activities		1,583,240	1,409,143

Analysis of capital expenditure and financial investment

Tangible fixed asset additions	11	36,717	72,284
Additions to assets in the course of construction	11	48,624	–
Proceeds from disposal of fixed assets		(11,674)	(26,875)
Net cash outflow from investing activities		73,667	45,409

Analysis of financing and reconciliation to the net cash requirement

From the Consolidated Fund (Supply) – current year		1,699,384	1,451,306
Capital element of payments in respect of on-balance sheet PFI contracts		(676)	(1,329)
Net financing		1,698,708	1,449,977
Decrease/(increase) in cash	17	(37,488)	32,426
Net cash flows other than financing		1,661,220	1,482,403
Adjustments for payments and receipts not related to Supply			
Amounts due to the Consolidated Fund – received in a prior year and paid over		(829)	(19,215)
Amounts due to the Consolidated Fund – received and not paid over		7,015	829
Supply-financed repayment of financing			
Capital element of payments in respect of on-balance sheet PFI contracts and leases		677	1,329
		6,863	(17,057)
Net cash requirement (Schedule 1)		1,668,083	1,465,346

Amounts of grant actually issued to support the net cash requirement	1,699,383,724.53	1,451,306,323.00
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Schedule 5

Resources by FCO Aim and Objectives

for the year ended 31 March 2005 (£000s)

Aim: To work for the United Kingdom's interests in a safe, just and prosperous world

	Gross	2004-05 Income	Net	Gross	2003-04 Income	Net
Objective 1 A secure United Kingdom within a safer and more peaceful world	510,514	(20,799)	489,715	425,532	(18,861)	406,671
Objective 2 Enhanced competitiveness of companies in the UK through overseas sales and investments; and a continuing high level of quality foreign direct investment (through UK Trade and Investment, formerly BTI, shared with DTI)	147,024	(8,582)	138,442	150,852	(7,029)	143,823
Objective 3 Increased prosperity and a better quality of life in the UK and worldwide, through effective economic and political governance globally	158,674	(13,633)	145,041	259,917	(11,746)	248,171
Objective 4 A strong role for the UK in a strong Europe, responsive to people's needs	96,614	(6,403)	90,211	110,731	(4,978)	105,753
Objective 5 International decisions and actions which advance UK objectives and interests. Authoritative advice and support to the whole of Government on international issues. Positive foreign perceptions of the UK and the Government's policies	855,508	(33,719)	821,789	611,258	(27,080)	584,178
Objective 6 High quality consular services to British nationals abroad. Effective regulation of entry to, and settlement in, the UK in the interests of sustainable growth and social inclusion (through UKvisas, shared with Home Office)	221,748	(170,868)	50,880	179,810	(142,606)	37,204
Objective 7 Secure and well-governed British Overseas Territories enjoying sustainable development and growing prosperity	16,507	(1,062)	15,445	24,328	(1,066)	23,262
Impairments	–	–	–	39,528	–	39,528
Net Operating Costs	<u>2,006,589</u>	<u>(255,066)</u>	<u>1,751,523</u>	<u>1,801,956</u>	<u>(213,366)</u>	<u>1,588,590</u>

Notes

- See Note 22 for an analysis of Programme costs by objective.
- Administration costs in respect of UK Trade and Investment included in Objective 2 above are further analysed:

	Gross	2004-05 Income	Net	Gross	2003-04 Income	Net
Staff costs	45,320	–	45,320	54,131	–	54,131
Other administration costs	83,813	(8,582)	80,231	84,530	(7,029)	77,501
Depreciation	7,463	–	7,463	6,941	–	6,941
Capital costs	5,420	–	5,420	4,499	–	4,499
	<u>147,016</u>	<u>(8,582)</u>	<u>138,434</u>	<u>150,101</u>	<u>(7,029)</u>	<u>143,072</u>

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2004-05 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Foreign and Commonwealth Office (FCO) for the purpose of giving a true and fair view has been selected and they have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

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

1.2 Basis of consolidation

These accounts comprise a consolidation of the accounts of the FCO and Wilton Park Executive Agency, which falls within the Departmental boundary as defined in the Resource Accounting Manual issued by HM Treasury. Transactions between the entities included in the consolidation are eliminated.

1.3 (a) Tangible fixed assets

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

1.3 (b) Intangible fixed assets

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

1.4 Depreciation

Fixed assets are depreciated or amortised at rates calculated to write them down to their estimated residual values on a straight-line basis over their estimated useful lives. Freehold land is not depreciated in view of the length of its estimated useful life. Assets under construction are not depreciated until the asset is brought into use. Furniture and fittings brought to account prior to 1 April 1999 are included on a half life basis and are depreciated over their estimated remaining useful lives of six years. Items taken on after 1 April 1999 are capitalised at full cost and are depreciated over their estimated remaining useful lives of 12 years. Asset lives have been set in the following ranges:

Freehold buildings	—	up to 60 years
Leasehold land and buildings	—	term of lease
Vehicles	—	2 to 8 years
Furniture and fittings	—	6 or 12 years
Office and technical equipment	—	5 to 8 years
Heavy machinery	—	20 years
Information systems	—	up to 5 years
Communications systems	—	8 years

1. Statement of accounting policies *(continued)*

1.5 *Donated assets*

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

1.6 *Private Finance Initiative (PFI) transactions*

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

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

1.7 *Investments*

The FCO does not currently hold any investments.

1.8 *Stocks*

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

1.9 *Research and development*

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

1.10 *Operating income*

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

1.11 *Administration and programme expenditure*

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

1.12 *Capital charge*

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

Notes to the Accounts (*continued*)

1. Statement of accounting policies (*continued*)

1.13 Foreign exchange

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

1.14 Pensions

Past and present UK-based employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described in Note 2. Defined benefit schemes are unfunded. The FCO recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the FCO recognises the contributions payable for the year.

1.15 Early departure costs

The FCO meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early retirement and normal retirement date. The FCO provides for this in full when the early retirement programme becomes binding on the Department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 3.5% in real terms. In past years the FCO paid some of its liability for early retirement in advance by making a payment to the Paymaster General's Account at the Bank of England for the credit of the Civil Service Superannuation Vote. The balance remaining is a prepayment.

1.16 Terminal benefits for locally engaged staff

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

1.17 Leases

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

1.18 Grants payable

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

1.19 Provisions

The FCO provides for legal and constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury (currently 3.5%).

1.20 Value Added Tax

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

1. Statement of accounting policies (continued)**1.21 Third party assets**

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

1.22 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the FCO discloses for parliamentary reporting and accountability purposes certain liabilities where the likelihood of a transfer of economic benefit is remote. These comprise:

- (i) items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to the FCO entering into the arrangement;
- (ii) all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the Resource Accounting Manual to be noted in the resource accounts.

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

2. Staff numbers and related costs**2.1 Staff costs consist of:**

	Permanent staff		2004-05		2003-04	
	£000	Others £000	Ministers £000	Special advisers £000	Total £000	Total £000
Salaries	345,981	11,794	298	151	358,224	346,126
Social Security costs	13,451	–	17	9	13,477	12,267
Other pension costs	46,874	–	–	24	46,898	45,721
Sub total	406,306	11,794	315	184	418,599	404,114
Less: recoveries in respect of outward secondments	(1,509)	–	–	–	(1,509)	(902)
Total net costs	404,797	11,794	315	184	417,090	403,212

Other pension costs includes retirement benefits charges in respect of defined benefit pension schemes (Note 27) of £1,154,000. In last year's accounts the charges amounting to £1,668,000 were included in non-staff administration costs but have been included in other pension costs in 2003-04 above for comparability.

2.2 The average number of whole-time equivalent persons employed:

(including senior management, ministers, special advisers and staff on secondment)

	2004-05		2003-04	
	Local staff	UK staff	Local staff	UK staff
Objective 1	166	1,468	108	1,153
Objective 2	3,064	577	3,147	645
Objective 3	541	1,051	470	1,227
Objective 4	199	589	175	638
Objective 5	1,078	909	1,263	1,015
Objective 6	4,766	1,469	4,293	1,335
Objective 7	12	134	15	135
Total	9,826	6,197	9,471	6,198

Notes to the Accounts (*continued*)2. Staff numbers and costs (*continued*)

This is further analysed by objective as follows:

	2004-05					
	Ministers	Special advisers	Senior management	Permanently employed staff	Staff on inward secondment	Agency and contract staff
Objective 1	1	–	2	1,560	2	69
Objective 2	1	–	1	3,610	2	27
Objective 3	1	–	2	1,537	3	49
Objective 4	1	–	1	756	2	28
Objective 5	1	2	2	1,937	2	43
Objective 6	1	–	1	6,161	3	69
Objective 7	–	–	1	139	–	6
Total	6	2	10	15,700	14	291

	2003-04					
	Ministers	Special advisers	Senior management	Permanently employed staff	Staff on inward secondment	Agency and contract staff
Objective 1	1	–	2	1,223	2	33
Objective 2	1	–	1	3,766	2	22
Objective 3	1	–	2	1,653	3	38
Objective 4	1	–	1	788	2	21
Objective 5	1	2	2	2,238	2	33
Objective 6	1	–	2	5,624	3	48
Objective 7	–	–	–	145	–	5
Total	6	2	10	15,437	14	200

2.3 Ministers and the Board of Management:

The salary and pension entitlements of Ministers for the year were as follows:

	Ministerial salary received	Benefits in kind	Real increase in pension at age 65	2004-05	CETV at 31 March 2004	CETV at 31 March 2005	Real increase in CETV
				Total accrued pension at age 65 at 31 March			
	£000	£000	£000	£000	£000	£000	£000
The Rt Hon Jack Straw MP (Secretary of State)	70-75	–	0-2.5	12.5-15	128	154	12
The Rt Hon Baroness Symons of Vernham Dean Liz Symons (Minister of State)	105-110	–	0-2.5	12.5-15	107	126	10
Denis MacShane MP (Minister of State)	35-40	–	0-2.5	2.5-5	25	36	7
Mike O'Brien MP (until September 2004) (Minister of State)	20-25	–	0-2.5	5-7.5	34	49	5
Bill Rammell MP (Parliamentary Under-Secretary)	25-30	–	0-2.5	0-2.5	9	15	3
Chris Mullin MP (Parliamentary Under-Secretary)	25-30	–	0-2.5	0-2.5	19	28	5
Douglas Alexander MP (from September 2004) (Minister of State)	15-20	–	0-2.5	2.5-5	19	23	1

2. Staff numbers and costs (continued)

	Ministerial salary received	Benefits in kind	Real increase in pension at age 65	2003-04 Total accrued pension at age 65 at 31 March	CETV at 31 March 2003	CETV at 31 March 2004	Real increase in CETV
	£000	£000	£000	£000	£000	£000	£000
The Rt Hon Jack Straw MP (Secretary of State)	70-75	–	0-2.5	10-12.5	105	128	13
Denis MacShane MP (Minister of State)	35-40	–	0-2.5	0-2.5	14	25	7
Mike O'Brien MP (Minister of State)	35-40	–	0-2.5	2.5-5	26	34	4
The Rt Hon Baroness Symons of Vernham Dean							
Liz Symons (Minister of State)	100-105	–	0-2.5	10-12.5	87	107	10
Bill Rammell MP (Parliamentary Under-Secretary)	25-30	–	0-2.5	0-2.5	3	9	3
Chris Mullin MP (Parliamentary Under-Secretary)	20-25	–	0-2.5	0-2.5	11	19	5
Valerie Amos (Parliamentary Under-Secretary)	15-20	–	0-2.5	2.5-5	–	–	–

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

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

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from Ministerial office on or after age 65. Members pay contributions of 6% of their Ministerial salary if they have opted for the 1/50th accrual rate, and 9% if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the Ministerial salary.

In the event of retirement because of serious ill health, the Ministerial pension is brought into payment immediately. On death, pensions are payable to the surviving spouse at a rate of five-eighths of the Ministerial pension. On death in service, the Ministerial arrangements provide for a lump sum gratuity of four times the Ministerial salary. Pensions increase in payment in line with changes in the Retail Prices Index. On retirement, it is possible to commute part of the pension for a lump sum.

Notes to the Accounts (*continued*)2. Staff numbers and costs (*continued*)

The salary and pension entitlements of the members of the Board of Management for the year were as follows:

	2004-05					Real increase in CETV £000
	Salary, including performance pay	Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 at 31 March and related lump sum	CETV at 31 March 2004	CETV at 31 March 2005	
	£000	£000	£000	£000	£000	
Sir Michael Jay <i>Chairman of the Board, Permanent Under Secretary</i>	195-200	5-7.5 15-17.5	90-95 260-265	1,472	1,646	88
Sir Stephen Brown <i>Chief Executive, UK Trade and Investment</i>	130-135	2.5-5 0	65-70 0	913	994	22
John Sawers <i>Director General, Political</i>	135-140	2.5-5 10-12.5	40-45 125-130	550	635	50
Richard Stagg <i>Director General, Corporate Affairs</i>	140-145	5-7.5 15-17.5	30-35 100-105	406	516	82
Martin Donnelly <i>Director General, Economic</i>	110-115	0-2.5 5-7.5	10-15 40-45	143	183	30
Kim Darroch (until June 2004) <i>Director General, EU Policy</i>	15-20	0-2.5 0-2.5	30-35 95-100	472	499	8
Nicola Brewer (from August 2004) <i>Director General, Europe</i>	60-65	2.5-5 0-2.5	25-30 75-80	335	363	10
William Ehrman (until August 2004) <i>Director General, Defence and Intelligence</i>	40-45	0-2.5 2.5-5	35-40 115-120	640	676	18
David Richmond (from September 2004) <i>Director General, Defence and Intelligence</i>	70-75	0-2.5 2.5-5	30-35 95-100	474	513	15
David Warren <i>Director, Human Resources</i>	90-95	2.5-5 0	40-45 0	472	540	37
Simon Gass (until April 2004) <i>Director, Finance</i>	5-10	0-2.5 0-2.5	25-30 80-85	386	402	2
Ric Todd (from April 2004) <i>Director, Finance</i>	110-115	2.5-5 7.5-10	20-25 65-70	260	313	36
Simon Fraser (until August 2004) <i>Director, Strategy and Innovation</i>	35-40	0-2.5 2.5-5	20-25 65-70	278	300	11
Anne Pringle (from September 2004) <i>Director, Strategy and Information</i>	45-50	0-2.5 2.5-5	25-30 85-90	403	438	16
Allan Gormly (until December 2004) <i>Non-Executive Director</i>	No FCO remuneration					
Alistair Johnston (from January 2005) <i>Non-Executive Director</i>	0-5					
Lucy Neville-Rolfe <i>Non-Executive Director</i>	No FCO remuneration					
Alison Platt (from January 2005) <i>Non-Executive Director</i>	0-5					

2. Staff numbers and costs (continued)

	2003-04					
	Salary, including performance pay	Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 at 31 March and related lump sum	CETV at 31 March 2004	CETV at 31 March 2005	Real increase in CETV
Sir Michael Jay <i>Chairman of the Board, Permanent Under Secretary</i>	185-190	10-12.5 32.5-35	80-85 235-240	1,208	1,472	206
Sir Stephen Brown <i>Chief Executive, UK Trade and Investment</i>	125-130	12.5-15 0	60-65 0	690	913	168
Michael Arthur (until April 2003) <i>Director General, EU and Economic</i>	5-10	5-7.5 10-12.5	45-50 125-130	619	747	85
Peter Ricketts (until August 2003) <i>Director General, Political</i>	45-50	5-7.5 20-22.5	40-45 130-135	564	706	106
John Sawers (from August 2003) <i>Director General, Political</i>	90-100	2.5-5 7.5-10	35-40 110-115	486	550	37
Richard Stagg <i>Director General, Corporate Affairs</i>	115-120	2.5-5 7.5-10	25-30 80-85	345	406	43
Martin Donnelly (from March 2004) <i>Director General, Economic</i>	5-10	0-2.5 0-2.5	10-15 30-35	140	143	2
Kim Darroch (from June 2003) <i>Director General, EU Policy</i>	80-85	0-2.5 5-7.5	30-35 90-95	421	472	26
Peter Collecott (until January 2004) <i>Director General, Corporate Affairs</i>	70-80	0-2.5 2.5-5	30-35 115-120	591	652	22
Graham Fry (until March 2004) <i>Director General, Economic</i>	100-105	0-2.5 5-7.5	35-40 115-120	579	632	24
William Ehrman <i>Director General, Defence and Intelligence</i>	110-115	2.5-5 7.5-10	35-40 110-115	562	640	43
Alan Charlton (until February 2004) <i>Director, Human Resources</i>	80-85	0-2.5 2.5-5	30-35 90-95	439	488	19
David Warren (from February 2004) <i>Director, Human Resources</i>	10-15	0-2.5 0	35-40 0	424	472	22
Simon Gass <i>Director, Finance</i>	135-140	0-2.5 2.5-5	25-30 80-85	369	408	19
Simon Fraser <i>Director, Strategy and Innovation</i>	75-80	2.5-5 7.5-10	20-25 60-65	232	278	33
Allan Gormly <i>Non-Executive Director</i>	No FCO remuneration					
Lucy Neville-Rolfe <i>Non-Executive Director</i>	No FCO remuneration					

Notes to the Accounts (*continued*)

2. Staff numbers and costs (*continued*)

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

Salary

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

Benefits in kind

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

Civil Service Pension

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

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

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

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

Columns 5 & 6 of the above table show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 7 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.

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 CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

2. Staff numbers and costs (continued)**2.4 Other information**

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit scheme but the FCO is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk). For 2004-05, contributions of £27,326,339 were payable to the PCSPS (2003-04: £26,253,832) at one of four rates in the range of 12% to 18.5% of pensionable pay, based on salary bands. Rates will remain the same for the next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Six persons retired early on the grounds of ill health; the total additional accrued pension liabilities in the year amounted to £2,636.

3. Non-staff administration costs

	2004-05		2003-04	
	£000	£000	£000	£000
Rentals under operating leases				
Hire of plant and machinery	12,631		4,319	
Other operating leases	–		291	
Property rentals	62,171		65,462	
		74,802		70,072
Interest charges				
Finance leases	25		29	
On-balance sheet PFI contracts	2,587		2,533	
		2,612		2,562
PFI service charges				
Off-balance sheet contracts	27,634		22,146	
Service element of on-balance sheet contracts	4,647		1,944	
		32,281		24,090
Non-cash items				
Depreciation and amortisation of fixed assets:				
Civil Estate	1,169		1,150	
Other tangible fixed assets	65,421		62,472	
Intangible fixed assets	516		388	
Loss on disposal of fixed assets	4,159		4,090	
Impairment of fixed assets arising from revaluation	2,937		39,528	
Cost of capital charge at 3.5%:				
Civil Estate	3,186		3,020	
Other items	39,039		40,023	
Auditors' remuneration and expenses (no non-audit work)	270		267	
Provisions:				
Provided in year	175		21,095	
Unwinding of discount on provisions	(536)		136	
		116,336		172,169
Other expenditure				
Training, medical, travel and other allowances	107,846		109,966	
Estate and capital related costs	100,868		96,396	
IT and communications	72,471		44,539	
Loss on exchange	1,110		5,251	
Other	122,936		67,162	
		405,231		323,314
		631,262		592,208
Cost of Consular and UK Visa operations worldwide treated as frontline service		221,748		–
In prior years the cost and income of Consular and UK Visa operations were included with administration acts but in accordance with the Estimates for 2004-05 they are now attributed to programmes.				
Retirement benefits charges included in staff costs above and last year in administration costs		–		1,668

Notes to the Accounts (*continued*)

4. Net programme costs

	2004-05		2003-04	
	£000	£000	£000	£000
Current grants and other current expenditure:				
Subscriptions to International Organisations	106,392		105,033	
Other FCO programmes (including non-cash)	140,864		99,801	
Consular and UK Visa operations	221,748		–	
Re-imbursments	15,282		15,212	
BBC Monitoring Service	7,072		7,072	
		491,358		227,118
BBC World Service		225,143		220,143
British Council		172,065		165,474
Conflict Prevention/Peacekeeping		291,419		193,801
		1,179,985		806,536
Less: Programme income (Note 5)		(176,085)		(5,628)
Net programme costs		1,003,900		800,908
Subscriptions include the following over £1,000,000:				
Un Regular Budget		53,104		48,457
Commonwealth Secretariat		3,606		3,503
Council of Europe		18,091		17,576
Western European Union		2,077		1,705
OECD		8,751		11,220
NATO		17,154		18,523
Other (in total)		3,609		4,069
		106,392		105,033

Other FCO programmes include non-cash charges in respect of the provision for early departures, under the Efficiency Challenge Fund initiated during the year, amounting to £24,477,000 (2003-04 – nil).

5. Income and appropriations in aid

Operating Income

Operating income not appropriated in aid (ie transferred to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see Note 7). In 2004-05, all operating income not classified as appropriated in aid was within public expenditure.

	Resource Outturn	2004-05 Operating Cost Statement	
	Appropriations in Aid	Payable to Consolidated Fund	Income included in Operating Cost Statement
	£000	£000	£000
Operating income analysed by classification and activity			
<i>Administration income</i>			
General	13,181	2,107	15,288
Fees and charges to external customers	–	3,177	3,177
Fees and charges to other departments	60,180	–	60,180
External interest	336	–	336
As shown on Schedule 2	73,697	5,284	78,981
<i>Programme income</i>			
Consular and UK Visa fees	170,868	–	170,868
Other	–	5,217	5,217
	170,868	5,217	176,085
Total	244,565	10,501	255,066
Comparative figures:		2003-04	
<i>Administration income</i>			
General	21,123	735	21,858
Fees and charges to external customers	139,505	3,101	142,606
Fees and charges to other departments	43,006	–	43,006
External interest	268	–	268
As shown on Schedule 2	203,902	3,836	207,738
<i>Programme income</i>			
Conflict Prevention	–	5,628	5,628
Total	203,902	9,464	213,366

As stated in Note 3 above, in prior years the cost and income of Consular and UK Visa operations were included within administration costs, but in accordance with the Estimates.

An analysis of income and fee-being costs from services provided to external customers is as follows:

	2004-05			2003-04		
	Income	Full cost	Surplus/ (deficit)	Income	Full cost	Surplus/ (deficit)
	£000	£000	£000	£000	£000	£000
Passport & consular fees	40,220	(40,422)	(202)	30,683	(30,836)	(153)
Visa fees	130,648	(122,410)	8,238	111,923	(111,160)	763
	170,868	(162,832)	8,036	142,606	(141,996)	610

Analysis of income payable to the Consolidated Fund

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

	Forecast 2004-05		Outturn 2004-05	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Operating income and receipts – excess A-in-A	–	–	–	–
Non-operating income and receipts – excess A-in-A	–	–	–	–
Other operating income and receipts – not classified as A-in-A	2,402	2,402	10,501	10,501
Other non-operating income and receipts – not classified as A-in-A	–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund	–	–	–	–
	2,402	2,402	10,501	10,501

Notes to the Accounts (*continued*)

6. Administration cost limit

The outturn within the administration costs control is as follows:

	2004-05		2003-04	
	Limit	Outturn	Limit	Outturn
	£000	£000	£000	£000
Request for Resources 1				
Total administration outturn	771,855	752,907	861,378	791,517

7. Reconciliation of net operating cost and net resource outturn

	2004-05	2003-04
	£000	£000
Net operating cost	1,751,523	1,588,590
Operating income not classified as A-in-A	10,500	9,464
Net resource outturn	1,762,023	1,598,054

Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to Parliamentary approval and included in the FCO Supply Estimate. The outturn against the Estimate is shown in the Summary of Resource Outturn (Schedule 1).

8. Analysis of net operating cost by spending body

	2004-05		2003-04	
	Budget	Outturn	Budget	Outturn
	£000	£000	£000	£000
Spending Body				
Foreign and Commonwealth Office	1,056,450	1,045,007	1,058,696	984,604
Wilton Park	699	586	699	673
Government Hospitality Fund	3,290	166	3,290	1,610
BBC World Service	225,143	225,143	220,143	220,143
BBC Monitoring Service	7,074	7,072	7,074	7,072
British Council	172,065	172,065	165,474	165,474
Others (including international organisations in respect of conflict prevention)	332,536	301,484	252,984	209,014
	1,797,257	1,751,523	1,708,360	1,588,590

9. Analysis of net resource outturn by Estimate subhead and reconciliation to Operating Cost Statement

	2004-05							
	Admin	Other current	Grants	Gross resource expenditure	A-in-A	Net total	Estimate	Saving/ (excess)
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1: Promoting internationally the interests of the UK and contributing to a strong world community								
<i>Central Government spending</i>								
A: Administration, International Organisations, Programmes & BBC Monitoring Subscriptions	710,268	303,664	147,935	1,161,867	(244,565)	917,302	915,599	(1,703)
B: BBC World Service Broadcasting Grant in Aid	–	–	194,143	194,143	–	194,143	194,143	–
C: Accruals consequences of DEL programmes: administration	116,336	24,477	–	140,813	–	140,813	151,914	11,101
D: BBCWS Capital Grant	–	–	31,000	31,000	–	31,000	31,000	–
Non-budget								
E: Reimbursement of certain duties, taxes and licence fees	–	–	15,282	15,282	–	15,282	18,000	2,718
F: British Council Grant in Aid	–	–	172,065	172,065	–	172,065	172,065	–
	826,604	328,141	560,425	1,715,170	(244,565)	1,470,605	1,482,721	12,116
Request for Resources 2: Conflict prevention								
<i>Programme expenditure:</i>								
A: Sub-Saharan Africa	–	–	13,401	13,401	–	13,401	14,901	1,500
B: Global	–	–	52,358	52,358	–	52,358	45,635	(6,723)
<i>Peacekeeping:</i>								
C: Sub-Saharan Africa	–	–	140,952	140,952	–	140,952	133,000	(7,952)
D: Global	–	–	84,707	84,707	–	84,707	121,000	36,293
	–	–	291,418	291,418	–	291,418	314,536	23,118
Resource outturn	826,604	329,141	851,843	2,006,588	(244,565)	1,762,023	1,797,257	35,234
Reconciliation to Operating Cost Statement								
<i>Non Supply expenditure</i>								
Income payable to the Consolidated Fund				–	(10,500)	(10,500)		
Gross operating expenditure				2,006,588				
(Operating income)					(255,065)			
Net operating cost						1,751,523		

Notes to the Accounts (*continued*)9. Analysis of net resource outturn by Estimate subhead and reconciliation to Operating Cost Statement (*continued*)

	Admin	Other current	Grants	2003-04 Gross resource expend- iture	A-in-A	Net total	Estimate	Surplus/ (excess)
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1: Promoting internationally the interests of the UK and contributing to a strong world community								
Spending in Departmental Expenditure Limits (DEL)								
<i>Central Government spending</i>								
A: Administration, International Organisations, Programmes & BBC								
Monitoring Subscriptions	823,252	105,033	106,873	1,035,158	(203,902)	831,256	882,652	51,396
B: BBC World Service Broadcasting								
Grant in Aid	–	–	189,143	189,143	–	189,143	189,143	–
C: Accruals consequences of DEL programmes: administration	172,168	–	–	172,168	–	172,168	186,950	14,782
D: BBCWS Capital Grant	–	–	31,000	31,000	–	31,000	31,000	–
Spending in Annually Managed Expenditure								
<i>Central Government spending</i>								
Pension transfer	–	–	–	–	–	–	157	157
Non-budget								
E: Reimbursement of certain duties, taxes and licence fees	–	–	15,212	15,212	–	15,212	18,000	2,788
F: British Council Grant in Aid	–	–	165,474	165,474	–	165,474	165,474	–
	995,420	105,033	507,702	1,608,155	(203,902)	1,404,253	1,473,376	69,123
Request for Resources 2: Conflict prevention								
<i>Programme expenditure:</i>								
A: Sub-Saharan Africa	–	–	10,548	10,548	–	10,548	10,590	42
B: Global	–	–	32,208	32,208	–	32,208	35,184	2,976
<i>Peacekeeping:</i>								
C: Sub-Saharan Africa	–	–	66,527	66,527	–	66,527	81,622	15,095
D: Global	–	–	84,518	84,518	–	84,518	107,588	23,070
	–	–	193,801	193,801	–	193,801	234,984	41,183
Resource outturn	995,420	105,033	701,503	1,801,956	(203,902)	1,598,054	1,708,360	110,306
Reconciliation to Operating Cost Statement								
<i>Non Supply expenditure</i>								
Income payable to the Consolidated Fund				–	(9,464)	(9,464)		
Gross operating expenditure				1,801,956				
(Operating income)					(213,366)			
Net operating cost						1,588,590		

10. Analysis of capital expenditure and associated appropriations in aid

	2004-05			2003-04		
	Capital expenditure	A-in-A	Net Total	Capital expenditure	A-in-A	Net Total
	£000	£000	£000	£000	£000	£000
Request for Resources 1:						
Tangible additions	85,341	–	85,341	72,284	–	72,284
Finance lease/PFI addition	–	–	–	370	–	370
Donated assets	–	–	–	2,524	–	2,524
Other assets taken on at nil cost	–	–	–	18,134	–	18,134
Book value of fixed asset disposals	–	(15,833)	(15,833)	–	(30,965)	(30,965)
	<u>85,341</u>	<u>(15,833)</u>	<u>69,508</u>	<u>93,312</u>	<u>(30,965)</u>	<u>62,347</u>

11. Tangible fixed assets

	Non-residential land and buildings	Residential land and buildings	Information technology	Transport equipment	Plant and machinery	Antiques and works of art	Furniture and fittings	Assets under construction	Total tangible assets
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation									
At 1 April 2004	485,591	540,815	86,464	39,847	20,881	19,321	132,229	42,770	1,367,918
Additions	10,833	700	7,536	5,539	3,246	8	8,855	48,624	85,341
Disposals	(2,915)	(7,379)	(406)	(4,632)	(600)	–	(7,883)	–	(23,815)
Impairment reversals	9,620	10,801	–	–	–	–	–	–	20,421
Impairment losses	(13,369)	(5,018)	(9,008)	–	–	(324)	(965)	–	(28,684)
Revaluation	(1,907)	10,333	(788)	236	(48)	216	10	(616)	7,436
Reclassification	14,669	4,923	639	–	19	–	(6)	(20,244)	–
At 31 March 2005	502,522	555,175	84,437	40,990	23,498	19,221	132,240	70,534	1,428,617
Depreciation									
At 1 April 2004	7,713	1,227	32,035	15,121	7,018	–	77,442	–	140,556
Charge for the year	11,385	11,639	17,554	7,349	2,606	–	16,753	–	67,286
Impairment losses	–	–	(4,640)	–	–	–	(686)	–	(5,326)
Disposals	(84)	(81)	(310)	(2,787)	(289)	–	(4,430)	–	(7,981)
Revaluation	(8,952)	(11,140)	–	65	40	–	10	–	(19,977)
Reclassification	(25)	25	–	–	–	–	–	–	–
At 31 March 2005	10,037	1,670	44,639	19,748	9,375	–	89,089	–	174,558
Net book value									
At 31 March 2005	492,485	553,505	39,798	21,242	14,123	19,221	43,151	70,534	1,254,059
At 31 March 2004	477,878	539,588	54,429	24,726	13,863	19,321	54,787	42,770	1,227,362

Notes to the Accounts (*continued*)

11. Tangible fixed assets (*continued*)

	2005	2004
	<u>£000</u>	<u>£000</u>
Utilisation:		
Assets in current use		
Owned	1,173,484	1,175,309
Finance leases	369	461
On-balance-sheet PFI contracts	9,672	8,822
Assets not in current use		
Assets in the course of construction	70,534	42,770
Net book value at 31 March 2005	<u>1,254,059</u>	<u>1,227,362</u>

The valuations of the home estate and properties in the European Union and Wider Europe were carried out by Colliers CRE. The effective valuation date was 30 September 2000. Desk reviews for revaluation purposes were carried out by Colliers on 30 September 2002 and by in-house valuers on 31 March 2005. The valuations of properties in the Americas were carried out by DTZ Debenham Tie Leung. The effective valuation date was 31 May 2001. Desk reviews for revaluation purposes were carried out by DTZ on 30 September 2002 and by in-house valuers on 31 March 2005.

The valuations of properties in Sub-Saharan Africa were carried out by Knight Frank. The effective valuation date was 30 September 2002, with an in-house desk review on 31 March 2005. The valuations of properties in Asia were carried out by Cluttons. The effective valuation date was 30 September 2002 with an in-house desk review on 31 March 2005. The valuations of properties in the Middle East and North Africa were carried out by Cluttons. The effective valuation date was 31 May 2001. Desk reviews for revaluation purposes were carried out by Cluttons on 30 September 2002 and by in-house valuers on 31 March 2005. Replacement cost of FCO properties is deemed to be at existing use value. Other assets, except for antiques and works of art, have been valued at the lower of existing use and market value.

12. Intangible fixed assets

	Purchased software licences
	<u>£000</u>
Cost or valuation	
At 1 April 2004	1,612
At 31 March 2005	<u>1,612</u>
Depreciation	
At 1 April 2004	580
Charged in year	516
At 31 March 2005	<u>1,096</u>
Net book value	
At 31 March 2005	<u>516</u>
At 31 March 2004	<u>1,032</u>

13. Investments

The FCO held no investments between 1 April 2004 and 31 March 2005.

14. Movements in working capital other than cash

The movements in working capital used in reconciliation of resources to cash requirement comprise:

	2005	2004
	£000	£000
Increase/(decrease) in stocks	691	(2,406)
Increase/(decrease) in debtors (excluding amounts due from the Consolidated Fund)	85,610	(4,176)
(Increase) in creditors (excluding amounts due to the Consolidated Fund)	(117,284)	(3,551)
	<u>(30,983)</u>	<u>(10,133)</u>
Movements in working capital not related to net operating costs	370	(840)
Net (decrease)/increase in working capital other than cash (Schedule 4)	<u>(30,613)</u>	<u>(10,973)</u>

15. Stocks

	2005	2004
	£000	£000
Stocks	8,731	8,040
	<u>8,731</u>	<u>8,040</u>

16. Debtors

	2005	2004
	£000	£000
Amounts falling due within one year		
Trade and other debtors	82,773	79,730
Deposits and advances	3,960	2,925
Prepayments and accrued income	134,915	52,876
	<u>221,648</u>	<u>135,531</u>
Amounts falling due after more than one year		
Other debtors	4,268	4,775
Total	<u>225,916</u>	<u>140,306</u>

Notes to the Accounts (*continued*)

17. Cash at bank and in hand

	2005	2004
	£000	£000
Balance at 1 April 2004	37,922	70,348
Net cash inflow/(outflow) :	37,488	(32,426)
Balance at 31 March 2005	<u>75,410</u>	<u>37,922</u>
The following balances and overdrafts at 31 March are held at:		
<i>Balances</i>		
Office of HM Paymaster General	33,185	8,252
Commercial banks and cash in hand UK and overseas	42,862	30,415
	<u>76,047</u>	<u>38,667</u>
<i>Overdrafts</i>		
Commercial banks overseas	(637)	(745)
	<u>75,410</u>	<u>37,922</u>
The balance at 31 March comprises:		
<i>Cash due to be paid to the Consolidated Fund</i>		
Amounts issued from the Consolidated Fund for supply but not spent at year end (surplus net cash requirement)	68,395	37,093
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	7,015	829
	<u>75,410</u>	<u>37,922</u>

18. Creditors

	2005	2004
	£000	£000
Amounts falling due within one year		
Bank overdrafts (note 17)	637	745
Other taxation and social security	4,284	414
Trade creditors	34,474	10,809
Other creditors	25,201	10,501
Accruals and deferred income	109,451	35,997
Current part of finance leases (note 24)	88	97
Current part of imputed finance lease element of on-balance sheet PFI contracts (note 25)	467	416
Total excluding amounts due to the Consolidated Fund	<u>174,602</u>	<u>58,979</u>
Amounts issued from the Consolidated Fund for supply but not spent at year end	68,395	37,093
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	7,015	829
	<u>250,012</u>	<u>96,901</u>
Amounts falling due after more than one year		
Finance leases (note 24)	171	370
Imputed finance lease element of on-balance sheet PFI contracts (note 25)	32,324	31,248
	<u>32,495</u>	<u>31,618</u>
Total	<u>282,507</u>	<u>128,519</u>

19. Provisions for liabilities and charges

	Early departure costs	LE staff terminal gratuities	Other staff provisions	Estate related provisions	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2004	5,229	26,827	8,651	6,150	46,857
Provided in year	30,405	568	(3,094)	(950)	26,929
Provisions utilised in the year	(4,955)	–	–	–	(4,955)
Unwinding of discount	(2,813)	–	–	–	(2,813)
Balance at 31 March 2005	27,866	27,395	5,557	5,200	66,018

20. Reconciliation of net operating cost to changes in general fund

	2005		2004	
	£000	£000	£000	£000
Net operating cost for the year (Schedule 2)		(1,751,523)		(1,588,590)
Income not appropriated in aid paid to Consolidated Fund		(3,485)		(8,635)
Net Parliamentary funding		1,699,384		1,451,306
Consolidated Fund creditor for cash unspent		(68,394)		(37,093)
Prior year Consolidated Fund creditor		37,093		51,133
Consolidated Fund Extra Receipts		(7,015)		(829)
Current asset revaluation adjustments	235		41	
Retirement benefit schemes adjustment	–		707	
Wilton Park consolidation adjustment	(606)		82	
		(371)		830
Transfer to revaluation reserve (Note 21)		1,620		401
Non-cash charges:				
Cost of capital	42,225		43,043	
Auditors remuneration	270		267	
		42,495		43,310
Net (decrease)/increase in general fund		(50,192)		(88,167)
General Fund at 1 April 2004		871,218		959,385
		821,021		871,218

21. Reserves

	£000
Revaluation reserve	
Balance at 1 April 2004	314,975
Unrealised gain on revaluation of fixed assets	27,375
Transfer from general fund of realised element of revaluation reserve (Note 20)	(1,620)
Balance at 31 March 2005	340,730

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

	£000
Donated assets reserve	
Balance at 1 April 2004	51,671
Unrealised gain on revaluation of fixed assets	38
Depreciation adjustment	(696)
Balance at 31 March 2005	51,013

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

Notes to the Accounts (*continued*)

22. Notes to Schedule 5

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

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Objective 1 – A secure UK	301,577	280,293
Objective 2 – Enhanced competitiveness	8	751
Objective 3 – Increased prosperity and a better quality of life	3,493	67,720
Objective 4 – A strong role for UK in a strong Europe	342	15,025
Objective 5 – International decisions and actions advancing UK objectives	647,508	431,719
Objective 6 – High quality consular services and regulation of entry into UK	50,880	1,033
Objective 7 – British Overseas Territories	92	4,368
	<u>1,003,900</u>	<u>800,908</u>

23. Capital commitments

	<u>2005</u>	<u>2004</u>
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made:		
Estate projects	59,261	21,460
IT infrastructure	83,000	–
Other	250	748
	<u>142,511</u>	<u>22,208</u>

The FCO awarded a contract to Hewlett Packard in February 2005 to become the FCO's strategic partner for the provision of its global IT infrastructure. The capital commitment as shown above is estimated at £83,000,000 over seven years of the total value of the contract of £179 million, the balance to be expensed when incurred.

24. 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.

	2005		2004	
	<u>Land and buildings</u>	<u>Other</u>	<u>Land and buildings</u>	<u>Other</u>
	£000	£000	£000	£000
<i>Operating leases</i>				
Expiry within 1 year	12,379	618	8,750	380
Expiry within 2 to 5 years	27,929	932	25,934	706
Expiry thereafter	11,269	129	14,495	5
	<u>51,577</u>	<u>1,679</u>	<u>49,179</u>	<u>1,091</u>
<i>Finance leases</i>				
Rentals due within 1 year		93		103
Rentals after 1 year but within 5 years		191		393
Rentals due thereafter		–		–
		284		496
Less: interest element		(25)		(29)
		<u>259</u>		<u>467</u>

25. Commitments under PFI contracts*Off-balance sheet*

Global Crossing

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

On-balance sheet

Arteos

The contract is in respect of the building, operation and maintenance of the British embassy in Berlin for a term of 30 years from 23 June 1998 with an option to extend for a further 30 years. Overall, the balance of the risks and rewards of ownership of the property are borne by the Department, and, therefore, the embassy is included in these accounts as a tangible fixed asset. The initial capitalisation of the contract was reflected in the 2002-03 accounts. The unitary charge which covers the occupation of the building has been discounted over the remaining life of the contract and capitalised. The service element of the contract remains an operating cost. In 2004-05 this amounted to £4.6 million.

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

	2005	2004
	£000	£000
Imputed finance lease obligations under on-balance sheet PFI contracts comprises:		
Rentals due within 1 year	3,522	2,950
Rentals due within 2 to 5 years	12,220	11,800
Rentals due thereafter	54,989	56,049
	<u>70,731</u>	<u>70,799</u>
Less: interest element	(37,940)	(39,134)
	<u>32,791</u>	<u>31,665</u>

Charge to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of off-balance sheet PFI transactions and the service element of on-balance sheet PFI transactions was £32,281,045 (2003-04: £24,090,149); and the payments to which the department is committed during 2004-05, analysed by the period during which the commitment expires, is as follows:

	2005	2004
	£000	£000
Expiry within 1 year	–	–
Expiry within 2 to 5 years	–	–
Expiry within 6 to 10 years	22,515	22,368
Expiry within 11 to 15 years	–	–
Expiry within 16 to 20 years	–	–
Expiry within 21 to 25 years	1,238	1,230
Expiry within 26 to 30 years	–	–
	<u>23,753</u>	<u>23,598</u>

Notes to the Accounts (*continued*)

26. Other financial commitments

The Department has entered into non-cancellable contracts (which are not leases or PFI contracts) for facility management, logistics and computer services. The payments to which the FCO is committed during 2005-06, analysed by the period during which the commitment expires are as follows:

	2005	2004
	£000	£000
Expiry within 1 year	1,847	556
Expiry within 2 to 5 years	38,710	38,710
Expiry thereafter	–	–
	<u>40,557</u>	<u>39,266</u>

27. Retirement benefit schemes

As stated in notes 1.14 to 1.16, UK-based employees are covered by the provisions of the Principal Civil Service Pension Scheme and for staff engaged overseas the FCO observes local employment laws regarding the payment of pensions, gratuities and terminal benefits. In order to meet these liabilities at certain of its overseas posts the FCO has established defined benefit pension schemes, the details of which as at 31 March 2005 are shown below.

Defined contribution schemes

The FCO operates defined contribution schemes in: Barbados, Denmark, New Zealand and Zambia. The schemes operated in Belgium and Holland are defined benefit but multi-user, where the individual insurers' assets cannot be identified; these are treated as direct contribution schemes. The value of contributions in 2004-05 was £471,710 (2003-04: £620,282).

Defined benefit schemes

	2005		2004	
	Fair value of assets	Present value of future liabilities	Fair value of assets	Present value of future liabilities
	£000	£000	£000	£000
Retirement benefits schemes – asset				
Jamaica	346	(217)	308	(209)
South Africa	4,946	(4,946)	3,910	(3,910)
Trinidad and Tobago	306	(136)	282	–
	<u>5,598</u>	<u>(5,299)</u>	<u>4,500</u>	<u>(4,119)</u>
Surplus	<u>299</u>		<u>381</u>	
Retirement benefits schemes – liability				
Canada	4,015	(4,231)	3,496	(4,256)
Irish Republic	776	(932)	701	(854)
Portugal	255	(290)	235	(276)
USA	24,276	(28,148)	25,176	(26,488)
	<u>29,322</u>	<u>(33,601)</u>	<u>29,608</u>	<u>(31,874)</u>
Deficit		<u>(4,279)</u>		<u>(2,266)</u>
Net deficit		<u>(3,980)</u>		<u>(1,885)</u>

27. Retirement benefit schemes (continued)

All of the FCO's known defined benefit schemes have been subject to actuarial valuation or review as at 31 March 2004. The schemes in USA, Canada and Ireland have been reviewed and updated as at 31 March 2005; other posts have been estimated. The scheme in Zimbabwe has been wound up and the staff transferred to a terminal gratuity arrangement. The net pension liabilities in Colombia have been crystallised and an annuity contract agreed with a major insurance company; the full liability against this contract is included under creditors in the accounts. The scheme in Trinidad and Tobago is now included in this note and the figure for fair value of assets for the previous year has been added for comparative purposes. The FCO operates a defined benefits scheme in Mauritius; however, no figures are yet available for this.

Valuations were carried out as at 31 March 2005 by qualified independent actuaries. The major assumptions used by the actuaries were:

	Rate of increase in salaries	Rate of increase in pensions in payment	Discount rate	Inflation assumption
Canada	3.50%	2.50%	6.00%	2.50%
Irish Republic	4.50%	2.50%	5.00%	2.50%
Jamaica	9.00%	3.50%	12.50%	7.00%
Portugal	2.50%	2.50%	4.50%	2.00%
South Africa	6.15%	5.54%	8.35%	5.54%
Trinidad and Tobago	5.50%	0.00%	6.50%	5.50%
USA	4.5%-6%	3.00%	5.25%	2.50%

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

	Long-term rate of return expected at 31 March 2005			Value as at 31 March 2005			
	Equities	Bonds	Other	Equities £000	Bonds £000	Other £000	Total £000
Canada	7.10%	3.30%	–	2,233	1,781	–	4,014
Irish Republic	7.30%	4.30%	5.30%	497	121	159	777
Jamaica	12.50%	–	12.50%	68	–	278	346
Portugal	–	–	4.00%	–	–	255	255
South Africa	–	–	9.70%	–	–	4,946	4,946
Trinidad and Tobago	–	–	7.50%	–	–	306	306
USA	8.16-8.36%	5.13%	–	16,592	7,684	–	24,276
Total market value of assets				19,390	9,586	5,944	34,920
Present value of scheme liabilities							
Canada							(4,230)
Irish Republic							(932)
Jamaica							(217)
Portugal							(290)
South Africa							(4,946)
Trinidad and Tobago							(136)
USA							(28,149)
Total present value of scheme liabilities							(38,900)
Net pension liability							(3,980)

Notes to the Accounts (*continued*)27. Retirement benefit schemes (*continued*)

Analysis of the amount charged to the operating cost statement in 2004-05

	Current service cost	Past service cost	Total operating charge
	£000	£000	£000
Canada	162	–	162
Irish Republic	69	–	69
Jamaica	13	–	13
Portugal	27	–	27
South Africa	315	–	315
Trinidad and Tobago	8	–	8
USA	850	–	850
	1,444	–	1,444

Analysis of the amount credited to other finance income in 2004-05

	Expected return on pension scheme assets	Interest on pension scheme liabilities	Net return
	£000	£000	£000
Canada	220	(285)	(65)
Irish Republic	45	(40)	5
Jamaica	29	(23)	6
Portugal	13	(14)	(1)
South Africa	326	(252)	74
Trinidad and Tobago	15	(7)	8
USA	1,745	(1,482)	263
	2,393	(2,103)	290

Analysis of amount recognisable in statement of recognised gains and losses

	Actual return less expected return on pension scheme assets	Experience gains and losses arising on the scheme liabilities	Changes in assumptions underlying the present value of the scheme liabilities	Actuarial gain/(loss) recognised
	£000	£000	£000	£000
Canada	–	(22)	575	553
Irish Republic	16	21	(69)	(32)
Jamaica	23	(5)	–	18
Portugal	14	16	5	35
South Africa	709	–	(1,676)	(967)
Trinidad and Tobago	8	(3)	–	5
USA	(342)	(104)	(1,563)	(2,009)
	428	(97)	(2,728)	(2,397)

27. Retirement benefit schemes (*continued*)

Movement in surplus/(deficit) during the year

	Surplus/ (deficit) in scheme at beginning of the year	Movement in year:				Surplus/ (deficit) in scheme at end of the year
		Current service cost	Contributions	Other finance income	Actuarial gain/(loss) recognised	
		£000	£000	£000	£000	
Canada	(760)	(162)	218	(65)	553	(216)
Irish Republic	(154)	(69)	94	5	(32)	(156)
Jamaica	99	(13)	18	6	18	128
Portugal	(40)	(27)	–	(1)	35	(33)
South Africa	–	(315)	315	74	(967)	(893)
Trinidad and Tobago	158	(8)	7	8	5	170
USA	(1,312)	(850)	35	263	(2,009)	(3,873)
	(2,009)	(1,444)	687	290	(2,397)	(4,873)

History of experience gains and losses

	Difference between the expected and actual return on scheme assets		Experience gains and losses on scheme liabilities		Total amount recognised in statement of recognised gains and losses	
	Amount	Percentage of scheme assets	Amount	Percentage of the present value of the scheme liabilities	Amount	Percentage of the present value of the scheme liabilities
	£000		£000		£000	
Canada	–	0.00%	(22)	-0.52%	553	13.07%
Irish Republic	16	2.04%	21	2.22%	(32)	-3.48%
Jamaica	23	6.54%	(5)	-2.08%	18	8.33%
Portugal	14	5.41%	16	5.48%	35	11.90%
South Africa	709	14.34%	–	0.00%	(967)	-19.54%
Trinidad and Tobago	8	2.78%	(3)	-2.50%	5	3.75%
USA	(342)	-1.41%	(104)	-0.37%	(2,009)	-7.14%
	428		(97)		(2,397)	

Notes to the Accounts (*continued*)

28. Contingent liabilities

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

Contingent liabilities disclosed under FRS 12

	2005	2004
	£000	£000
Disputed claims for rents payable on overseas properties	1,735	2,345
Potential overseas national insurance liabilities and various other related claims	555	971
	2,290	3,316

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

28.1 Quantifiable

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

	1 April 2004	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2005	Amount reportable to Parliament by Depart- mental minute
	£000	£000	£000	£000	£000	£000
Indemnities	11,734	–	–	–	11,734	11,734
	11,734	–	–	–	11,734	11,734

28.2 Unquantifiable

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

29. Losses statement and special payments

Amounts registered and approved in the year:

	2004-05		2003-04	
	Number	£000	Number	£000
Cash losses	26	42	147	3,081
Claims abandoned	35	237	70	57
Fruitless payments and constructive losses	2	1,538	5	5
Stores losses	16	376	15	74
Special payments	13	1,596	22	43
Losses arising from other causes	75	1,483	–	–
	167	5,272	259	3,260

Individual amounts in excess of £100,000:

Included in claims abandoned is a net £138,648 arising from the clearing of accounts receivable on the migration of balances to a new computer system. Included in stores losses are obsolescent consumables of £336,726. Included in Fruitless payments and constructive losses is an amount of £1,508,300 relating to the closure and sale of the FCO office in San Salvador in 2004. Included in Special payments are ex gratia payments amounting to £1,580,000 made to victims of the Istanbul bombing in the previous year. Losses arising from other causes is a net figure and includes the writing off of out of date consular vignettes amounting to £1,485,990.

Not included above is an estimate for apparent unauthorised charges for the use of a number of satellite phones within Iraq in 2005. Provisional information suggests that there have been losses to public funds in the region of £590,000.

30. Related party transactions

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

Westminster Foundation for Democracy
 British Association for Central & Eastern Europe
 Britain/Russia Centre
 GB/China Centre
 Marshall Aid Commemoration Commission

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

31. Financial instruments

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

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

A full analysis of non-interest bearing financial assets held overseas by currency is not yet available and in the table below the total amount of sterling balances held in the UK is included under Sterling and all balances held overseas both in sterling and other currencies are included under Other.

Liquidity risk

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

Interest-rate risk

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

Currency

	2005		2004	
	Non-interest bearing financial assets	Non-interest bearing financial liabilities	Non-interest bearing financial assets	Non-interest bearing financial liabilities
	£000	£000	£000	£000
Sterling	35,305	(31,967)	8,684	(13,280)
Other	40,742	(34,688)	29,983	(34,322)
Gross financial assets/(liabilities)	76,047	(66,655)	38,667	(47,602)

Notes to the Accounts *(continued)***31. Foreign Currency** *(continued)**Foreign currency risk*

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

Fair values

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

	2005		2004	
	Book value	Fair value	Book value	Fair value
	£000	£000	£000	£000
Primary financial instruments:				
<i>Financial assets</i>				
Cash at bank and in hand	76,047	76,047	38,667	38,667
<i>Financial liabilities</i>				
Bank overdrafts	(637)	(637)	(745)	(745)
Provisions	(66,018)	(66,018)	(46,857)	(46,857)
	(66,655)	(66,655)	(47,602)	(47,602)

Where relevant, cash flows in respect of provisions have been discounted at HM Treasury discount rate of 3.5% in real terms.

32. Third-party assets

	2005	2004
	£000	£000
Funds held by the FCO in designated bank accounts for disbursement to individual beneficiaries on behalf of the United Nations Compensation Commission	1,280	1,891
Funds held within FCO Office of HM Paymaster General balance	–	995
Overall UNCC liability	1,280	2,886

33. Entities within the departmental boundary

The entities within the boundary during 2004-05 were:

On-Vote agency – Wilton Park Executive Agency

Non-executive NDPBs – None

Other entities – None

The annual report and accounts of the Wilton Park Executive Agency is published separately.

34. Intra-government balances

	Debtors: amounts falling due within one year	Debtors: amounts falling after more than one year	Creditors: amounts falling due within one year	Creditors: amounts falling due after more than one year
	£000	£000	£000	£000
Balances with other central government bodies	72,090	–	13,779	–
Balances with public corporations and trading funds	424	–	–	–
Balances with bodies external to government	149,134	4,268	236,253	32,495
At 31 March 2005	221,648	4,268	250,012	32,495
Balances with other central government bodies	51,144	–	–	–
Balances with public corporations and trading funds	816	–	–	–
Balances with bodies external to government	83,571	4,775	96,902	31,618
At 31 March 2004	135,531	4,775	96,902	31,618

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

Fraud at the British Embassy, Tel Aviv

Introduction

1. In May 2004, the Deputy Head of Mission at the British Embassy, Tel Aviv discovered a fraud at the Embassy that had continued undetected for at least four years. The Financial Compliance Unit (FCU) of the Foreign and Commonwealth Office (the Department) was called in to investigate the fraud and to liaise with the Israeli Police and the local legal advisers. Their investigation showed that in fact, two separate and long-running frauds had been initiated by a locally engaged driver (Mr Avishai Yechieli) and that, together, they had resulted in a loss to public funds of more than £790,000. This is the largest identified loss by fraud in the Department's history. The value of the final loss to public funds will not be known until the criminal and civil cases against Yechieli are completed.

Discovery of the frauds

2. In May 2004, when undertaking a routine monthly check of the Embassy's accounts, the Deputy Head of Mission at the British Embassy, Tel Aviv queried a number of transactions appearing in the March and April 2004 accounts. He was concerned that a number of cash payments for the clearance of diplomatic bags had been made that were supported only by receipts, and that there were no invoices or other evidence to substantiate the amounts paid. When the Embassy queried the receipts by contacting the clearing agent at Ben Gurion Airport, they were informed that the agent had not issued the receipts, and that the style of the receipts held by the Embassy had been changed some years before. Further checks with the British Airways Cargo office at the airport also confirmed that the British Airways receipts were forgeries.

3. The receipts had been submitted to the Embassy Accounts Office by a locally employed driver, Mr Avishai Yechieli. When confronted with the evidence, on 17 June 2004, Yechieli admitted falsifying receipts and obtaining money from the Embassy. He was suspended from duty, and the Department's Financial Compliance Unit was formally advised of the suspected fraud. It was agreed that staff from the Unit would visit Tel Aviv to undertake a full investigation in July 2004. In the meantime, the Embassy was advised to consider whether the driver had any other opportunities to abuse his responsibilities for financial gain. Staff at the Embassy then reported that Yechieli had also been responsible for collecting letters detailing the amounts of certain annual allowances (known as Rest Home payments) that were made to all locally-engaged staff in Israel.

Investigation by the FCU

4. The FCU investigation lasted for five weeks. It found that there were two distinct areas of fraudulent activity, involving payments for the clearance of diplomatic bags, and falsified Rest Home payments.

Bag Clearance payments

5. The FCU reviewed all the bag clearance charges paid between January 2000 and June 2004. The investigation could not go back any further as all vouchers paid prior to January 2000 had been destroyed in accordance with standing instructions on document retention periods. The FCU investigation included visits to the airline offices of British Airways, Lufthansa and Swissair and the Israeli bag storage agents, Maman, who also cleared Embassy diplomatic bags transported by Cyprus Airways.

6. Yechieli was invariably employed to clear diplomatic bags as he was the only driver who held the necessary airport passes to permit access to most areas of the airport. It had become common practice for him to take a cash advance from the Accounts Office, clear the diplomatic bags, and deliver them to the Embassy with a handwritten receipt, purportedly from the appropriate airline office. The FCU found no evidence that invoices were ever demanded, seen or authorised by Embassy staff. Instead, the receipts presented by Yechieli were retrospectively authorised by a member of the Embassy's staff after the payment had been made, and used as vouchers to support the account.

7. The FCU's enquiries showed that the documentation supplied by Yechieli was fraudulent. For example:

- British Airways confirmed that all official diplomatic bags for Tel Aviv and Jerusalem were cleared free of charge, whilst personal effects for diplomatic staff attracted a standard charge. Yechieli had apparently obtained pads of obsolete stationery which was pre-printed with the former name of British Airways cargo arm. He had then written out receipts, which he had submitted for support payments.

- Swissair and Lufthansa confirmed that they charged a standard fee for clearing diplomatic bags. They also confirmed that the receipts held by the Embassy were forgeries. The Swissair receipts were headed with the company's former name and it was believed that the receipt books had come from obsolete stock.
 - Maman, the clearing agents, confirmed that they did not accept cash payments, but instead raised an itemised monthly invoice detailing all airline consignments. The invoice was submitted to the Embassy and paid by cheque. (This had already been established by the FCU). Maman also confirmed that they had not issued the receipts submitted by Yechieli, and believed they must have been removed from obsolete stock or printed elsewhere.
 - When a large number of diplomatic bags arrived at Ben Gurion Airport, additional vehicles were required to transport them to the Embassy, or to the Consulate General in Jerusalem. Yechieli seemingly made ad hoc arrangements with a sole trader, without a formal agreement, to carry out this task. The FCU confirmed that the invoices submitted by the sole trader were inflated fraudulently. In these cases Yechieli would take a cash advance from the Accounts Office to settle the bills.
8. The FCU investigation identified 534 falsified receipts and invoices, and calculated that value of the bag clearance fraud totalled NIS 420,942 or £57,935 (£1=NIS 7.265).

Falsified Rest Home Payments

9. Rest Home payments are statutory minimum per diem allowances calculated by the Union of Clerks, a branch of the Israeli Labour Federation affiliated to the Histadruth (the General Federation of Jewish Labour) that must be paid to all Israeli employees. The rates are normally issued between April and June and are paid as one off allowances in June each year. The rates calculated by the Union of Clerks are specifically aimed at office workers.

10. Yechieli collected details of the rates for Rest Home payments from the Union of Clerks each year, and submitted these to Va'ad, the committee for locally employed staff in Tel Aviv. It is not clear why the Embassy required Yechieli to collect these details. Va'ad forwarded them to the Embassy's Management Section for action. Details of the rates were also distributed to the Consulate General in Jerusalem and to the British Council Offices in Tel Aviv and Jerusalem. The rates quoted in the documentation were then used to calculate the appropriate allowances paid to the locally employed staff.

11. The FCU contacted the Union of Clerks to obtain the true rates for Rest Home payments, and compared these with the rates used to pay the allowance to the locally engaged staff employed by the Department and the British Council. The Union of Clerks were only able to provide records going back to 1994, but they varied markedly from those that had been supplied by Yechieli.

12. It was subsequently established that the documentation submitted by Yechieli each year was actually an adjusted photocopy of the letter provided by the Union of Clerks, rather than an original version. It was not clear why the Embassy had accepted a photocopy of the documentation to support the payment of the allowances for so long.

13. By submitting falsified documentation the amount gained personally by Yechieli amounted to some £6,800 over the period from 1994 to 2004. However, all other locally engaged staff across Israel also benefited as they too received Rest Home payments based on the higher rates. The FCU reviewed the records of all staff from Tel Aviv, Jerusalem and the Israeli offices of the British Council. They estimated that 255 locally employed staff, past and present, had received inflated Rest Home payments since 1994, and that the loss to public funds amounted to some £732,500. Some £359,000 of this related to overpayments made to staff of the Department; the remaining £373,500 related to staff employed by the British Council.

Legal Action

14. Yechieli was dismissed by the Department on 29 June 2004. The FCU and the Embassy then liaised closely with the Israeli police and the honorary legal advisor to determine the best way to proceed.

15. Following Yechieli's dismissal, a substantial number of genuine bag clearance invoices and receipts were found in his room in Tel Aviv. On 27 July 2004 the Embassy lodged a formal complaint with the Israeli fraud squad, and Embassy staff provided statements to the police and submitted documentation supporting their suspicions that a criminal act had been committed. Yechieli was arrested on 2 August 2004, the story was reported in the Israeli media on 3 August 2004 and in the United Kingdom on 4 August 2004.

16. When questioned by police, Yechieli admitted the bag clearance fraud and provided details of how the fraud was committed. He also admitted falsifying the Rest Home payments paperwork.

17. The police completed their criminal investigation and forwarded a list of charges to the District Attorney's Office, which issued an indictment for forgery, fraudulent receipt of goods and theft on 3 August 2005. The police have advised that the criminal investigation should proceed fairly quickly as the evidence is clear and Yechieli has confessed. The first plea hearing was due to take place in September 2005, and it is hoped that the criminal trial should be completed by March 2006.

18. There will also be a civil action against Yechieli for recovery of losses, but this is continuing at a slower rate. Once the criminal case comes to a conclusion, the speed of civil proceedings should accelerate. However, having consulted their honorary legal advisor in Israel, the Department decided not to seek to recover from locally engaged staff the overpayments made to in respect of Rest Home payments. The Department was advised that the chances of success were about even, but that the costs of pursuing restitution claims would be substantial.

Lessons

19. The FCU investigation identified a number of control weaknesses that allowed this fraud to occur and to remain undetected for so long. Some of the weaknesses were clear breaches of longstanding accounting procedures, whilst others were indicative of fraudulent behaviour. The FCU has since issued a circular to all Heads of Posts asking them to review accounting procedures and to notify the Unit if they operate any schemes similar to Rest Home payments. The Permanent Under Secretary of the Department wrote to all sub-accounting officers in September 2004, stressing the key lessons to be learned and reminding staff of their responsibilities, and Geographical Directors within the Department have followed this up with letters of their own reinforcing the anti-fraud message. In addition, the Department has taken steps to increase the resources available to the FCU by appointing an additional counter-fraud specialist. This will enable the Unit to increase the number of pro-active overseas visits from ten to 15 each year, thus further reinforcing the anti-fraud message.

20. The FCU identified, and the National Audit Office agree, that the main lessons to be learned from this case include:

- Hand written receipts should not be accepted or used retrospectively to authorise cash payments;
- The incidence of making cash payments should be restricted where possible, as they provide greater opportunity for irregularities to take place;
- Staff responsible for authorising payments should always demand to see an invoice, and only authorise it when satisfied that it represents a true and proper charge to public funds;
- Staff authorising payments should obtain original correspondence, and do not accept or rely upon photocopied documents to support items such as Rest Home payments;
- Posts should establish contractual relationships with suppliers, formalising the terms and conditions and prices to be charged for the services provided. In this way embassies and other posts could ensure that subsequent payments are in accordance with the terms set out in the agreed contracts;
- Embassies and other posts should be aware of their contractual arrangements and services provided to be able to identify and prevent duplicate payments from being made for the same service;
- Yechieli rarely took annual leave. Locally engaged staff should be required to use their annual leave allowance;
- There should be a rotation of duties to enable different staff to undertake the same activities during different periods; and
- The Department should liaise with other friendly missions or to confirm that they are making appropriate payments and that unusual items (such as Rest Home payments) are being made at the appropriate rates.

John Bourn
Comptroller and Auditor General

15 December 2005

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