

FCO Services Annual Report & Accounts 2009/2010

Delivering Public Value

FCO Services
Annual Report & Accounts 2009/2010

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Overview

We deliver a unique combination of secure services, enabling our customers to build a safer future.

To achieve our mission, we have focused on the following formal targets during 2009/10:

To be a financially successful and commercially sustainable business, delivering value to the FCO and our other customers, we aimed to achieve an in-year surplus of at least £2.9m; a Return on Capital Employed of at least 3.5% and a growth in non-FCO revenue of 10% over what we had achieved in 2008/09.

To continually improve the satisfaction of our customers with all aspects of our products and service delivery, we aimed to achieve a customer satisfaction rating of 85%.

To be an efficient organisation, committed to continuous improvement, we aimed to contribute to the FCO's Comprehensive Spending Review obligations by delivering £2m through keeping prices stable and achieve a utilisation rate for our revenue-earning staff of at least 75%.

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Section 1 Contents

In the pages that follow, we announce how we have performed against these targets and provide more details of some of our key achievements this year.

- 08** Foreword by Chief Executive, FCO Services
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“With significant pressure on the budgets of our partners across government, our focus has been twofold this year: we have collaborated closely with our customers to find the most cost-effective solutions to their requirements and we have continued to take a robust approach to driving down our costs and increasing the efficiency of our operations.”

Chris Moxey, Chief Executive, FCO Services

I am pleased to be able to report a strong financial performance in our second year of trading as a Trading Fund of the Foreign and Commonwealth Office.

Our headline results declare an operating surplus of £6.1m on a turnover of £126.8m, exceeding our formal target of £2.9m and equating to a net margin of 4.8%. This compares with an operating surplus in 2008/09, of £11.5m on a turnover of £137.2m, a return of 8.3%. Our normalised revenue for 2008/09, following adjustments for non-recurring items, was £127.9m. Against this, our turnover in 2009/10 represents a decline of only £1.1m.

In 2009/10, we have achieved all our formal financial targets, through maintaining stable prices and through achieving operational efficiencies. We have delivered £2m savings to the FCO as our contribution to the Department's Comprehensive Spending Review obligations and also awarded a discretionary dividend of £3m – the latter, substantially ahead of plan. We have also achieved the challenging target to grow our non-FCO business by 10% over that which we achieved in 2008/09, achieving a creditable 23.7% normalised growth in non-FCO revenue. As a service-based, non-capital intensive business, we have also exceeded our formal target for Return on Capital Employed, with a performance of 33.7%.

Meeting the needs of the FCO, as our partner and main customer, has continued to be central to our endeavours this year. Our single largest initiative has been our participation in the complex global roll-out of the FCO's next generation secure IT system, as part of a Joint Service Delivery Team with Hewlett Packard. At the same time, we have also continued to deliver a wide range of other secure IT, estates and logistics services to the FCO to support the operation of its worldwide network.

Increasing our collaboration across government has also been a core tenet of our development strategy. We have

continued to deliver important initiatives for our non-FCO customers across a range of secure service areas, as examples in this Report demonstrate. In addition, we have proactively sought out the kind of partnering opportunities that will enable us to provide better co-ordinated services to government, generating efficiencies through streamlined delivery. One example of this is the collaboration agreement we have signed with the Ministry of Defence's Security Services Group, through which we aim to deliver joint security solutions in perimeter and protective security.

Enhancing the satisfaction of all our customers with our service delivery remains key to our future success and for 2009/10 I can report that the measures we have taken are beginning to have an impact: customer satisfaction has increased over the year to 82%. This still falls short of our demanding target of 85%, a target that is all the more challenging in the current climate. Nevertheless, we are confident that the organisational changes we have made to enhance the responsiveness of our service delivery will enable us to make further gains in 2010/11.

The development of organisational capability has seen the completion of a number of important initiatives this year. The most significant change has been the establishment of a Technical Services Centre for our technical and project delivery staff. This flexible resource pool will not only enhance the responsiveness of our service delivery to customers but will also provide specialist career ladders for our technical staff, giving them the opportunity to enhance their knowledge and skills. This change in structure and ways of working has contributed to our achievement of our formal target on utilisation, with an average over the year of 75.9% utilisation for revenue-generating staff.

As well as looking to increase our efficiency, it is also important for us to look for opportunities to leverage our core strengths as a secure services

business, in order to deliver greater public value. As the UK National Authority for Counter-Eavesdropping, we are building on our expertise in technical and protective security to help develop combined responses to the cyber and technical threats that are becoming ever more prevalent and complex. Our new cyber and convergence centre, highlighted in this Report, is just one example of that.

2009/10 has been a demanding year for us and one in which we have asked for even greater resilience and commitment from our staff. In such circumstances, it is all the more important that everyone understands the role they play and that they feel valued for the difference they make. Our staff have certainly risen to the challenge again this year and I would like to express my gratitude to them for that. We could not have achieved the results we have without their effort and dedication. I am also pleased that, in such a challenging operating environment, our ongoing commitment to building an expert and engaged workforce has been externally recognised with our formal accreditation as an 'Investors in People' organisation.

Looking ahead, 2010/11 promises to be an even more challenging year for FCO Services as a business within government. The focus on public sector spending has sharpened over the course of the year and will become even more acute as the Government manages the consequences of the deficit. In this climate of austerity, we are committed to playing a full and proactive role in helping both the FCO and government as a whole make prudent use of the public resources with which we have been entrusted.

The steps we have taken over 2009/10 stand us in good stead to do so and the results in this Report and Accounts give us the grounds to be optimistic that we can rise to the challenges ahead.

Chris Moxey
Chief Executive, FCO Services

A secure worldwide network for over

60 Years

Who We Are

A Trading Fund of the Foreign and Commonwealth Office, we provide a unique combination of secure support services to the FCO and other UK government departments at home and overseas. Our customers also include other governments and international institutions with which the UK has close links.

***As a trusted partner of organisations** for whom security is essential, we are committed to meeting their needs in a way that makes the most efficient use of public funds.*

Over 60 years, we have built up a responsive and secure worldwide network and a leading position as the UK National Authority for Counter-Eavesdropping. Our staff are cleared to the highest levels of security. Our delivery teams are grouped into three functions: Client Delivery, Operations and Services and Logistics, in an organisation structure that is aligned to the needs of our customers. Working in some of the world's most challenging locations, these teams provide essential IT, estates and logistics services to protect people, their information and their working environment.

Protecting people and their working environment

***For our customers to deliver** their ever more challenging priorities, they have to be able to rely on their people. We give them the confidence that their people are who they say they are and that their working environment, wherever they are in the world, is safe and secure.*

Whether it is through managing secure construction projects, installing and maintaining protective systems or providing professional advice on all aspects of estate and property management, our Client Delivery, Operations and Secure Logistics teams work together to meet our customers' needs.

As one of a small number of officially recognised providers of national security vetting services to government, our Vetting team plays a vital role in helping verify the identity of individuals, delivering a tailored service to our customers for all levels of security clearance.

Safeguarding information and communication channels

***In a world where technology is advancing rapidly** and cyber threats are ever more prevalent, our customers need to be confident in the integrity of their systems and networks.*

Our technical specialists in Client Delivery and Operations can design, build, maintain and protect global IT networks, providing assurance of the highest levels of resilience and security.

Our customers also need to be confident that any information they send through non-electronic channels reaches its destination safely. Our global Secure Logistics network ensures that official mail and freight are transported securely, no matter where in the world and how challenging the environment.

For our customers, communication channels must be secure, but they must also be two-way. Our Translation and Interpreting team provides a professional and comprehensive service covering a broad range of languages. Whether interpreting at the Afghanistan Conference, or translating complex documents for the European Court of Justice, our team plays an important role in facilitating the accurate exchange of information.

In our last Annual Report, we set out our business priorities for 2009/10. These would focus on ensuring that the changes we have made and the capabilities we have built on our journey to Trading Fund status would deliver benefits to our customers in improved service provision.

Meeting our efficiency challenges

Last year, we said we would continue to improve the efficiency of our operations, building our in-house expertise and driving down our input costs to deliver best value.

- We have increased our operational efficiency this year and exceeded our target of £2.8m procurement savings by 23%.

We have achieved this by reducing our contractor costs by almost £1m, by re-negotiating contracts with suppliers to reduce the cost of equipment and by reducing the costs for official travel.

- Using our deepening expertise in project and programme management, we have successfully completed the installation of 30 combined incident alarm and public address systems in embassies across the world.

Working closely with our customers to plan a complete programme of installations rather than one-off projects, we have increased the efficiency of installations and reduced the overall costs of delivery, keeping our customers safe and secure at best value for money.

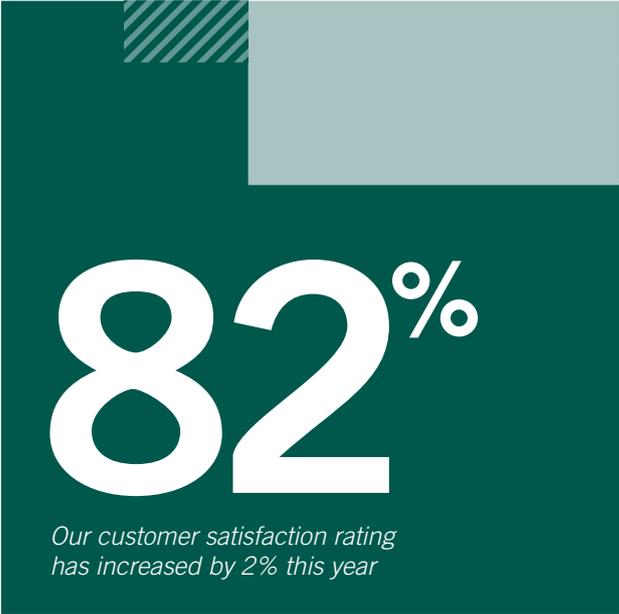
- Close collaboration with our partners across government is also vital in enabling us to maximise efficiencies. As one of a small number of authorised suppliers of vetting services to government, we have worked closely with the Cabinet Office and other partners to improve vetting efficiency.

We have used new technology to speed up the delivery of our services, introducing a new online vetting application programme. Reducing the average time to complete a security check from 30 to 10 working days, this is one of the measures that has enabled us to increase our rate of casework completion by 72% this year, ensuring that our customers have the trusted personnel they need as speedily as possible.

- We have actively sought further opportunities for collaboration this year to help drive efficiencies across government. In perimeter and protective security, we have signed a collaboration agreement with the Ministry of Defence's Security Services Group to enable us to combine our expertise to deliver joint technical security solutions for our customers at best value for the public purse.

£3.45m *procurement savings, over 20% ahead of target*





82%

*Our customer satisfaction rating
has increased by 2% this year*

Enhancing Customer Satisfaction

Last year, we said we would deepen our understanding of and responsiveness to our customers' needs and communicate more effectively how we can add value.

- As part of a Joint Service Delivery Team, we have collaborated with Hewlett Packard on the global roll-out of the FCO's next generation secure IT system, a complex programme of work encompassing over 250 embassies and consulates worldwide over the life of the programme.

With such a complex programme, it was vital that roll-out was closely co-ordinated and aligned to the priorities of the FCO. Our Secure Logistics teams ensured that our customers received their hardware safely and securely, no matter how remote their location; our global network of technical specialists played a vital role in installing the new system in some of the most challenging environments. Even when migrating from one system to another, the FCO has therefore been able to maintain effective and secure communications throughout its global network.

- In a world of increasing threats to cyber and technical security, it is vital that we respond to our customers' need to counter those threats. This year, we have developed a secure cyber and convergence centre, using the latest technology to offer our customers the highest levels of protection against both technical and physical threats.

By monitoring our customers' systems remotely from a central point, we can provide both early warning and prevention of attempted physical and technical attacks, in real time, on a global scale, so that our customers can be confident that their operating environment is secure.

- Engaging with our customers and enhancing their satisfaction with our services has been a major focus for us this year. Our efforts are beginning to have an impact: customer satisfaction has increased to 82%.

This will continue to be a priority, since we aim to achieve our stretch target of 85%. We have increased our capability to engage effectively with our customers; our senior executives, for instance, have responsibility for specific customer relationships. We have also introduced a continuous, feedback-driven approach to monitoring customer satisfaction and use this to drive changes to improve our customers' experience. To help communicate the value we can add, we have redesigned our external website, with the latest information on the services we provide.

A Business in Control

Last year, we said we would build our business capabilities further with the introduction of a Technical Services Centre for our project-based staff. This would provide a more responsive service to our customers, while at the same time understanding and controlling business risk.

- Our new Technical Services Centre is now in place, providing a flexible multi-skilled resource pool of all our project and installation specialists in a more commercial, customer-facing structure.

The new organisational design, together with new systems and processes to enhance visibility and control, have enabled us to manage and deliver effectively around 650 projects worldwide for our customers this year. With a flexible workforce of technical specialists focused on delivering for our customers, supported by a new Business Management Office operating at Office of Government Commerce (OGC) Best Practice levels in project management, we have reduced our costs, increased our productivity and are already delivering 'more for less' for our customers.

- Being a business in control also means controlling the impact of our operations on the environment.

In the last year, our secure logistics network has managed over 100,000 shipments in the UK and across the globe. We have worked hard to minimise the impact this has had on the environment, through combining shipments where possible, reducing the size of our vehicle fleet, replacing vehicles with more environmentally friendly and fuel efficient models and making the most of new technology, with the procurement of hybrid vehicles and teardrop trailers. In partnership with the FCO, we have committed to reduce our carbon emissions by 10% in 2010, as part of the national 10:10 campaign.

Developing the Right Skills and Culture

Last year, we said we would continue to value and develop the technical expertise of our people, establishing processes and ways of working that would promote a fully engaged workforce.

- In the Technical Services Centre we have created a Centre of Technical Expertise to provide specialist career ladders for our technical staff and to enable them to enhance their knowledge and skills.

We have also introduced a new centralised skills database to enable managers to identify appropriately skilled resources and individuals to identify their skills gaps, so that they can put in place plans to acquire those skills. Through these initiatives, as well as through our recruitment of additional new technical apprentices this year, we are deepening our own in-house capability, investing in the specialist development of our people and building our skills for the future.

- An engaged workforce is key to our success as a business. It is therefore vital that our people understand the role they play and that they feel recognised for the contribution they make. Our continued commitment to building a skilled and motivated workforce has been recognised this year with our accreditation as an 'Investors in People' (IiP) organisation.

Fundamental to the IiP ethos is the planning, implementation and evaluation of people development activities in support of the organisation's objectives. With a new, more business-focused core behaviours framework and appraisal process and a learning and development programme to focus on developing key leadership skills, we are continuing our commitment to build the right skills and culture. Levels of staff engagement have increased year on year, with our 2009 survey recording our highest engagement score to date.

“ Learning and development for staff remains a key strength of the organisation, with planning structured and closely linked to performance objectives.”

*Investors in People External Assessor
CQL Group*

Delivering Public Value

With our global reach and our secure connections, we understand our customers' challenges. We work together to overcome them.

***We have delivered for our customers** in 2009/10 in an operating environment that has presented us with both challenges and opportunities.*

The continuing global recession and consequent budgetary pressures have meant the need to explore further opportunities to 'do more with less' and maximise the efficiency of our own operations so that we can deliver the best possible value for money for our customers. We have also supported our parent department, the FCO, in meeting its own Comprehensive Spending Review obligations, as well as working closely with our partners across government on programmes aimed at reducing costs and generating efficiencies through greater collaborative working.

At the same time, environmental considerations are playing an increasingly important role in every aspect of society and we too have taken seriously our obligation to minimise the impact of our operations and ensure that they are as environmentally friendly as possible.

In the technology and security arena, an increasing focus on countering threats to cyber security has provided an opportunity for us, as the UK National Authority for Counter-Eavesdropping, to take an active role in the debate.

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It is against this backdrop that our frontline teams in Client Delivery, Operations and Services and Logistics have worked together to deliver a range of secure products and services to our customers in the following market sectors:

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Our supporting functions, Finance and Procurement and Contract Management, have also had an important role to play in maximising the public value we have delivered.

29 Supporting Functions

On the following pages, we look into these areas in more detail and share with you our achievements in this financial year and our priorities for the next.

Secure Networks

With offices and people dispersed across the world, our customers across government need reliable and resilient IT communication channels.

Faced with continuous developments in technology and increasingly advanced technological threats, these customers also need to be confident that their systems are protected to the highest standards of security.

Keeping a network secure whilst still enabling it to have the functionality required by its users can seem a conflicting challenge. As security-cleared networking specialists, we are able to address this challenge. We deliver and maintain secure networking systems worldwide to the highest security classifications, meeting the standards of CESG, the National Technical Authority for Information Assurance and other government bodies.

Our collaboration with Hewlett Packard and the FCO to deploy the FCO's new global IT system is one example of our work in this area. Here is another example of our achievements this year:

“I believe FCO Services will greatly enhance and strengthen our existing secure network by providing our users in the UK and overseas with a facility to exchange secure information and data – an exciting project which is near to fruition.”

**Assistant Director, Metro Systems Owner,
HM Revenue and Customs**

Delivering a Secure Government Network Worldwide

We have been working with HM Revenue and Customs (HMRC) to provide a secure international IT network linked to the government-wide secure network in the UK. This will mean that HMRC staff based in the UK and overseas will be able to communicate information even more securely between each other and also with other partners across government.

Teams from Client Delivery and Secure Logistics have been collaborating on this project, which has seen improvements carried out to servers and workstations in the UK and overseas in order to tighten security and resilience across the whole network in preparation for the connection to the confidential network.

The Future

Looking ahead, we aim to collaborate further with our partners across government, providing them with the secure communications facilities they need to connect with their colleagues and partners anywhere in the world.

We will continue to make the best use of technology, from secure laptops to secure video conferencing facilities, according to our customers' needs. This will enable them to promote flexible working and help reduce both costs and their travel carbon footprint.

We are also developing our information assurance capabilities to broaden our service offering. This includes forensic investigation, to UK legal standards, of desktops and servers for fraud or other misuse of corporate systems; production of risk management document sets to assist with accreditation of customer systems and IT health checks and penetration testing, with the ability to perform to CESG standards within the next 12 months.

A Secure Global Network



Our single largest project this year has been working in partnership with Hewlett Packard, as part of a Joint Service Delivery Team (JSDT), delivering the next generation of IT to the Foreign and Commonwealth Office.

The updated technological platform with multiple built-in layers of security, enables the FCO to conduct its business efficiently and confidentially. Over 150 FCO Services technicians, trainers and technical officers contributed to the project roll-out to almost 200 embassies this year, often in remote locations, as well as to offices in the UK.

“The Head of the Installations team ran an efficient operation and brought the best out of all his staff. He has been a voice of calm and reason throughout and has worked solidly for six weeks to ensure that the right kit was on the right desk at the right time – and that it worked.”

HM Ambassador, Washington

We have been able to add value with our expertise in secure IT, the high level security clearance of our staff and our capability to deliver secure logistics and projects worldwide. As a result, we are uniquely placed to work with large organisations such as Hewlett Packard on the delivery of complex and highly sensitive projects.

Our Secure Logistics team was involved in ensuring the secure delivery of cabling, infrastructure and sensitive equipment, often in the most challenging of circumstances. This involved negotiating the safe passage and delivery of freight in and through some of the most hazardous locations in the world.

Our global network of technical specialists conducted surveys, supplied information about cabling and cabinet wiring and carried out preliminary technical work to upgrade local networks before roll-out. With this support, Project Managers were able to plan the delivery to each embassy, oversee the implementation and review the outcomes in each area.

With 367 installations carried out in a total of 192 embassies overseas, closely co-ordinated delivery to customers has been essential. On their arrival at embassies to deploy the new IT systems, JSDT technicians started by setting up dedicated training facilities. Technical trainers could then familiarise staff with their new systems while the technicians rolled out the technology at their desks. Our technical specialists were on hand to help co-ordinate on cut-over, ensure technical sign-off at the embassy and continue to provide ongoing systems backup.

Our technicians also supported a staged change-over of systems to teams across the FCO's offices in the UK. Underpinning the entire process has been the JSDT helpdesk team, providing a 24 hour service desk to give round-the-clock technical guidance and support to staff around the world.

Secure Systems Integration

Maintaining data security is an increasingly complex challenge. Our customers across government require a resilient, secure and flexible IT infrastructure to enable them to function efficiently and communicate securely wherever they are in the world.

As experts in bespoke software installations and with extensive experience in securely integrating complex systems, our Client Delivery teams can deliver a complete secure systems integration package for our customers, from designing secure architectures to developing integrated applications and managing their secure installation. Our Operations Group adheres to ITIL IT service management standards and provides our customers with comprehensive, round-the-clock support.

As part of our service offering, we provide secure infrastructures, servers and data centre expertise to support and host systems. We integrate enterprise communications: telephony, voice, video, instant messaging, web conferencing, e-mail, voicemail and business processes. Our professionals in project and risk management services define the project scope and clarify objectives in order to drive down costs and increase value for money, whilst ensuring appropriate standards are met and plans are in place to identify and mitigate risk.

Helping British Nationals Abroad Reach their Destinations

Embassies and consulates can now electronically issue an emergency travel document to British Nationals and to unrepresented nationals of the EU and Commonwealth, who need to travel urgently and do not have access to a full British passport.

Over 1700 new emergency travel documents have been issued and securely transported to British Nationals this year through a secure integrated system known as BRIDGE (British Identity Document Generating Equipment). We collaborated with Logica and their subcontractors, the software application providers, WorldReach, and De La Rue for passport design and manufacture, to deliver this project as part of the FCO's Overseas Passports Integration Programme. Developed as a more secure document for emergency or urgent travel, the new emergency travel document conforms to international travel standards and its issue has resulted in an even more efficient and secure service to British Nationals overseas.

We successfully competed for this contract in the last financial year and, as part of this, we have provided hosting and network architecture, as well as ongoing support services. We designed and built the server and security infrastructure to host the web-based system, which is used in overseas embassies to verify the applicant's passport information using other government-owned IT systems.

“We achieved so much in such a short timescale – a great credit and testimony to FCO Services and our other partners’ hard work and professionalism.”

BRIDGE Project Manager, FCO

The Future

In an increasingly mobile world, where your office can be anywhere, balancing security with changeable work locations provides a technological challenge.

Over the next year, we will be further enhancing our flexible secure mobility solutions. These can easily integrate with customers' existing infrastructure and provide secure remote access to high security information from a variety of laptop devices and business applications.

We are embarking on a programme of consolidation and virtualisation of existing servers. This will enable us to operate more economically, as well as physically create more space on site and further improve our disaster recovery and business continuity planning. We are also creating secure virtualised applications and system hosting environments, using the latest hardware and technologies. These will create more adaptable and cost-effective solutions which are easier to deploy at several security levels and will help us further in meeting our environmental obligations.

Speeding up Decision Making

Collating and verifying information for visa applications is vital for accurate decision-making. When processing work or student visas, one of the checks carried out by the UK Border Agency (UKBA) is whether the potential employee or student has sponsorship from a valid employer or educational organisation in the UK.

This information is now held in a consolidated database not previously easily accessible from abroad, where the applications were actually being processed. Before the new system was completed, any verification of documentation required time consuming correspondence between officials overseas and in the UK.

To link to the information held in the UK, we created a web-based programme that enabled overseas caseworkers to access the Points Based System database, which holds information confirming details about the applicant's intended work placement or course of study. The secure government communication network is used to transfer authenticated data between the UK and caseworkers abroad, to ensure data is kept up to date throughout the application process and then subsequently to enable the Border Control authorities in the UK to monitor that the placement or study period is actually underway.

For our customer, the new system is more efficient and more user friendly, enabling quicker decision making. Importantly, it is also more secure.

Our consolidated secure database is accessible from anywhere in the world, allowing local visa applications to be processed quickly and efficiently.

“FCO Services delivered above our expectations. Thanks for the hard work and dedication to deliver this project on time and under budget.”

Head of IT Current Systems, UKBA International Group

Cyber and Technical Security Services

Our experience in providing technical and protective security for the FCO and other organisations around the globe enables us to provide customers with the latest in countermeasures services to secure their information, networks and buildings.

As hostile attacks become more complex and the technical security threats grow, we remain at the forefront of the research and development of security services, associated products, consultancy and training. This means we can provide our customers in government with countermeasures services and cyber strategies of the highest standard to help protect against cyber and technical threats.

This year, we have hosted a third special event at Bletchley Park, with international keynote speakers and networking opportunities for our customers and stakeholders working in the security arena. This forum enables them to discuss and address security concerns for the future and view the latest technical security products.

Building the Future – Cyber and Convergence Centre

Staying one step ahead is vital in technical security countermeasures. We ensure that we continue to develop and update our technical equipment, knowledge and expertise. During 2009/10, we developed a new concept: a high security cyber and convergence centre, offering composite protection against physical and technical intrusion.

By bringing together the monitoring of a customer's security systems at a central point, we can see an integrated picture of events at locations globally. From CCTV to intruder detection, from ICT networks and incident alarms to other specialist systems, we can build a rich picture of events in and around buildings and networks and provide real-time information to help detect and prevent physical and technical attacks.

Located in a state-of-the-art secure operations centre on a high security government site, we can cost-effectively monitor government customers' entire security systems remotely, reducing the need for travel, the resulting impact on the environment and other associated costs.

Delivering Expert Technical Security Training

Our customers across government and in the law enforcement arena know that, as technology evolves and becomes more complex and as technical and cyber security threats increase, it is vital to keep up to date with the latest security equipment and technical security knowledge and practices. To support them in doing so, we have delivered a range of technical security courses this year, including specialist, bespoke training, in a purpose-built environment.

The training we provide enables our customers to manage the technical security requirements of their premises more effectively. It considers all aspects of security, providing an up-to-date understanding of potential threats and how they can be mitigated, resulting in a more secure environment that is less vulnerable to attack.

The Future

We constantly strive to innovate to keep us at the cutting edge of countermeasures technology, developing new equipment and enhancing processes to provide our customers with the highest levels of assurance against emerging technical and cyber threats.

We are working with a US government body on the development of new prototype equipment for enhanced technical security searches. During testing, this equipment has out-performed other equipment in this field and we are pleased that it will be ready to roll out later this year.

A single CCTV camera may capture one aspect of an incident, but by getting information from a series of different cameras, you can see a much fuller picture of the event. Using this principle, we are developing a new software tool that will gather data from a range of sources to provide real time monitoring of our customers' physical and technical security systems and equipment.

“The training the Metropolitan Police Service received has been of the highest quality, delivered by knowledgeable instructors, in a first-rate learning environment. The courses undertaken have utilised a number of training aids to meet specific, well defined learning objectives, which has allowed us to develop our countermeasures capability to support policing operations in London.”

Specialist Search Engineer, Metropolitan Police Service

Securing a Site

In a world where security threats have become ever more prevalent, our customers' requirement for the securest possible facilities, protected by the most sophisticated security systems, has never been more important.

***We have the professional capability** and specialist experience to offer a worldwide service in this area. We manage entire secure construction projects and provide the sophisticated technical security to protect them once complete.*

Our teams in Client Delivery, Operations and Secure Logistics provide the highest levels of security assurance, securely transporting freight and project managing construction to ensure security is not compromised during build. Secure construction is enhanced by physical security measures from secure conference rooms to bespoke doors, walls and telephone enclosures, protecting assets from physical and technical attack. We also enhance site security with systems such as CCTV, intruder detection systems, access control, incident alarms and public address systems.

Combining Safety and Value

During the last year, we have installed 30 combined incident alarm and public address systems in embassies across the world, helping to make FCO staff and customers safer, providing value for money on installation and reducing ongoing maintenance costs.

Known as VOICE, the system alerts the building occupants to potential threats, using the latest integrated technology to give timely and relevant warnings as situations develop. Each type of incident produces different types of automated instructions to the building occupants. The system is flexible and allows Incident Commanders to take control of the situation and direct staff, visitors and emergency services as required.

The new systems provide increased value for money, reducing ongoing maintenance costs through the installation of a combined system. We have also been able to minimise the costs of delivery with our Project Managers combining installations in the same geographical areas to save green miles, reducing travel and logistics costs.

“This was a well managed programme, delivered to the standard we wanted and at a price we would afford. The VOICE system provides our staff and visitors with clear information of emerging situations that help us work safely around the world. In my opinion, it represents good value for money and fits neatly with our objective to supply our estate with standardised systems that are simple to operate and easy to use.”

Estates and Security Directorate, FCO

The Future

In today's difficult economic environment, we will continue to seek ways to make the most efficient use of public funds when delivering government projects. We have actively sought further opportunities for closer joint working across government this year and have signed a collaboration agreement with the Ministry of Defence's Security Services Group to deliver joint solutions for our customers in perimeter and protective security.

In Client Delivery, our new Centre of Technical Expertise is helping us stay up-to-date in a rapidly developing technological environment by examining the latest industry developments and considering how we can reduce costs to customers by using new computer technologies.

As part of our ongoing research and development programme, we have developed a new variant of VOICE, suitable for smaller sites. This will drive further savings where it is installed in the next financial year.

As part of a new service agreement with the FCO, our overseas technical teams will be carrying out a new rolling programme of maintenance reviews as part of their work to ensure that secure IT and security systems remain fit for purpose.

30 *combined incident alarm and public address systems installed in embassies across the world during the last year.*

Global Management Services

240

embassies and other offices worldwide supported by our global network of technical specialists

Wherever they are in the world, our customers need to be confident that their working and living environment is safe and their communication channels secure. Our global network of technical and estate specialists works closely with them to provide that assurance.

Our Operations Group provides a global network of technical specialists, supporting between them the work of the FCO and other government partners at around 240 embassies worldwide.

We provide expert technical support for IT and telephony as well as for physical security systems. Providing specialist advice to the FCO on all aspects of estate maintenance, our team of estates professionals and engineers includes members of the Royal Institution of Chartered Surveyors, the Institute of Electrical Engineers and the Institution of Occupational Safety and Health. Our teams also work closely with the FCO to manage their buildings to the highest standards of health and safety and are continually working towards environmental improvements.

Safe, Healthy and Environmentally Friendly Buildings

The FCO has a duty of care to all its staff and visitors across its worldwide estate. During the year, our Operations Group has worked with the FCO to develop a new comprehensive inspection system, specifically for locations covered by FCO Facilities Management contracts. The inspection system assesses the fabric and condition of buildings, their health and safety compliance and their environmental impact.

The new system was rolled out with assessments of 14 embassies in North West Europe, with a prospective 30 embassies in Asia due to be assessed during the next financial year. The inspections have provided a detailed picture against which to benchmark estate management, helping the FCO prioritise resources, ensure that buildings are fit for purpose and provide a safe and secure environment for embassy staff and their visitors.

We have also supported the FCO's re-certification to the environmental management quality standard ISO 14001. We have trained FCO and FCO Services Internal Auditors to assess and report on how the FCO is meeting the standard across a wide range of environmental areas, from waste management of hazardous substances to biodiversity and use of energy.



Cost Savings by Creating Space

***Making the best use of office space** in Paris has enabled the FCO to move staff and operations out of two rented buildings, in order to give up the leases on both properties and generate cost savings as a result.*

To achieve this, we redesigned the layout to increase capacity in two buildings in Paris already owned and occupied by UK government staff. We then managed all the works required to convert and refurbish one of these, a three storey building, to create additional internal space and bring FCO consular and UK Border Agency visa operations under the same roof.

In a complementary project at the British Embassy, we designed and managed the provision of new open plan offices for the UK delegation to the Organisation for Economic Co-operation and Development, previously housed in one of the leased buildings.

“A very warm thank you from everyone in the Paris Consular and Visa operations. We’re delighted with our new surroundings and are very grateful to the project team for the very professional way in which they went about the job.”

***Consular Regional Director, Western Europe**
and Consul General for France*

The Future

***Traditionally providing our services** to the FCO, we are expanding our global management services to support other government departments with an overseas presence. We have put in place an agreement to supply services to the Department for International Development and we will be looking to provide advice and support on sustainability, property management and health and safety.*

Over the next year, we will be expanding the capabilities of our Global Secure Technical Services to further improve value for money. Two new service agreements will provide a clearer focus on security and support the latest generation of IT. Internally, we will be developing enhanced second tier support for our overseas team to provide them with specialist advice and guidance on advanced technical enquiries on a wide range of secure systems. This will mean that we will be able to improve services to customers, resolving more issues on site and reducing the time needed for their resolution.

As part of our forward planning, we manage and maintain the FCO’s Rapid Deployment systems and stand ready to provide technical support to FCO personnel who deploy to a crisis location. Our support ensures instant availability of this important resource whenever a crisis or natural disaster occurs.

Secure Logistics and Secure Disposal

Managing the logistics of a government department with a worldwide network is a complex operation. Managing that operation securely to ensure that confidential information and equipment are appropriately handled, transported and ultimately disposed of, makes the challenge even more complex.

Our teams manage a range of secure logistics services worldwide for the FCO and other UK government departments. Our services comprise air, road and sea freight, transportation of classified and unclassified mail and worldwide courier services, all supported by a UK-based regional distribution centre. We also provide a highly secure disposal service of sensitive and classified information and equipment that meets stringent environmental regulations.

Going the Extra Mile

This year, we have literally gone the extra mile with our secure logistics service. We have securely transported freight to many new locations, from North Africa to Azerbaijan and Georgia, to support secure construction projects and meet the requirements of the FCO and our other partners across government.

We oversaw the shipment of over 1.3 million kilos of freight to British Embassies in 141 countries. Of the 18,084 shipments we managed, 98.5% were 'flown as booked' to their destination, an increase of 2.5% on 2007/08.

Our secure European van and long haul lorry services made 115 lorry and van trips this year, transporting a total cargo weight of over 500,000 kilos of freight to and from embassies across Europe. By visiting multiple sites and consolidating loads, we have been able to provide a more efficient service to our customers and keep our carbon footprint down to the lowest levels possible.

In planning our operations, we have worked more closely than ever with our customers, engaging in forward planning discussions with overseas embassies via secure video conferencing to co-ordinate requirements, consolidate shipments and bring about reductions both in carbon footprint and in costs.

Supporting this proactive customer-focused activity, we have ensured that our UK logistics force is as multi-skilled as possible to provide a more responsive service. We have also procured more energy efficient vehicles to help reduce the environmental impact of our operations.

Secure to the End

All public and private sector organisations have a responsibility to manage securely the sensitive and confidential data they deal with. This year, we have supported our customers across government in meeting this responsibility by providing a full end-to-end secure disposal service, from collection to disposal.

This can be tailored to meet their needs in a cost-effective and environmentally friendly way whilst also providing them with a complete legal audit trail. As part of the disposal process, our Secure Logistics teams collected classified paper, IT equipment and other hardware waste from locations in the UK. Using a secure vehicle fleet, equipped with a state-of-the-art vehicle tracking system, we transported the freight, keeping it 'in-sight' all the way through to its incineration. The incineration process itself meets strict environmental regulations and sustainability targets; the gases produced are cleaned, residues recycled and electricity generated as a by-product.

The Future

Looking ahead, we aim to offer an enhanced air freight logistics service overseas, arranging for delivery direct to the door, to remove the need for our customers to make local arrangements to collect from the airport.

We will further improve the planning and consolidation of our services, with greater co-ordination of services across our supply chain in order to help our customers drive through efficiencies and contribute towards '10:10' commitments to reduce carbon emissions.

We will also continue to build on our secure disposal service offering, providing an efficient, highly secure and environmentally compliant service our customers can trust.



air freight shipments delivered worldwide last year

percentage of air freight cargo delivered on time

“FCO Services provided expert consultation and recommendations to us on a secure disposal project. I am extremely impressed with the professionalism, speed and initiative with which the project was executed, given the condition of the files and sheer volume involved. A huge thank you to all involved – the work was completed from start to finish within two weeks.”

Estates & Security Directorate, FCO

National Security Vetting

This year has seen the further transformation of our vetting business, speeding up our service delivery to customers and increasing the value for money we provide.

National Security Vetting is a meticulous and detailed process. Correct information and accurate assessments of possible security risks posed by current or potential employees are vital for the customers we work with. Our customers also need a service that is streamlined and efficient so that their staff can be vetted and then in post as quickly as possible.

In the last year, we have significantly improved the way we provide our national security vetting service to our customers, using new technology to speed up the delivery of our services. To achieve this, we commissioned our software developers in Client Delivery to put together a new online vetting application programme designed to decrease the time taken to process applications. We also needed a system that was widely available online but which, once applications were completed, stored the information in highly secure servers. Working closely together, our developers and Vetting team designed a system which cross-checked information and made fields mandatory, cutting down on the often small, but delaying errors on hand written forms and eliminating completely any legibility issues.

Following a pilot for Counter-Terrorism and Security Check clearances, the new e-forms were introduced to all customers and have significantly improved turnaround rates. Since their introduction, the average time for completion of a Security Check has reduced from 30 to 10 working days. As a result of this turnaround, we have been able to meet the needs of additional customers.

The e-form has been just one element of the vetting transformation programme and, together with other improvements in case handling and streamlining of internal processes, we have achieved a 72% increase on the number of cases completed in the year.

The Future

In April 2010 we added a Developed Vetting (DV) e-form to our services. We have invested in this service as part of our commitment to improve the provision of vetting services to government.

As one of a small number of officially recognised providers of vetting services to government, we continue to work closely with the Cabinet Office and our colleagues across Whitehall to achieve our shared goal of a single vetting database for government.

30

working days to complete a Security Check in:

2008/09

Mon 01	Tues 02	Weds 03
Thurs 04	Fri 05	Mon 06
Tues 07	Weds 08	Thurs 09
Fri 10	Mon 11	Tues 12
Weds 13	Thurs 14	Fri 15
Mon 16	Tues 17	Weds 18
Thurs 19	Fri 20	Mon 21
Tues 22	Weds 23	Thurs 24
Fri 25	Mon 26	Tues 27
Weds 28	Thurs 29	Fri 30

10

working days to complete a Security Check in:

2009/10

Mon 01	Tues 02	Weds 03
Thurs 04	Fri 05	Mon 06
Tues 07	Weds 08	Thurs 09
Fri 10		

“ We enjoy a professional working relationship with FCO Services Vetting Unit. We particularly value their understanding of our needs as an organisation and their flexibility and responsiveness in meeting our vetting needs.”

Deputy Head, Personnel Security Team,
Estates and Security Directorate, FCO

Translation and Interpreting

With the complexity and range of issues being dealt with on the global stage, the highest standards of accuracy and quality are vital. Whether interpreting at international conferences or translating complex legal documents, our Translation and Interpreting team continues to play an important role supporting the FCO and other partners across the EU.

We provided simultaneous interpreting at two international conferences in January. Interpreters in five languages supported the Afghanistan Conference. This was co-hosted by the Prime Minister, the President of Afghanistan and the United Nations Secretary-General and achieved international agreement to increase support to train up local police and army forces as part of a plan for the phased transition of security in Afghanistan to them.

We also provided interpreters for simultaneous interpreting from and into seven languages at the Yemen Meeting. Called to discuss how to counter radicalisation in Yemen following the failed bomb plot on a US-bound flight on Christmas Day 2009, the meeting was chaired by the Foreign Secretary and attended by the US Secretary of State.

It has also been a productive year for our team in translation, with a continued emphasis on our work for European institutions. This now forms around a third of all our translation services.

In December 2009, we were awarded three language-specific contracts for the translation of legal and judicial documents for the European Court of Justice, translating rulings, court reports, opinions, orders and judgments. Many of these are published on the Court's website and in the European Court Reports and are widely used by lawyers, judges and legal authorities. Feedback from the Court has cited our work as timely, of very good quality and our translators as having a very good understanding of the source languages.

Our nine ongoing contracts with the European Commission have now notched up over 12,000 pages, some 3.3 million words. The feedback on the quality of our performance from the Commission has been extremely positive; for the period to the end of 2009 we achieved the top two classifications of 'very good' and 'good' across the nine language-specific contracts.

3.3m

words translated, enabling EU Member States to communicate accurately and effectively.

The Future

We will continue to use our ability to offer timely and accurate translation and interpreting support to government and legal customers as a platform on which to develop new business.

Using the reputation we have already established with existing customers in Europe, our acknowledged expertise in formal translation and resources in a wide range of languages, we will be pursuing tenders for new European contracts to translate legal, judicial, economic and financial documents.

“ Meeting the full range of language needs of the delegates attending the Yemen Meeting was important to its success. Working to a very short deadline, Translation and Interpreting secured the services of a highly professional interpreting team working with seven languages. Their service was excellent throughout.”

*Events Manager, Conferences and Events,
Protocol Directorate, FCO*

Supporting Functions

Accountability and responsibility have been key themes during a year in which we have introduced new reporting systems to help us meet and, in fact, exceed the government's prompt payment targets to suppliers.

The measures, designed to prevent financial hardship to suppliers in a tough economic climate, came into effect in July 2009, with a target to pay 90% of correctly submitted invoices within ten working days. Steady improvement from an achievement of 91% in July 2009 to 99% in March 2010, has meant we have achieved an average performance during this period of 95%.

Improved reporting has also helped us highlight and improve our performance throughout the process, from the purchase of goods and services to paying for them, helping us to better manage and control our costs.

During the year we have also put in place new policies to create greater transparency through changes to our expenses system. Our Finance team has led a major project to move from fixed subsistence allowances to a new reimbursement system which only allows claims for the actual expenses incurred. To make the change, which came into force on 1 April 2010, a significant amount of work was needed during the year to amend our policies, processes and systems for claiming expenses. A project to review and streamline the processes further will be completed in 2010/11.

Bringing Down Costs

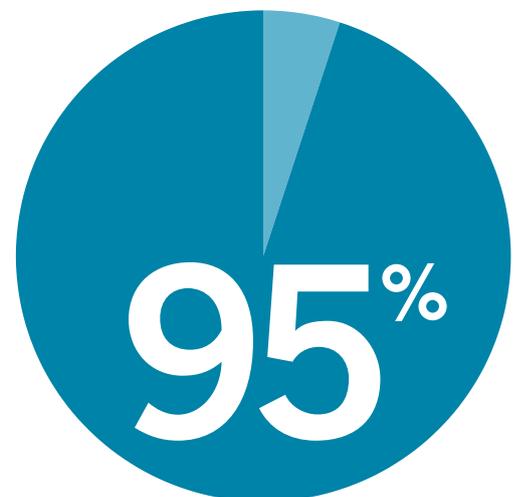
Effectively managing the cost of the goods and services we procure means we can provide best value while still ensuring quality and service delivery. This year, we have been able to plough back procurement savings of £3.45m into the business, more than 20% ahead of our target.

We have improved our market intelligence and supplier relationships by moving to a new category management system, which has helped to reinforce our knowledge of what we spend, with whom and on what goods and services. Our Procurement team has worked closely with colleagues across the business to build expertise in supply markets, develop supplier performance and relationships and monitor risks to our supply chain, driven by the economic climate.

We have also developed the contract management processes we use to oversee our largest contracts and deal directly with suppliers on quality and performance.

During the year, we undertook a series of initiatives to reduce the cost of the contractors we used to flex our workforce in order to respond to customer demand and buy in short-term specialist expertise. A benchmarking exercise provided us with robust data against which we could compare the responsibility and experience of contractors in similar roles and gave us the opportunity to rationalise our contracts to industry-standard terms. The resulting negotiations with suppliers and contractors enabled us to save just under £1m.

We have also closely scrutinised how we buy in supplies and equipment for our contracts in order to forward plan our future procurement needs and ensure we are procuring effectively right across our organisation.



Average percentage of invoices paid within 10 working days between July 2009 and March 2010

Building Our Capability to Deliver Value

Our people's expertise is the lifeblood of our business. By investing in our skills today, we can be there for our customers tomorrow.

With customer budgets stretched and increased competition for a smaller market, it is vital that we prove to our customers why we should be their partner of choice and that we demonstrate how we are best placed to meet their needs efficiently, effectively and responsibly.

As the UK National Authority for Counter-Eavesdropping, it is also vital that we remain at the cutting edge of advancements in security, commit to innovation and continuous enhancement of our knowledge and skills and conform to best practice industry standards.

As a service organisation, the expertise and engagement of our people are at the heart of our business and it is vital that they can develop their capabilities, understand how they can contribute and have their contribution recognised.

As a Trading Fund, we are a young organisation, with core strengths in the delivery of secure support services. It is vital that we increase recognition of what we stand for and what we can offer as a business, building a strong brand identity that is credible and relevant to our staff, our customers and our potential partners.

3

Section 3 Contents

It is against this backdrop that we continued to focus on building the capabilities of our people and our business and on meeting our Corporate Responsibility commitments so that we can deliver real public value for the long term.

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Communication and Engagement

In a challenging economic climate, where we must continually seek to do 'more with less', it is more important than ever that we have a workforce that is engaged, motivated and involved. Good, two-way communications are key in helping our people understand our aims as a business, the role they play in helping us achieve them and how they benefit as a result.

Accordingly, taking forward a wide-ranging programme of communications and engagement activities remains central to our business strategy. We have held all-staff meetings to enable our people to meet the Foreign Secretary and our Board. We have continued our monthly programme of staff forums to give people the opportunity to discuss topical issues with our Chief Executive and Executive Committee. We have also held workshops on specific initiatives, in order to seek views and suggestions.

In response to feedback from our people that they prefer to receive information through their management chain, we have provided communication tools and support for our management community to enable them to cascade business plans and objectives. We have also updated the format of our senior management forums to form a new quarterly meeting between senior managers and the Executive Committee, to discuss the development and implementation of business changes.

Our overseas staff are a vital part of our community and we use online and video conferencing facilities to ensure they are kept up to date and involved. We also ensure that, if staff have specific needs under the Disability Discrimination Act 1995, we take these into account in our event and other communication planning.

It is important to evaluate the effectiveness of our communications activities and we seek the views of our people through a variety of feedback mechanisms including:

- training channels;
- post-event online surveys;
- our annual staff survey;
- the Civil Service People Survey;
- the 'Investors in People' process.

Despite the challenging operating environment, our people are telling us that they remain committed and motivated. We use our annual staff survey to track levels of engagement and in 2009, engagement levels rose again, by 8% over our 2008 results, to our highest level to date of 69%.

Learning and Development

Over the course of 2009/10, we have continued to invest in the technical, professional and leadership capability of our workforce. We also continue to take a long-term view of growing our in-house expertise for the future and offer a comprehensive apprenticeship scheme, with almost 40 technical apprentices at various stages of their training.

In addition to training opportunities, we have also put in place a shared skills framework in our new Technical Services Centre in order to define the key skills needed by project-based staff and in what depth. This will enable managers to identify appropriately skilled resources and individuals to identify and address any skills gaps. We are looking to extend this framework to the Operations side of our business so that we have a single skills database for our technical community.

Developing our people also extends to ensuring we have the right performance management process in place, so that staff understand the standards they are being measured against and are recognised when they achieve them. In 2009/10, we therefore agreed a new core behaviours framework. This more appropriately meets our needs as a business within government and highlights the requirement to build strong financial and commercial capability as well as effective leadership and people management skills right across the organisation. These behaviours have been integrated into key processes, such as recruitment and our new appraisal process, which we launched in April 2010.

Building leadership skills at all levels is crucial to our ongoing strength as a business. We are therefore putting in place a new leadership development programme to support our succession planning through the identification of emerging talent within the organisation.

Our strength as a 'learning organisation' and our commitment to continuous improvement in leadership, management, employee communications and employment processes have been recognised by our successful accreditation to the 'Investors in People' Standard following a full external audit in March 2010.

Investors in People

We are proud to have received accreditation this year to the 'Investors in People' Standard. This was an achievement in which our whole organisation has participated and confirms our commitment to developing a highly skilled and motivated workforce to build a strong and sustainable business for the future.

Having previously been accredited to the 'Investors in People' Standard as part of the FCO, it was always our ambition to achieve this recognition in our own right as a Trading Fund. We have been through an extensive period of change during our transition from an FCO Directorate to a more autonomous business within government and it was vital that we took our people along with us on that journey.

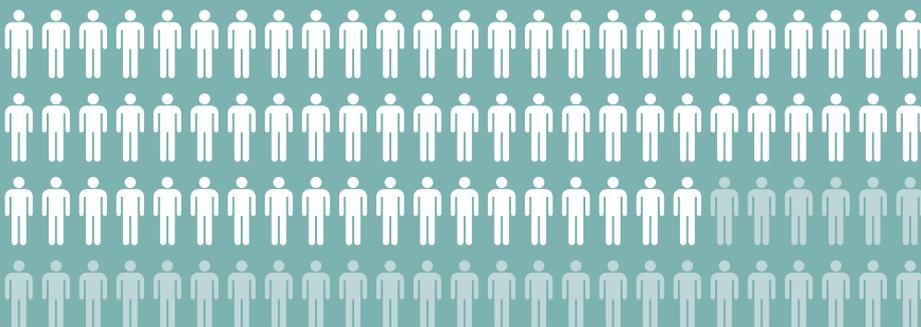
We have introduced some key changes over the past year, which have helped us achieve IIP status. For instance, we have:

- re-aligned our staff appraisal cycle with the business planning cycle, to enable managers and staff to understand the wider business objectives and agree team and individual objectives that will contribute to their achievement.

- introduced a new, more business-focused 'behaviours framework', which incorporates effective management and leadership into the core behaviours required by all staff, ensuring that these competences are an integral part of the way we all work.
- focused more closely on our evaluation of all learning activity. Whether through individual Personal Development Plans or organisation-wide initiatives, we ensure we use the evaluation of our learning and development activity as a tool in our forward planning so that we build the right skills for the business going forward.
- improved team communications, with regular meetings at all levels. As a forum for decision making, these have helped embed a culture of empowerment, with staff able to voice their views and proactively take on responsibility.
- established a small team of dedicated Resourcing and Development Managers with specific responsibility for people management in our new Technical Services Centre, focusing on the development of the specialist skills we need for the future.

More than ever, our people feel involved, understanding how their role fits into the delivery of our wider corporate objectives and benefiting from a structured approach to development which is aligned to the wider vision of the business.

Investors in People is a benchmark against which we will regularly measure our performance and, looking ahead, we will continue to build on the momentum created to maintain a consistent standard of good management practice right across our business.



69%

employee engagement in our 2009 annual staff survey – our highest engagement rate to date

Workforce Strategy and Planning

Our 2009-14 Workforce Strategy identifies key internal and external issues impacting on the recruitment and retention of the right people and skills needed to deliver our business goals both now and in the future.

Underpinning the Strategy is the workforce planning process, which was refined and embedded across the business in 2009/10 to improve business and recruitment planning and staffing budget controls. The process matches resource plans for each business area with the Corporate Plan and annual Business Plan targets and also enables us to anticipate potential vacancies, inform succession planning and construct robust recruitment plans.

As part of our Workforce Strategy, we plan to recruit a further ten new apprentices in 2010. Again this year, one of our apprentices has been recognised as the “Engineering Student of the Year” by their college, demonstrating the students’ commitment to achieving the highest standards and auguring well for the ongoing technical expertise of our workforce.

At the end of March 2010, our average full time equivalent headcount was 1272. In line with growing our in-house expertise, permanent employee numbers increased by 7.9% in 2009/10, whilst contractor numbers started to fall towards the end of the year, mainly due to the culmination of key projects.

Number of technical apprentices at various stages of their training with us:

September 2010:

41

September 2009:

39

September 2008:

35



Resourcing and Diversity

Providing the business with the resources it needs, when it needs them, whilst keeping costs down, has been an important focus for us this year. It is vital that we have a system that enables us to manage our resourcing requirements as efficiently and cost-effectively as possible, whilst offering potential recruits a user-friendly experience. This year, we have introduced a new online application process for all applications, managed through a more comprehensive and interactive careers website.

In line with our continued drive towards increasing the specialist expertise of our workforce, in 2009/10, we successfully implemented a more business-specific recruitment and selection process. To help us select the right person for the right role, our new assessment process combines role-specific technical and non-technical tests with business scenarios and other evidence of the more commercially focused core behaviours we require. This process is the same for all recruitment campaigns, enabling us to streamline our processes to achieve greater efficiency.

A total of 211 jobs were advertised last year, approximately 90% of which were for existing positions. We made 178 offers of employment subject to security clearance and 142 people joined us, of whom 116 were external appointments. We also continued to demonstrate our commitment to developing our own staff with 31 employees promoted (3.3%).

Our approach to recruitment has helped deliver benefits in building a more diverse workforce. During 2009/10, the number of female employees increased by 12% compared to the overall 7.9% rise in permanent employee numbers. At the same time, the numbers of employees declaring a disability rose by 25% and ethnic minority numbers increased by 17%. This was mainly accounted for by improvements made during the year to capturing and recording data.

In our recruitment and promotion processes, we remain committed to sustaining a culture that values and promotes diversity, including fairness and equality of opportunity for people with a disability. We continue to be a member of the ‘Two Ticks’ Guaranteed Interview Scheme and undertake adjustments where required, both during the recruitment process and throughout the individual’s period of employment.

Our Diversity team has also worked with managers across the business to promote good practice, including helping to review vetting processes. We have also worked closely with groups representing minorities in the workforce, and collaborated with colleagues in the FCO and across government to improve awareness and promote equality, e.g. in flexible working and gay rights in the workplace.

Recognition and Reward

As a Trading Fund, we have full delegated authority over the terms and conditions of our employees below Senior Management Structure (SMS) and this provides us with control over staffing costs, recruitment and retention, key people management processes and change management initiatives.

As part of our 2008-2013 Total Reward Strategy, we introduced technical pay bands to ensure our pay is relevant to our business and culture. We also undertook a review of market-based allowances to improve our pay controls and recruitment and retention processes.

We continued to recognise effective and exceptional performance in the 2009/10 annual pay award, by linking the level of individual performance-related payments to individuals' performance contribution.

We are committed to supporting a high performance culture where people are encouraged to give their best and are recognised when they do so. Our discretionary recognition scheme is in place to reward one-off exceptional achievements by employees, which are over and above what could be expected of them in their job. We also have a recognition scheme which enables individuals and teams to receive non-cash rewards for specific efforts or successes.

In 2010/11, we will continue to evolve our reward structures to support the delivery of our business objectives and we will, in particular, focus on developing our employee recognition framework further.

Whistleblowing

We are committed to dealing professionally and responsibly with any concern our staff may have about possible malpractice.

We encourage them to report any acts they may encounter in the course of their work that they believe to be illegal, improper or unethical. All such approaches would be taken seriously and treated in confidence. We will not tolerate the victimisation of anyone who comes forward to raise a genuine concern. The Public Interest Disclosure Act 1998 provides legal protection for employees who make disclosures about suspected malpractice in the workplace.

Guidance on whistleblowing is openly available to our staff and, if anyone feels they are being asked to act in a way that is inconsistent with the Civil Service Code, they can discuss their concerns in confidence with specially nominated colleagues.

Health and Safety

The health and safety of our people continues to be of paramount importance and we remain fully committed to robust health and safety planning. This year, and building on our achievements over the last two years, we have made further improvements in our health and safety structure, in consultation with the business and with key industry bodies.

We have developed a new two-year Health and Safety Strategy to direct our future activities and in support of the Health and Safety Executive's campaign for organisations to be 'part of the solution' in reducing the number of injuries and cases of ill-health and work-related deaths in the UK. We have pledged to work with the HSE and its partners, aligning our audit processes to enable the effectiveness of our health and safety systems to be benchmarked against best practice industry standards as set out by the British Safety Council.

During the year, we also appointed a new permanent health and safety practitioner and reviewed our health and safety structures, policies and procedures to ensure that we are robust in discharging our responsibilities and that we drive continuous improvements through our business. We have introduced an enhanced health and safety management system to enable us to measure our performance, conducted regular workplace inspections and significantly improved workplace and office layouts to reduce the likelihood of accidents and incidents.

We have continued to promote a strong safety culture where our people feel empowered to contribute towards creating a safe working environment. A key enabler of this has been the introduction of nationally accredited British Safety Council training courses to raise awareness and enhance the competencies of our workforce.

Looking ahead, our aim is to achieve external recognition of our safety management system, through certification to the Occupational Health and Safety Assessment Series (OHSAS) 18001 quality standard. Our ultimate aim is to gain the British Safety Council's Five Star Audit Award.

Sickness Absence

The average working days lost per employee due to sickness absence was 4.0 days in 2009/10 and 5.1 days in 2008/09. This compares well with the overall Civil Service average of 8.8 days based on the first and second quarter of 2009/10.

Although there is no significant identifiable cause for the reduction in FCO Services, continued improvements in reporting and more active management of long term absences have been the focus over this period.

Responding to our Customers' Needs

As our customers' budgets face increased pressures and we face an increasingly competitive environment as a business, it is all the more important that we have a close understanding of our customers' requirements, meet these efficiently and deliver value for money.

Listening to our customers remains a core tenet of our business strategy. Recognising that our customers have varied requirements, we are implementing a continuous approach to monitoring customer satisfaction and its key drivers to inform organisational and process initiatives aimed at improving the customer experience.

As part of this approach, we introduced an interim customer survey in 2009/10, using a lighter touch, online facility to provide us with more regular feedback. Results indicate that customer satisfaction is beginning to increase as our initiatives are starting to have an impact. This trend was borne out by the results of our annual customer survey, where we achieved an overall customer satisfaction rating of 82%, a 2% improvement on 2008/09.

Specific initiatives this year which have helped raise levels of customer satisfaction include:

- the launch of our Technical Services Centre, to create a single resource pool of project delivery staff. This will improve our speed and efficiency in allocating appropriately skilled resources to customer projects, maximise staff utilisation and build further our capability to provide timely and on-budget delivery.
- the establishment of a Centre of Technical Expertise to lead on the development of innovative products and services and to devise best practice solutions to improve our efficiency.

- closer engagement with our customers through the dedicated oversight of specific customer relationships by Senior Executives, the provision of more detailed and timely management information and a clearer definition of the roles and responsibilities of our key Relationship Managers.
- the ongoing embedding of industry best practice ITIL disciplines in our Operations Group, to help us standardise procedures, improve incident resolution, avoid problems through trend analysis and create greater transparency through new management information.

We recognise that there is still more to do and we are committed to achieving our stretch target in customer satisfaction of 85%. In 2010/11, therefore, we aim to enhance the customer experience further by:

- more clearly communicating our customer touch points and the underlying processes, in particular around the effective handling of issues and complaints.
- raising standards of customer service through a range of targeted staff training and development activities.
- encouraging our people to contribute customer improvement suggestions and become more involved in service improvement initiatives, both at a corporate level and in local business areas.
- introducing 'pulse test' surveys to monitor customer satisfaction levels at various interaction points throughout the customer lifecycle. These will provide us with timely feedback, which will enable us to prioritise and plan service improvements.

Investing in Innovation

During the year we have further developed our Research and Development processes, applying strong project management disciplines to our R&D activity to focus our investment on innovative ideas that will help take our business forward.

To convert our ideas into innovative products and services, we bring our technical and commercial experts together to evaluate the business case for each potential initiative in order to prioritise those with sound investment prospects.

We have also further enhanced our approach to managing the intellectual assets that we own or create. We are conducting an audit of all our intellectual assets, reviewing the products we have designed that may have potential for wider sales, ensuring we have the appropriate protection for our intellectual property and using our R&D process to consider further investment where there is a real business opportunity.

During the year we have also collaborated with other bodies and organisations with an interest in intellectual property, including our work with the Intellectual Property Office and other government bodies to develop a new website to provide advice for managing intellectual property in the public sector.

The R&D project we announced in 2008/09 to develop a new piece of computer security equipment has also moved forward this year. Our technical experts have worked together with CESG, the National Authority for Information Assurance and Thales UK, to develop the prototype for this security device. Building effective partnering approaches in this way in order to take product ideas from inception to manufacture in the most cost-effective way, is a business model we aim to repeat in future.

A Business in Control

We are committed to delivering services to our customers in a way that is fully compliant with recognised industry standards. Over 2009/10, we have focused on ensuring that our processes are aligned with external standards in quality and information security management and in business continuity planning.

We are committed to managing, monitoring and controlling our business and customer-facing processes in line with the Quality Management System Standard ISO 9001:2008. This demonstrates that we aim to deliver to our customers in the most efficient way possible, adopting a structured, consistent and streamlined approach to the management of our operations and delivering business improvements. We aim to build on the work we have done so far and bid for formal certification to this Standard during 2010/11.

As a provider of secure support services to government, it is vital that our information management and data handling processes are robust and that all our people understand the standards with which they must comply. We have in place a comprehensive Information Charter, supported by robust policies and processes for data handling. During the year, we have rolled out training

to all our people on protecting information. This was designed by the Cabinet Office and other government partners and aimed at staff in all government departments. In addition, all those with a mandated role in information management have received advanced training and we are currently extending this training to those with a wider responsibility for dealing with sensitive data. There have been no reported personal data incidents during 2009/10.

Over the past year, we have also continued our focus on effective business continuity planning. We have established a business continuity framework which enables us to respond effectively to business interruption events. In line with BS25999:2, we have a business continuity strategy, policy and business impact assessment in place and we continue to work with the FCO to identify opportunities to enhance further the resilience of our business processes and operations.

Delivering Business Excellence

Our new Technical Services Centre has brought together everyone working on the delivery of projects, pooling resources, focusing expertise and delivering value for customers.

This organisational change is in direct response to customer feedback for us to become more responsive in our delivery of projects. We have established a programme of continuous improvements to 'innovate and save' for our clients and are already transferring real benefits to our customers in the form of reduced programme management costs and improved project delivery performance.

We are now structured to improve our response to business opportunities. The Technical Services Centre design is helping us effectively plan and control up to 650 projects a year worldwide, whilst also improving liaison with customers who now deal directly with highly experienced Business Managers. Through the changes we have introduced, we now have greater clarity on how to resource our forward workload, managing peaks and troughs through matching the right resources to the right projects at the right time.

We have set up a new Business Management Office which is already operating to OGC Best Practice levels in project management. The team provides standardised, centralised services and direct project support, reducing the time spent by project managers on administration and freeing them up to concentrate on delivery. Through improved programme controls, management information and project reporting, we can control costs more robustly and monitor performance more closely.

We have brought all our teams of technicians, engineers, architects, artisans, designers, IT professionals and project managers into a central resource pool based around six skill groups. Our new structure enables the vast majority of our people to be focused fulltime on delivering projects for our customers, whilst a small number of dedicated people managers focus on individuals' personal development and their allocation to those projects.

To have visibility of the skills we have available, we have introduced a new shared skills framework, a centralised skills database which records all the qualifications, skills and experience of our teams. This helps to develop our talent pool and effectively allocate resource to requirements.

Since the Technical Services Centre was launched, opportunities have opened for our people to take on new and different work and, in line with 'Investors in People' principles, the Personal Development Plans of our people are focused on developing skills in new areas of business need. Because we now have sight of the full range of skills available, we are flexible enough to scale up or down quickly, we can deploy people more effectively and reduce our contractor costs accordingly.

As part of the Technical Services Centre, our new Centre of Technical Expertise has established a career ladder for technical staff. It provides the business with dedicated senior technical and delivery experts to champion new technologies for customers. These experts provide in-depth technical support on projects and liaise directly with customers to translate their technical requirements. They are also driving research and development of our products to reduce the end-to-end unit cost, whilst also engaging in identifying and developing new technical market opportunities to a broader network of clients.

650

projects planned and controlled worldwide during the year through our new Technical Services Centre.

Delivering for Our Customers

In the midst of these organisational changes, our teams have still delivered around 650 projects for our customers, often in very difficult conditions. These ranged from highly secure technical fit-outs of offices, to the modernisation and restoration of buildings.

Our projects continue to be worldwide, from secure rooms in Europe to new front-line accommodation in Basra. We delivered complex and tailored secure IT solutions, whilst also collaborating with Hewlett Packard on the global roll-out of the FCO's secure IT network.

In a further organisational change and to speed up customer transactions for minor works and small value purchases, we also launched a new 'Front Office' in April 2010, as a single point of contact to record, respond to and track these orders efficiently and with the same focus and level of security as larger requirements.

Looking Ahead

The Technical Services Centre is lean and scalable and has been established to provide robust and responsive project delivery for our customers. To continue to build our capability, over the next year we will:

- use Six Sigma and Lean methodologies to assess our processes, products and quality systems in order to identify further cost reductions to pass on to our customers.
- enhance our planning capabilities with the implementation of the latest programme software.
- deepen the existing skills of our network of experts and develop new skills as appropriate so that we have both the depth and breadth of technical expertise required.

Our longer term aim is to achieve OGC Level 3 performance and secure Association of Project Management accreditation for our project and programme management standards. This will equip our people with the training, tools, systems and the processes needed to ensure we are 'best in class' and that we continue to deliver 'more for less' for our customers in this challenging economic climate.

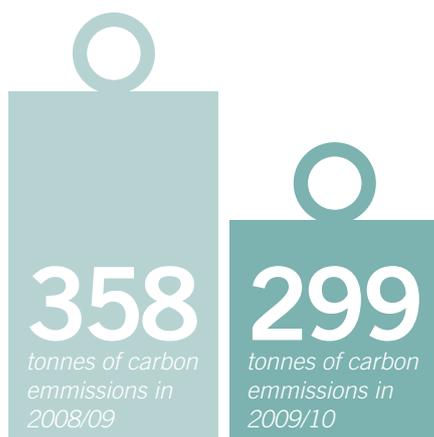
Community Relations

We have worked to strengthen further our relations with our local community this year, with a range of local activities near our main site in Buckinghamshire as well as an initiative in London.

We have continued our commitment to the 'Equal Choices for Schools' programme, a local initiative in Milton Keynes that provides young people from diverse backgrounds with an opportunity to experience a real working environment. Our Diversity team has also taken part in careers workshops and events with other local Milton Keynes employers to raise awareness among students of the local employment opportunities available to them. This year our team mentored around 150 local students in this way.

In London, we are taking part in a 'Skills Match' programme, run by Tower Hamlets Borough Council to support their local graduates in securing employment. This initiative sees local employers recruiting graduates for a temporary 16 week placement. We are currently looking to take on three graduates from the Tower Hamlets area as part of this programme and hope that this will raise their awareness of the varied career opportunities available to them as well as providing them with the opportunity to gain work experience to help their longer term employment prospects.

Looking ahead, as part of the local schools initiative, we plan to participate in practice selection interview sessions for students to help build their skills when seeking employment and we are discussing the next steps with the education business partnership leading this initiative.



Environment and Sustainability

We manage our environmental impact in accordance with the FCO's Environmental Management System (EMS), which has certification to ISO 14001. The EMS includes an Environmental Management Plan which sets objectives and targets and activities to achieve those targets.

Specifically, our commitment to enhanced sustainability has been evidenced this year by bringing down the carbon emissions from our fleet by over 16%. In real terms, this has meant a reduction of 59 tonnes, from 358 tonnes in 2008/09 to 299 tonnes by the end of the financial year.

We have achieved this through reducing the size of our transport fleet and introducing hybrid vehicles. We have extended the range of our lorry trips across Europe and North Africa, in addition to maximising loads, with pick-ups and collections en route to and from destinations. By also cutting down on the number of journeys our people are making overseas through the use of our secure video conferencing facilities, we have been able to make cost savings and further reduce air miles.

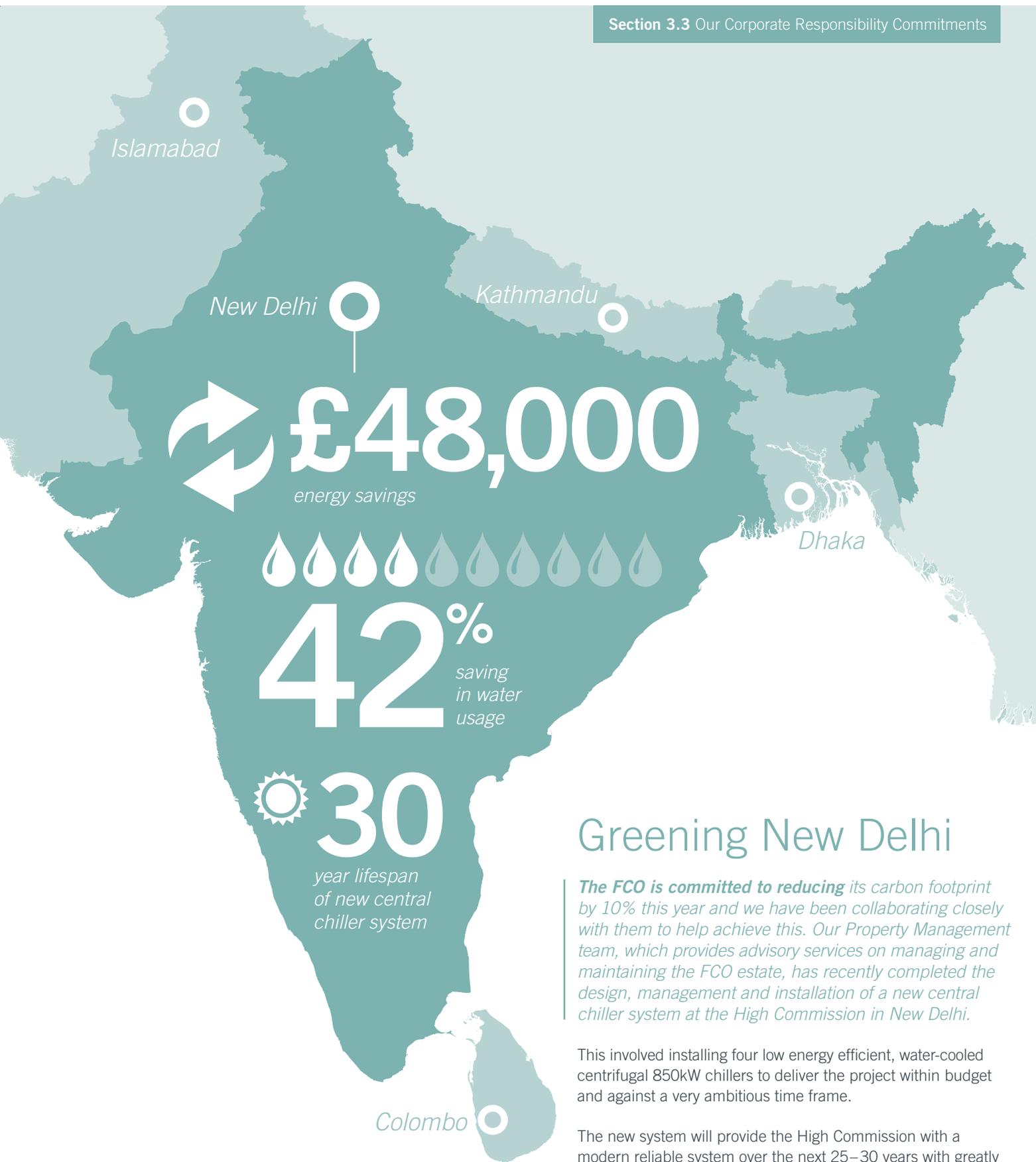
In February, FCO Services joined with the FCO to sign up to the national 10:10 campaign which aims to reduce carbon emissions by 10% in 2010. Again, we are on track to meet this target.

The Future

We aim to save around a further 61 tonnes of carbon emissions next year through our fleet. We will be replacing over 40% of our vehicle fleet with new electric and fuel efficient vehicles and introducing new low drag 'tear-drop' trailers which reduce fuel consumption and therefore carbon emissions. These savings will make a significant contribution to our 10:10 commitment.

Our Procurement team will be promoting sustainability in our supplier community, adopting relevant environmentally friendly measures in all contracts next year, including reductions in packaging and the requirement for all supplier communications to be on 80% recycled paper.

Our Sustainability team is initiating discussions with other government departments on sustainability and carbon reduction strategies, with a view to sharing environmental best practice and achieving carbon and cost efficiencies.



Greening New Delhi

The FCO is committed to reducing its carbon footprint by 10% this year and we have been collaborating closely with them to help achieve this. Our Property Management team, which provides advisory services on managing and maintaining the FCO estate, has recently completed the design, management and installation of a new central chiller system at the High Commission in New Delhi.

This involved installing four low energy efficient, water-cooled centrifugal 850kW chillers to deliver the project within budget and against a very ambitious time frame.

The new system will provide the High Commission with a modern reliable system over the next 25–30 years with greatly improved efficiency, up to one and a half times more than the old units during the hot season. During the cooler periods between November to February, the chillers will operate on part load only and are expected to achieve even higher levels of efficiency. This, together with an estimated 42% saving in water usage, combines to cut carbon emissions and reduce operating costs significantly throughout the life of the installation, with energy savings estimated at around £48,000 per year.

“The new system is a big improvement, bringing considerable financial as well as environmental benefits.”

FCO Director, Corporate Services, India

Assuring Stakeholder Value

We focus on the detail as well as the big picture to build a strong and stable business for the long term.

To ensure our ongoing sustainability and success as a business and to meet our statutory obligations to Parliament, we have in place a robust strategic forward plan, underpinned by a strong system of internal governance and control.

The FCO Services Board is responsible for the strategic management of the organisation and provides oversight and constructive challenge to the executive team; the Audit Committee supports the Board and Chief Executive in meeting their commitment to the highest standards of risk management and control. With the support of these two bodies, the Chief Executive and his Executive Directors ensure that FCO Services' resources are put to the most efficient and effective use in pursuit of the achievement of our strategic objectives.

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Foreword by Chair, FCO Services Board

This year has seen significant pressure on customer budgets to achieve ever more with increasingly scarce resources. The challenges faced by FCO Services in its first year of trading have therefore intensified rather than abated this year.

The organisation has, nevertheless, ably risen to the challenge, from the increasingly efficient delivery of a programme of physical security systems to the rationalising of office space in Paris, FCO Services has supported its customers in making their budgets go the extra mile.

In addition to economic challenges, other external factors have come into play this year and these have also had an impact on FCO Services' operations. The environment has been high on the agenda of nations as well as of organisations. In support of the national 10:10 campaign in the UK, FCO Services has been proactive in finding ways to minimise the impact of its operations on the environment, from green procurement to a more environmentally friendly logistics fleet. Overseas, FCO Services also provides a vital environmental advisory service and, as High Commissioner in New Delhi, I have seen at first hand the way the FCO benefits from their knowledge and expertise: the installation of a new chiller system will deliver energy savings of almost £50,000 per year.

Internally, FCO Services has continued to focus on improving the efficiency of its business processes, from deepening its project and programme management expertise to support service delivery, to developing further its procurement and financial processes, with above-target performances in both these areas.

The unavoidable focus on the demands of the short-term has not lessened the leadership team's focus on the long-term. Investment in strengthening core, technical skills, has gone hand in hand with building the 'soft' skills in leadership and management so vital to any organisation. Formal accreditation to the 'Investors in People' Standard is a tangible and very welcome recognition of the efforts not only of the leadership team but of all who work for FCO Services.

Over the last year, our work as a Board has taken place against a backdrop of challenges but also of opportunities. In September, we welcomed to the Board two new Non-Executive Directors, whose appointments have added significant strength to the composition of our Board. As a former senior member of the UK security and intelligence community, Stephen Hawker brings with him a wealth of experience of national and international counter-terrorist and national security issues. As a former board member of a FTSE 100 company and a Non-Executive Board member in government, Wendy Barnes adds a valuable mix of public and private sector experience.

As a Board, we have continued to provide both support and constructive challenge to the Chief Executive and his senior team in taking forward the strategic management of the business. At the half-way point in the delivery of FCO Services' Corporate Strategy, we have undertaken a thorough review of FCO Services' five-year plan and agreed stretching targets for both efficiency savings and further growth. These will leave FCO Services better positioned to address the challenges it faces. Key to this is closer collaboration with partners both across government and in secure service sectors in industry, in order to deliver services in the most efficient, innovative and cost-effective way.

The economic climate will undoubtedly get tougher. However, with the drive and focus I have seen across the business, together with the steadfast determination to deliver the best possible value to the public, I believe that FCO Services will continue to rise to the challenge. The strength of this year's results provides a strong and encouraging pointer to the future.

Richard Stagg
Chair, FCO Services Board

“As Chair of the FCO Services Board, I am delighted by FCO Services’ impressive business performance in its second year as a Trading Fund. This performance is particularly commendable given the climate of austerity in which it was achieved.”

Richard Stagg,
Chair, FCO Services Board



The composition of the Board has changed and been further strengthened this year. We welcomed Andrew Camp, Commercial Director to FCO Services and the Board. Andrew's background in sales and marketing adds strength to our corporate leadership team. Andrew was previously Sales & Marketing Director at LPC Group, responsible for developing the group's pharmaceutical brands. He has also held senior sales and marketing positions in the water and utilities industries.

We were pleased to welcome Helen Sullivan to the Board on her appointment as Finance Director. Helen assumed the responsibilities of Acting Finance Director in July 2009 and was permanently appointed to the post in March 2010.

Kerry Simmonds, formerly our interim Corporate Services Director, resigned from the Board on 31 August 2009. Andrew Camp assumed responsibility for Corporate Services until November 2009, at which time there was a practical amalgamation of market and customer-oriented functions and the Commercial Group was formed. Consequently, a number of the important functions that were being managed through the Corporate Services Group and the CIO Office were allocated to Board leadership elsewhere.

Last year we reported that Mike Hayle, one of our Non-Executive Directors, would stand down from the Board in June 2009. We subsequently appointed two new Non-Executive Directors to the Board, welcoming Stephen Hawker and Wendy Barnes in September 2009; these appointments add significant strength to the Board.

Stephen is a former senior member of the UK security and intelligence community. He has wide experience of counter-terrorist and national security work in the UK and overseas, including major technology programmes, and the management of growth and change. Wendy has experience as a Non-Executive Director in government departments, with a breadth of knowledge in customer service, marketing strategy development and change management. Wendy has previously held a position at board level in a FTSE 100 company.

On 1 April 2008, FCO Services was established as a Trading Fund under the Government Trading Funds Act 1973. Overall responsibility for the strategic direction of our organisation rests with the Secretary of State for Foreign and Commonwealth Affairs, who delegated these responsibilities during the year to the FCO Minister then in situ.

The Chief Executive has ultimate responsibility for the day-to-day management of our organisation. As Accounting Officer, he is personally responsible and accountable to Parliament for the management and organisation of FCO Services, ensuring proper use of public money and stewardship of its assets.

Our Chief Executive is supported in this by three main bodies:

The FCO Services Board

The FCO Services Board is responsible for the strategic management of the business. Chaired by Non-Executive Director, Sir Richard Stagg and comprising the Chief Executive, his Executive Directors and part-time independent Non-Executive Directors, the Board supports the Chief Executive in maximising the organisation's performance.

Meeting at least six times per year, the Board is responsible for agreeing FCO Services' strategic agenda, setting corporate policy and monitoring our performance at a corporate level. This includes agreeing FCO Services' strategic aims and agreeing the broad allocation of resources to achieve them, maintaining a transparent system of prudent and effective controls and the assessment and management of risk, overseeing organisational performance and encouraging innovation.

The Audit Committee

This Committee supports the Board and Chief Executive in the management of risk, internal control and assurance and governance. Meeting at least four times per year, its membership consists of four Non-Executive Directors (one serving as Chair) and the FCO's Finance Director. The Committee is also attended by a number of Executive Directors and our external and internal auditors.

The Executive Committee

This Committee, usually meeting weekly and consisting of the Chief Executive, his Executive Directors and the Head of Procurement and Contract Management, focuses on managing day-to-day operations, ensuring that resources are well used and that our business performs in line with our objectives.

We have met the standards required by HM Treasury and the Cabinet Office relating to corporate governance. The Board, under the direction of the Chair, has established an annual performance management process to evaluate the Board's overall performance and the overall effectiveness, performance and contribution of Board members. The Audit Committee has established a similar process under the direction of its Chair.

Our Priorities for 2010/11

The global financial crisis and recession have created marked uncertainty in the economic environment. Returning public finances to good order will require significant cuts in public spending over several years ahead; this will impact significantly on our customers' plans and on their spending.

But this is not a time for pessimism.

The government's efficiency agenda, which holds productivity, cost savings and the careful management of public spending at its core, sees cross-government collaboration and consolidation as a key enabler for its aims. The focus for spending cuts is likely to be large-scale programmes and as these become fewer, our customers' focus is likely to switch to 'make do and mend' solutions.

Government targets to reduce carbon emissions underline the importance of reducing the impact of our operations and services on the environment; solutions which offer the potential to reduce significantly carbon emissions across government will be at a premium.

Our strength and expertise in our target sectors give us the opportunity to support the government agenda by building closer partnerships with both clients and organisations traditionally seen as competitors and by using our unique knowledge of customers' operations to meet their needs in times of financial restraint.

Our priorities for 2010/11 are simple: firstly, focused revenue growth to gain a larger market share through consolidation of relationships with existing customers and the development of new customers within traditional markets. Secondly, we aim to enhance our competitive cost position through improvements in our efficiency and effectiveness, building on the changes already in place.

Our focus will be to work closely with partners across government with security needs and/or a global remit. To support this drive we will aim to leverage the 'secure' and 'trusted' elements of our brand in support of security-based government strategies.

Specific targeted actions will be needed to deliver cost reduction. Key areas for focus will include:

- managing direct payroll and contractor costs to scale with revenues.
- driving out procurement savings and increased utilisation across the service delivery areas, enabled by the Technical Services Centre and operational transformation programmes.
- reconfiguring our overhead base to achieve a place in the top quartile of public sector cost benchmarks within the next two years.

Finally, while we will reduce our costs and improve our efficiency, we will not stop investing in our business: we view continued investment in our people and their skills as an essential element of our strategy. We will make further investment in:

- building individual capability and skill.
- creating a flexible working environment that encourages personal and corporate responsibility.
- building leadership capability at all levels of the organisation.
- reinforcing a common culture with shared values.

We have the following six formal performance targets for 2010/11:

An in-year surplus before interest and tax of at least:

£**4m**

A Return on Capital Employed of at least:

3.5%
(weighted average)

Wider Market revenue growth of:

10%
on that achieved in 2009/10

A contribution to the FCO's Comprehensive Spending Review commitments by delivering:

£**12m**
of cumulative savings over the three years 2008/09, 2009/10 and 2010/11

A utilisation rate for revenue earning staff of at least:

76%

A customer satisfaction rating of at least:

85%
satisfied or very satisfied

Financial Report & Accounts

As a Trading Fund, we continually strive to deliver ever better public value.

Our financial statements have been prepared in accordance with the Accounts Direction issued by HM Treasury on 22 December 2009, pursuant to section 4(6) of the Government Trading Funds Act 1973.

This requires us, as a Trading Fund, to comply with the accounting principles and disclosure requirements of the 2009/10 Government Financial Reporting Manual (FReM) and Trading Funds Accounts Guidance, as issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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Review of Our Financial Performance

In its second year as a Trading Fund, FCO Services has produced another strong financial performance despite the difficult trading conditions that prevailed throughout the financial year as a result of the economic downturn, with significant pressure on our customers' budgets across government.

All the formal financial Key Performance Indicators have been achieved, including the successful delivery to the Foreign and Commonwealth Office, for the second year, of Comprehensive Spending Review (CSR) savings of £2m.

In addition, the strength of the current year's performance enabled the payment of a discretionary dividend of £3m in the year.

Financial outturn 2009/10

Total revenue achieved in 2009/10 was £126.8m. While this reflects an overall decrease of £10.4m against revenues last year of £137.2m, it is important to highlight the fact that the latter included £9.3m of additional revenue as a result of a change in implementation of the revenue recognition policy. In 2008/09, revenue on construction projects was recognised by reference to the stage of completion at the Statement of Financial Position date, rather than on practical completion as in previous years. Against the normalised revenues in 2008/09 of £127.9m, the current year's performance represents a decrease of only £1.1m (0.9%). This is a creditable result in the prevailing economic climate.

Overall revenues may be segmented into FCO revenue (£102.6m) and Wider Market revenue (£24.2m). This means that in 2009/10, 19% of total revenue has been generated from non-FCO customers, compared to 17% in 2008/09. This is a trend that reflects the strategy of the Trading Fund as it seeks to develop a wider customer base as a foundation for improved financial sustainability in future years.

The formal target for Wider Market growth is set annually and for 2009/10 called for a revenue growth of 10% over last year. This has been achieved, with a pleasing increase of 23.7% on a normalised baseline, compared to last year.

FCO Services achieved an operating surplus before financing for 2009/10 of £6.1m, a return of 4.8% on revenue of £126.8m. This compares with a surplus before financing for 2008/09 of £11.5m, a return of 8.3% on revenue of £137.2m.

The segmental report in note 4 to the Accounts indicates that this decrease in profitability has arisen in the service delivery providers of Operations and Services & Logistics. Operations' results reflect both the impact of ongoing investment in research and development, which is not immediately translatable into revenue streams and also the effect of a major restructuring in late 2008, designed to drive cost efficiencies in a particular service delivery area, the benefit of which only began to flow through in the last quarter of the financial year. Services & Logistics produced an operating loss for the year which is mainly attributable to the business unit's inability to rebalance direct costs proportionately to rapidly changing flows of revenue.

The decrease in profitability also reflects the significant investment of £4.2m made in the year in developing process and service improvements across all three delivery areas, including the creation of a Technical Services Centre, combined with a shared skills framework. This investment will generate future efficiencies but has had a major impact on the surplus for the year.

Financing income and costs: interest of £0.1m was earned in the year from cash on deposit with the Office of the Paymaster General, compared to a value of £1m in 2008/09. This decrease is due to the lower interest rate available (0.25% on average) compared to the previous financial year. Interest payable on Vesting Day and Working Capital Loans was £0.5m, resulting in a net financing charge of £0.4m for the year (net financing credit of £0.4m in 2008/09).

After taking into account the net cost of financing, FCO Services produced a surplus of £5.7m, a return of 4.5% on revenue. This funded the payment of a discretionary dividend of £3m and, combined with the statutory dividend payable on the public dividend capital of £0.4m, resulted in a retained surplus for the financial year of £2.2m.

Assets less liabilities: at 31 March 2010, FCO Services' Statement of Financial Position showed assets less liabilities of £19.2m against a re-stated opening year position of £16.6m, a positive movement of £2.6m.

Review of Our Financial Performance

The impact of the re-statement of the opening assets less liabilities in line with IFRS accounting requirements is explained in note 2 to the Accounts.

The assets less liabilities comprise: non-current assets £4.6m (2008/09 £3m); inventories £1.4m (2008/09 £2.1m); cash and cash equivalents £39.1m (2008/09 £39m); and other net liabilities of £25.8m (2008/09 £27.5m).

Cash generation: the level of cash at £39.1m at 31 March 2010 has remained at almost the same level as at the end of the previous financial year. The payment of dividends of £3.4m, repayment of £2m of Working Capital Loan and investment of £2.5m in capital items have been funded by the surplus of £5.7m and the continued robust management of Working Capital.

Payments from customers

The effective credit management of both FCO and non-FCO customers throughout the year, particularly in the prompt resolution of customer invoicing disputes and the focus on reducing the need for raising sales credit notes, has resulted in low values of '60 plus days overdue' debt for most of the year. At 31 March, this stood at £93.6k, which represents 1.3% of total trade receivables. Debtor days outstanding were 16 days at the end of March.

Payments to suppliers

FCO Services remains committed to the prompt payment of supplier invoices for goods and services received. The Prompt Payment Initiative set a target of paying at least 90% of all properly rendered invoices from suppliers within ten working days from receipt. For 2009/10, FCO Services achieved an average success rate in meeting this target, of 95%.

Review of Our Financial Performance

Performance against Formal Targets

Long-Term Goal	Short-Term Objective	Key Performance Indicator	Target 2009/10	Result
We will be a financially successful sustainable business	To be a financially successful and commercially sustainable business, delivering value through maximising opportunities with the FCO and an expanding Wider Markets customer base	In-year surplus before interest & tax	An in-year surplus of at least £2.9m	£6.1m
		Return on Capital Employed	A Return on Capital Employed of at least 3.5% (weighted average)	33.7%
		Growth in Wider Market revenue	A Wider Market revenue growth of 10% on that achieved in 2008/09, assessed on a normalised baseline	23.7%
We will be an efficient and effective business delivering to customers	To continually improve customer satisfaction in all aspects of our products and service delivery	Customer satisfaction rating derived from an independent, quantitative customer survey	At least 85% satisfied or very satisfied	82%
Processes, efficiency and effectiveness	To be an efficient organisation committed to continuous improvement in operational efficiency	Contribution to FCO's Comprehensive Spending Review commitments by delivering the agreed level of savings	£6m of cumulative cash savings over the two years 2008/09 and 2009/10	£6m
	To implement process improvements that enable effective measurement, understanding and control of the business	Utilisation rate of revenue earning staff	At least 75%	75.9%

Review of Our Financial Performance

Financial performance targets

FCO Services' financial performance has been measured against three financial Key Performance Indicators in 2009/10: in-year surplus before interest, Return on Capital Employed (ROCE) and growth in Wider Market revenue.

In-year surplus: target achieved

FCO Services has significantly exceeded its formal target of a surplus of £2.9m, achieving an actual result of £6.1m. This over-performance against Plan has been driven by two main factors:

- Firstly, given the economic climate, we have focused throughout the year on the careful management of our corporate expenditure budget. This has resulted in a significant under-spend at the end of the year.
- Secondly, we have continued to reap the benefits of our efficiency programmes in the improved rate of utilisation achieved by revenue earning staff, more effective monitoring of delivery projects through enhanced management information and improved compliance with commercial processes, which have ensured billable costs are properly captured and billed to the customer.

ROCE: target achieved

The Return on Capital Employed is based on the surplus before financing, expressed as a percentage of average net assets. The result for the year was a ROCE of 33.7% (2008/09 111.9%, restated) compared against a weighted average target in accordance with HM Treasury guidance of 3.5%. Given the service-based, non-capital intensive nature of the business, ROCE will normally be significantly higher than 3.5%.

There are two reasons for the decline in ROCE. In the first place, this is a natural function of the increasing level of reserves as FCO Services has continued to trade successfully in its second year as a Trading Fund. These reserves will be used to provide future dividend streams to the FCO, after retention of sufficient earnings to safeguard the Trading Fund's financial position and to enable required investments to be made in Capital and Research and Development. However it is also an indicator of our decreased profitability in 2009/10 as we continue to deliver CSR savings for the FCO through price stabilisation and as we invest in system, process and service improvements to generate future efficiencies.

Growth in revenue from Wider Markets: target achieved

Against a normalised baseline for 2008/09 of £14.2m, target growth in Wider Market revenues of 10% produced a new cash target of £15.6m for 2009/10. Compared with this target, the actual normalised Wider Market revenue achieved was £17.6m.

Non financial performance targets

Customer satisfaction: target not achieved

Our annual independent customer survey showed that 82% of our customers (both FCO and Wider Market) were satisfied or very satisfied with our performance. While this is an improvement by two percentage points against the result of the survey last year of 80%, it remains slightly below our formal target of 85%.

Customers highlighted a number of areas of significant improvement, including the management of the relationship, proactive communication throughout project delivery and the overall professionalism of our staff.

However, there remain areas which need to be addressed and these have been incorporated into a prioritised action plan for implementation in 2010/11. We remain committed to continuous improvement, by capturing and responding promptly to regular feedback from our customers throughout the year.

Contribution to FCO Comprehensive Spending Review: target achieved

FCO Services has been able to deliver and evidence to the FCO, cash savings of £2m based on price stabilisation in respect of services delivered in 2009/10. This gives cumulative cash savings of £6m over the financial years 2008/09 and 2009/10.

Utilisation rate: target achieved

Our utilisation rate target of 75% has been met, with an average over the year of 75.9% utilisation being achieved by revenue earning staff. Staff compliance with time-recording has continued to improve as a result of weekly monitoring throughout the year.

Pensions

Information regarding pensions is provided in the Remuneration Report and described in note 5(c). The accounting policy note in the Accounts also refers to the treatment of pensions.

Post balance sheet events

There have been no significant post balance sheet events which need to be noted in these Accounts.

Auditors

These Accounts have been audited by the Comptroller and Auditor General whose certificate and report appears on pages 68 – 69. The total audit fee for 2009/10 is £105k (2008/09 £96k).

Review of Our Financial Performance

The charge for work undertaken in respect of the required changes to the Accounts as a result of the first time adoption of IFRS accounting rules was £13k (2008/09 £13K). In addition, fees of £5k have been incurred for an audit of the Whole of Government Accounts' return.

As far as I, as the Accounting Officer, am aware, there is no relevant audit information of which the National Audit Office is unaware and I have taken all reasonable steps to ensure that I have been kept informed of any relevant audit information and to establish that all such information has been brought to the attention of the Trading Fund's auditors.

Christopher Moxey

Chief Executive
5 July 2010

Remuneration Report

This report provides details of the remuneration, compensation payments, service contracts and pensions of FCO Services Board members for the year ended 31 March 2010. The Board comprises both Non-Executive and Executive Directors and the relevant disclosures of each are set out below.

Remuneration policy for senior civil servants

The remuneration of senior civil servants who are executive members of FCO Services is determined across government within the pay policies agreed by the Cabinet Office. Within these policies, remuneration is set in accordance with the FCO's agreed pay structure according to a framework of delegations administered through the FCO Services governance structure.

In setting such remuneration for each senior member of staff, the following considerations have been taken into account:

- The need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities.
- Government policies for improving the public services, including the requirement on departments to meet the output targets for the delivery of departmental services.
- Likely funds available to FCO Services from its trading relationship with the FCO and Wider Markets and the need to provide appropriate levels of service to customers in accordance with SLAs and contractual agreements.
- The requirement to meet agreed efficiency or headcount targets.
- Individual performance, capability and competence as demonstrated through delivery.

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

Delivery against stretching objectives is a key determinant of the pay award. The SMS Pay Strategy governs the method of assessing performance conditions and SMS staff appraisal documents. Performance objectives are agreed at the start of the reporting period and cover operational outcomes.

At the end of the performance year, jobholders assess their own performance against the objectives. Their Reporting Officers then discuss their performance, summarise the result and make recommendations regarding the appropriate pay award to the Pay Panel.

Service contracts for Executive Directors who are civil servants

Civil Service appointments including senior executive members of FCO Services are made in accordance with the FCO's stated selection and recruitment policy, the stated aim of which is "the selection of the most suitable person for the job." This policy incorporates practices for ensuring equal opportunities and is conducted on an objective basis, dealing solely with the candidate's suitability for appointment.

The following senior executive members of the FCO Services Board are civil servants and hold appointments as follows:

Christopher Moxey (Chief Executive and Accounting Officer) appointment was renewed on a four-year contract commencing on 6 February 2010.

Helen Sullivan (Finance Director) was appointed on a one-year contract on 9 October 2008 as Acting Finance Director. Appointment made permanent on 1 March 2010, open-ended until retirement.

Nigel Morris (Services and Logistics Director) holds an open-ended appointment until retirement.

Sarah Phelan (Human Resources Director) holds an open-ended appointment until retirement.

Steven Rymell (Client Delivery Director) was appointed on a four-year contract commencing on 5 February 2007.

David Williams (Operations Director) holds an open-ended appointment until retirement.

Jonathan Inskip (Business Development Director) was appointed on 1 June 2009 on an open-ended appointment until retirement. He resigned with effect from 17 July 2009.

Andrew Camp (Commercial Director) was appointed on 1 September 2009 and holds an open-ended appointment until retirement.

Early termination, other than for misconduct, would result in the above individuals receiving compensation as set out in the Civil Service Compensation Scheme.

Service contracts for Executive Directors who are not civil servants

Veredus Interim Management provided the services of **Phil Colley** who was appointed as Interim Business Development Director from 1 September 2007. He resigned from the Board on 31 May 2009.

Catesby Interim Ltd provided the services of **Kerry Simmonds** who was appointed as Interim Director of Corporate Services from 1 November 2008. He resigned from the Board on 31 August 2009.

Remuneration Report

Executive Members' Remuneration

	2009/10		2008/09	
	Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
Andrew Camp (from 1 September 2009)	45-50 (75-80 full year equivalent)	Nil	N/A	N/A
Phil Colley ^(note 1) (Until 31 May 2009)	–	–	–	–
Jonathan Inskip (1 June to 17 July 2009)	5-10 (85-90 full year equivalent)	Nil	N/A	N/A
Nigel Morris	80-85	Nil	80-85	Nil
Christopher Moxey	150-155	Nil	145-150	Nil
Sarah Phelan	100-105	Nil	105-110	Nil
Steven Rymell	120-125	Nil	115-120	Nil
Kerry Simmonds ^(note 2) (until 31 August 2009)	–	–	–	–
Helen Sullivan	70-75	Nil	30-35 (65-70 full year equivalent)	Nil
David Williams	105-110	Nil	40-45 (100-105 full year equivalent)	Nil

The above table and notes have been subject to audit.

Note 1. Veredus Interim Management provided the services of Phil Colley and the total fees paid to the agency amounted to £35k-£40k (2008/09: £140k-£145k); this equates to £210k - £215k for a full year (2008/09: £180k - £185k).

Note 2. Catesby Interim Ltd provided the services of Kerry Simmonds and the total fees paid amounted to £60k-£65k (2008/09: £70k-£75k); this equates to £145k-£150k a full year (2008/09: £145k-£150k).

Salary

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

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

Benefits in kind

The monetary value of benefits in kind covers any taxable benefits not given to the individual as cash.

Remuneration Report

Executive Members' Pension Benefits

	Accrued pension at age 60 as at 31/03/10 £000	Related lump sum as at 31/03/10 £000	Real increase in pension at age 60 £000	Real increase in lump sum at age 60 £000	CETV at 31/03/10 £000	CETV at 31/03/09 £000	Real increase in CETV £000
Andrew Camp (from 1 September 2009)	0-5	–	0-2.5	–	12	–	11
Phil Colley ^(note 1)	–	–	–	–	–	–	–
Jonathan Inskip ^(note 2) (1 June to 17 July 2009)	–	–	–	–	–	–	–
Nigel Morris	25-30	85-90	0-2.5	0-5	694	623	38
Christopher Moxey	5-10	–	0-2.5	–	143	99	35
Sarah Phelan	5-10	–	0-2.5	–	82	55	20
Steven Rymell	5-10	–	0-2.5	–	83	52	24
Kerry Simmonds ^(note 1)	–	–	–	–	–	–	–
Helen Sullivan	5-10	–	0-2.5	–	110	72	31
David Williams	0-5	–	0-2.5	–	33	12	17

The above table and note has been subject to audit.

Note 1. The above noted Board members were not entitled to a Civil Service pension.

Note 2. The above noted Board member was not entitled to a Civil Service pension as his length of service was less than two years.

Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: a 'final salary' scheme (classic, premium or classic plus) or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased

annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an 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, classic plus and nuvos. Benefits in classic accrue at the

rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial 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. Classic plus is essentially a hybrid, with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium.

Remuneration Report

In nuvos, members build up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) their pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. 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).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

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

Cash equivalent transfer values

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from

the scheme. 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 pension benefits they have accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another pension or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This is effectively the element of the increase in accrued pension funded by the employer. It excludes increases 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.

Non-Executive Directors

The following section provides details of the appointment, service contracts and remuneration of the Non-Executive members of FCO Services.

The Non-Executive Directors are appointed by the FCO Services Chief Executive in his capacity as Accounting Officer on fixed appointments. Their remuneration

and terms are agreed at the time of their appointment, which is normally for three years with the option to be extended under mutually agreed terms. No compensation is payable for early termination.

FCO Services' Non-Executive Directors are not FCO Services employees and, except for Sir Richard Stagg, are not members of the Principal Civil Service Pension Scheme.

No pay or pension costs are included in FCO Services' accounts in respect of Sir Richard Stagg, who is a civil servant employed by the Foreign and Commonwealth Office. Travel and accommodation expenses may be payable by FCO Services for his attendance at FCO Services Board meetings.

The following are the Non-Executive members of the FCO Services Board:

Wendy Barnes, appointed on a three-year contract as a Non-Executive Director on 1 September 2009.

Stephen Hawker, appointed on a three-year contract as a Non-Executive Director on 1 September 2009.

Michael Hayle, until 30 June 2009

David Kogan, appointed on a three-year contract as a Non-Executive Director on 1 March 2008.

Neil Masom (Chair of the Audit Committee) was renewed on 1 August 2009 on a two-year contract as a Non-Executive Director.

Sir Richard Stagg (Non-Executive Chair) was appointed on a three-year contract commencing on 1 June 2007, which has been extended to 1 June 2011.

Remuneration Report

Remuneration payments to Non-Executive Directors

	2009/10 £000	2008/09 £000
Sir Richard Stagg ^(note 1)	–	–
Wendy Barnes (from 1 September 2009)	5-10 (15-20 full year equivalent)	N/A
Stephen Hawker (from 1 September 2009)	5-10 (15-20 full year equivalent)	N/A
Michael Hayle (until 30 June 2009)	0-5 (10-15 full year equivalent)	10-15
David Kogan	15-20	10-15
Neil Masom	15-20	10-15

The above table and note has been subject to audit.

Note 1. No pay or pension costs are included in FCO Services' accounts in respect of Sir Richard Stagg, who is a civil servant employed by the Foreign and Commonwealth Office.

Christopher Moxey

Chief Executive
and Accounting Officer
5 July 2010

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 FCO Services' policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

My responsibilities as Accounting Officer are further defined in a letter to me from the Permanent Secretary, HM Treasury, which confirms that I am responsible to the Secretary of State for Foreign and Commonwealth Affairs and accountable to Parliament for the Trading Fund's use of resources in carrying out its functions.

As Chief Executive of FCO Services, I am accountable to the Secretary of State for Foreign and Commonwealth Affairs for the performance of FCO Services in accordance with the Framework Document and our Corporate Plan which contains an assessment of key risks and sensitivities and which is approved by our Minister.

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 provide only reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks to the achievement of the Trading Fund's policies, aims and objectives.
- evaluate the likelihood of those risks being realised and the impact, should they be realised.

- manage them efficiently, effectively and economically.

The system of internal control has been in place in FCO Services for the year ended 31 March 2010 and up to the date of the approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

3. Capacity to handle risk

As Accounting Officer, I am personally responsible for ensuring that FCO Services manages risk in an efficient, timely and effective manner. I am supported and advised in carrying out my responsibilities by the FCO Services Board and Audit Committee who are committed to ensuring that FCO Services achieves and maintains high standards of corporate governance, risk management and internal control.

FCO Services has a documented risk approach that follows HM Treasury's guidance on risk management and processes, sets out clear responsibilities through the organisation, defines what is meant by risk and risk management and outlines the key principles underpinning our approach to the management of risk.

All identified corporate risks are managed by the Executive Committee and are allocated to an appropriate Director and / or Senior Manager to manage as primary risk owners. Operational risks are managed at a level of the business appropriate to the scope and impact of the risk.

Our managers have clearly defined roles in our risk management approach and are responsible for ensuring that all our people are trained and supported appropriately. Risk management policies and guidance are freely available through our intranet.

The corporate risk register is reviewed regularly by the Executive Committee, the FCO Services Board and the Audit Committee so they can ensure that it remains up-to-date and relevant, that controls are strengthened in areas of greatest exposure and that risk management processes are operating effectively.

Internal Audit provide me, as Accounting Officer, with an objective evaluation of, and opinions on, the effectiveness of our risk management, internal control and governance arrangements. Their programme of work is planned to enable them to assess and advise me on our capacity to handle risk.

4. The risk and control framework

4.1 Risk management framework

Our risk management strategy and policy is owned and driven by our Executive Committee. Clearly defined responsibilities within our risk management framework ensure that a consistent risk and control framework is becoming embedded throughout the organisation.

We have implemented a 'top down and bottom up' approach to risk identification to ensure completeness of risks identified. To ensure the consistency and quality of our risk data, we have developed a set of processes to standardise the approach we take to managing risk. This approach ensures that:

- risk management policy and process are implemented consistently across the business.

Statement on Internal Control

- FCO Services and its constituent Directorates, programmes and projects manage risks and issues in accordance with central government and corporate guidance as well as industry-recognised best practice.
- evidence and assurance are provided to the Executive Committee and internal and external auditors that risks and issues are captured and appropriately treated.
- managers and staff at all levels of the business are supported in making risk-informed decisions.
- the business is compliant with the Cabinet Office mandatory requirements with regard to data handling.

In particular, our risk management approach is designed to achieve a cost effective balance between mitigation and acceptance of risk. Our risk management process supports the identification, quantitative assessment, ranking and reporting of risks in a consistent way that clearly assesses the significance of the risk against our corporate 'risk appetite'. This approach enables us to understand the scale of the risks we face and to respond in an appropriate, commensurate manner.

To support this approach, we have established a Joint Risk Review and Management Panel, which brings together operational level managers from across the business in order to ensure the effective management of risks and issues below the corporate level. Its primary purpose is to provide assurance independent of the Executive Committee and Audit Committee that risks and issues are being effectively captured and managed in a consistent way across the whole business. The Panel acts as a control and communication mechanism within the risk management process, enabling risk information

to be transmitted across the business in a commonly understood format and to agreed, consistent, quality standards.

The Executive Risk Review meeting, which I chair, takes place bi-monthly and brings together Executive Directors to review the operational level risk registers from across the whole business. Together we refresh the corporate risk register, considering risks highlighted as candidates for escalation, identifying, ranking and agreeing the key risks that we consider threaten the achievement of FCO Services' main objectives and its ability to prosper as a business. Each identified risk is allocated to an appropriate Director and / or Senior Manager to own and manage.

Overall, we have continued to put considerable effort into strengthening and embedding our new processes around management of risk, and expect to see these continue to mature in the coming year.

4.2 System of internal control

Our assessment and management of risk is informed and supported by the system of internal control. This is built on a framework of regular management information, financial regulations and procedures, a system of delegations and accountability and appropriate segregation of duties. Key elements of our framework of control include:

- the FCO Services Board, which meets bi-monthly to support the Accounting Officer in maximising the organisation's performance, monitoring performance at corporate level, ensuring that the management and controls required to ensure effective governance and control are in place and to provide support, advice and constructive challenge to the executive team in the execution of their duties.

- the Executive Committee, which meets regularly to consider the strategic direction, assess key monitoring information and review corporate risks.
- the Audit Committee, which considers all aspects of internal control including the consideration of reports from the internal and external auditors and regular reports from Directors and senior managers on operational and financial aspects of their activities.
- the Health and Safety Committee which meets twice a year to consider all aspects of FCO Services' Health and Safety policy and performance, supported by sub-committees for the main operating divisions within the business and clear accountabilities for managers throughout the organisation.
- an annual process of target and budget setting through the Business Plan.
- monthly monitoring of key performance measures and indicators, including comprehensive packs of trading accounts, HR data and project reports.
- formal business reviews of operational and financial performance three times a year.
- project management reviews and controls designed to ensure the effective management of key programmes and projects using project management methodologies and intranet-based tools.
- a system of cascaded delegations for capital and revenue expenditure and authority to contract, supported by clear mandate letters, enforced through system controls and exception reports.
- individual approval of capital expenditure projects.

Statement on Internal Control

- annual letters of assurance provided by members of my Executive Team, supported by assurances from their senior managers and information asset owners, providing documented assurances of compliance with their operational risk management and internal control responsibilities, identifying any perceived weaknesses and actions to address these.
- a programme of internal audits delivered to Government Internal Audit Standards, providing regular reports and an overall annual opinion on risk management, control and governance within FCO Services.
- external audit provided by the National Audit Office (NAO) who provide internal control comments in their management letters and other reports.
- other specific risk reviews, including Health and Safety reviews, OGC Gateway reviews of certain projects and commissioned third party reviews of particular policies and processes.

4.3 Management of information risk

FCO Services is committed to protecting and using its information securely and effectively, in compliance with its legal obligations and with the standards and requirements set out by the Cabinet Office. The Executive Committee recognises its responsibility in providing leadership and promoting a culture of information security awareness throughout FCO Services. The Senior Information Risk Officer is a Board member and Directors have been made accountable and responsible for their information assets. FCO Services is compliant with the mandatory requirements on information security and assurance that are set out in the Security Policy Framework. There have been no reported personal data handling incidents during the year.

We are working to enhance our systems and controls to ensure that we meet the standards set in the Information Assurance Maturity Model, incorporating the Data Handling Review (DHR) measures, the Information Security Assurance Requirements of the Security Policy Framework and the standards set by ISO 27001.

5. Review of effectiveness

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

I am pleased to report that during 2009/10 our systems of internal control have continued to strengthen. As we have gained more experience of operating as a Trading Fund, we have further embedded effective commercial skills and competencies in our staff, supported by improvements in systems and processes.

Listening to customers has been a core tenet of our strategy. Through the allocation of responsibility for customer relationships to Senior Executives, we have grown our capability to engage effectively with customers; we have designed and implemented a feedback-driven approach to monitor regularly customer satisfaction and its drivers and linked this to a change capability able to quickly refine and develop the customer experience. The introduction of improved data gathering

and processing has put in place stronger disciplines around the monitoring and management of our revenue pipeline.

The implementation of the Technical Services Centre (TSC) brought together 450 project and installation services staff into a single area, creating a single resource pool with a more commercial, customer-facing operational structure and a fully flexible, multi-skilled workforce. This creates the capability to improve our speed and efficiency in providing appropriately skilled resources to the right projects, helps ensure effective, timely and on-budget delivery to the customer and maximises utilisation of skilled staff.

The establishment of specific expert roles within the Centre of Technical Expertise (COTE) provides a focal point for the skills of the wider resource pool which is relevant to the solutions delivered to customers. We are now better able to grow expert resources that can lead complex, high-specification projects for customers, develop innovative products and services and devise best practice solutions, improving our efficiency.

ITIL disciplines continue to be embedded in our Operations division, helping us standardise methods and procedures, improve problem and incident resolution, avoid problems through trend analysis, clarify communication channels and create greater transparency through new management information.

We continue to develop our capabilities around the identification and management of project risk. Our project management processes and reporting are being strengthened, helping us gain a more timely understanding of project performance, supporting better forecasting and enabling earlier and more proactive response to project risks.

Statement on Internal Control

Centralisation of project and programme support functions has helped improve both visibility of and controls around cost and cash management, supported ongoing delivery improvement and facilitated better compliance with our commercial process.

We recognise the importance of well prepared contracts and Service Level Agreements with our customers which clearly define ownership of risks and responsibilities, and the development of our expertise in this area has been a focus of our Commercial Group over the past year.

Following an ongoing programme of internal audits, areas for improvement were identified in procurement policies and procedures and also in aspects of stores management.

A lack of consistency in the use of a common procurement policy may have contributed to an increased risk in terms of compliance with EU regulations. While only a single low-value incident came to our attention, we have responded by providing both formal and informal training to buyers in respect of tender evaluation methodologies. In addition, we will be reviewing, updating and issuing guidance on our procurement policies and procedures to reflect current best practice.

Although the shortcomings in stores have not led to any identified loss, we are reviewing, strengthening and documenting our policies and control processes. In addition, we will be implementing a rolling programme of stores integration onto a unified database, and will be consolidating all relevant stores into a new secure warehousing facility.

We have established an effective Business Continuity Framework, which enables us to respond effectively to business interruption events. In line with BS25999:2, we have in place a Business Continuity Policy, Strategy and Business Impact Assessment. We have developed and practised our incident response plans. We continue to work in co-operation with FCO colleagues to identify opportunities and strategies to enhance the resilience of our business processes and operations.

Last year I highlighted a weakness in the internal controls around the identification of capital items. Since then, we have reviewed, strengthened and documented the control processes around property, plant and equipment and undertaken specific training to raise awareness and improve understanding of the capitalisation policy and process. I am pleased to report that I consider this issue to have been fully resolved.

My review, supported by the advice I have received from the Head of Internal Audit, indicates that considerable progress has been made during the year to strengthen the framework of internal control.

Christopher Moxey
Chief Executive
and Accounting Officer
5 July 2010

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

Under section 4 (6) of the Government Trading Funds Act 1973, Her Majesty's Treasury has directed FCO Services to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.

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

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Trading Fund and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

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

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

HM Treasury has appointed the Chief Executive as Accounting Officer of FCO Services. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Trading Fund's assets, are set out in Accounting Officers' Memorandum published in *Managing Public Money*.

Christopher Moxey
Chief Executive
and Accounting Officer
5 July 2010

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of FCO Services for the year ended 31 March 2010 under the Government Trading Funds Act 1973.

These comprise the Income Statement, and Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of FCO Services Agency, the Accounting Officer and the auditor

As explained more fully in the Statement of FCO Services Agency and Accounting Officer's Responsibilities, FCO Services Agency and the Chief Executive, as Accounting Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to FCO Services Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the FCO Services Agency; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of FCO Services Agency's affairs as at 31 March 2010 and of its surplus, changes in taxpayers' equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in 'Building Our Capability to Deliver Value', 'Assuring Stakeholder Value' and 'Financial Report & Accounts' for the financial year for which the financial statements are prepared is consistent with the financial statements.

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

adequate accounting records have not been kept; or

the financial statements are not in agreement with the accounting records or returns; or

I have not received all of the information and explanations I require for my audit; or

the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
7 July 2010

Income Statement

for the year ended 31 March 2010

	Note	2009/10 £000	2008/09 £000
Revenue	3	126,837	137,205
Cost of sales	6	(89,744)	(92,891)
Gross surplus		37,093	44,314
Operating expenses	6	(31,005)	(32,812)
Operating surplus		6,088	11,502
Loss on disposal of property, plant and equipment		(12)	(46)
Surplus before financing		6,076	11,456
Financing income	7	114	999
Financing costs	7	(513)	(593)
Net financing		(399)	406
Surplus for the year		5,677	11,862
Dividend	8	(3,447)	(207)
Retained surplus for the financial year		2,230	11,655

All income and expenditure are derived from continuing operations.

The notes on pages 74 to 89 form part of these accounts.

Statement of Financial Position

as at 31 March 2010

	Note	31/03/10 £000	31/03/09 £000	01/04/08 £000
Non-current assets				
Intangible assets	9	308	147	–
Property, plant and equipment	10	4,270	2,857	2,332
Total non-current assets		4,578	3,004	2,332
Current assets				
Inventories	11	1,393	2,055	6,634
Trade and other receivables	12(a)	12,036	22,276	31,528
Cash and cash equivalents	13	39,056	38,889	–
Total current assets		52,485	63,220	38,162
Total assets		57,063	66,224	40,494
Current liabilities				
Trade and other payables	14(a)	(28,748)	(36,873)	(31,778)
Provisions due within one year	16	(316)	–	–
Total current liabilities		(29,064)	(36,873)	(31,778)
Total assets less current liabilities		27,999	29,351	8,716
Non-current liabilities				
Financial liabilities	17	(8,754)	(12,754)	(4,754)
Total non-current liabilities		(8,754)	(12,754)	(4,754)
Assets less liabilities		19,245	16,597	3,962
Taxpayers' equity				
Public dividend capital		4,981	4,981	4,981
General reserve		(36)	(122)	(1,070)
Revaluation reserve		117	83	51
Government grant reserve		298	–	–
Income and expenditure account		13,885	11,655	–
Total taxpayers' equity		19,245	16,597	3,962

Christopher Moxey

Chief Executive and Accounting Officer
5 July 2010

The notes on pages 74 to 89 form part of these accounts.

Statement of Cash Flows

for the year ended 31 March 2010

	Note	2009/10 £000	2008/09 £000
Cash flows from operating activities			
Surplus on ordinary activities before dividend payable		5,677	11,862
Adjustments for non-cash transactions	18	1,025	938
Net interest payable / (receivable)	7	399	(406)
Decrease in inventories		662	4,579
Decrease in trade and other receivables		10,240	9,252
<i>less movements in receivables relating to items not passing through the income statement:</i>			
• <i>Accrued deposit interest</i>		1	9
(Decrease) / increase in trade and other payables		(8,125)	5,095
<i>less movements in payables relating to items not passing through the income statement:</i>			
• <i>Working Capital Loan from the FCO reclassified from non-current liabilities to current liabilities</i>		(2,000)	(2,000)
• <i>Dividend payable</i>		(240)	(207)
• <i>Accrued loan interest</i>		36	(292)
Increase in provisions		316	–
Net cash inflow from operations		7,991	28,830
Cash flows from investing activities			
Purchase of intangible assets	9	(196)	(55)
Purchase of property, plant and equipment	10	(2,285)	(582)
Proceeds of disposal of property, plant and equipment		2	7
Net cash outflow from investing activities		(2,479)	(630)
Cash flows from financing activities			
Working Capital Loan from the FCO		–	10,000
Working Capital Loan repaid to the FCO		(2,000)	–
Government grant income		298	–
Interest paid		(549)	(301)
Interest received		113	990
Dividend paid		(3,207)	–
Net financing		(5,345)	10,689
Net increase in cash and cash equivalents in the period		167	38,889
Cash and cash equivalents at the beginning of the period	13	38,889	–
Cash and cash equivalents at the end of the period	13	39,056	38,889

The notes on pages 74 to 89 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2010

	Public Dividend Capital £000	General Reserve £000	Revaluation Reserve £000	Government Grant Reserve £000	Income and Expenditure Account £000	Total Reserves £000
Balance at 31 March 2008	4,981	–	51	–	–	5,032
Change in accounting policy ^(note 2)	–	(1,070)	–	–	–	(1,070)
Balance at 1 April 2008	4,981	(1,070)	51	–	–	3,962
Changes in taxpayers' equity for 2008/09						
Unrealised net surplus on revaluation of property, plant and equipment	–	–	32	–	–	32
Previously unaccounted fixed assets	–	948	–	–	–	948
Retained surplus for the financial year	–	–	–	–	11,655	11,655
Total recognised income and expense for 2008/09	–	948	32	–	11,655	12,635
Balance at 31 March 2009	4,981	(122)	83	–	11,655	16,597
Changes in taxpayers' equity for 2009/10						
Unrealised net surplus on revaluation of property, plant and equipment	–	–	120	–	–	120
General reserve transfer – depreciation charge difference in year on revalued cost basis compared to historic cost basis	–	86	(86)	–	–	–
Government grant receipts*	–	–	–	298	–	298
Retained surplus for the financial year	–	–	–	–	2,230	2,230
Total recognised income and expense for 2009/10	–	86	34	298	2,230	2,648
Balance at 31 March 2010	4,981	(36)	117	298	13,885	19,245

The Public Dividend Capital Reserve records the investment made in the Trading Fund by the Secretary of State for Foreign and Commonwealth Affairs.

The General Reserve is used to account for movements on reserves which do not pass through the income and expenditure account.

The Revaluation Reserve records the unrealised profit on the cumulative indexation and revaluation adjustments to non-current assets.

The Government Grant Reserve is recognised as income over the life of the asset by way of a reduced depreciation charge.

The Income and Expenditure Account is used to account for the accumulated surplus of the Trading Fund.

* The FCO £63,000 and The Department of Energy and Climate Change £235,000.

The notes on pages 74 to 89 form part of these accounts.

Notes to the Accounts

2009/2010

1. Accounting policies

1.1 Basis of accounting

These financial statements have been prepared in accordance with the Accounts Direction issued by HM Treasury on 22 December 2009, pursuant to section 4(6) of the Government Trading Funds Act 1973, which requires the Trading Fund to comply with the accounting principles and disclosure requirements of the 2009/10 Government Financial Reporting Manual (FReM), the Companies Act 2006 and Trading Funds Accounts Guidance, as issued by HM Treasury.

The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of FCO Services for the purpose of giving a true and fair view has been selected. The particular policies adopted by FCO Services are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.2 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets and inventories.

1.3 Revenue

Revenue represents the fair value of consideration received or receivable from clients for goods and services provided by the Fund, net of discounts, VAT and other sale-related taxes.

Revenue from the sale of software products or hardware with no significant service obligation is recognised 100% on delivery. Revenue from the sale of software products or hardware requiring significant modification, integration or customisation is recognised using the percentage of completion method.

The revenue and profit of contracts for the supply of professional services at predetermined rates is recognised as and when the work is performed, irrespective of the duration of the contract.

The revenue and profit of fixed price contracts is recognised on a percentage of completion basis when the outcome of a contract can be estimated reliably. If a contract outcome cannot be estimated reliably, revenues are recognised equal to costs incurred, to the extent that costs are expected to be recovered. The stage of contract completion is usually determined by reference to the cost incurred to date as a proportion of the total estimated cost.

Provision is made for all contract losses where the conditions of IAS 37 are met.

1.4 Dividend

An annual statutory dividend is payable to the Foreign and Commonwealth Office. The charge is calculated at a rate set by HM Treasury on the average capital employed during the year less interest on the Vesting Day Loan.

A discretionary dividend may be paid to the Foreign and Commonwealth Office after taking into account the future investment needs of the Trading Fund.

1.5 Value added tax

FCO Services is separately registered for VAT and applies normal commercial VAT rules to accounting for output and input tax.

1.6 Operating leases

Leases are regarded as operating leases, unless substantially all risks and rewards of ownership of a lease are borne by FCO Services. Lease payments under operating leases are recognised as an expense on a straight-line basis over the term of the lease.

1.7 Inventories

Inventories of raw materials and components are valued at the lower of cost or net realisable value. Obsolete and damaged stock is written down to net realisable value.

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

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

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

The excess of payments received over amounts recorded as turnover is classified under trade and other payables. Amounts recoverable on contracts, being the amount by which recorded turnover is in excess of payments on account, is classified under receivables.

Notes to the Accounts

2009/2010

1.8 Property, plant and equipment

Property, plant and equipment are stated at fair value at the Statement of Financial Position date using appropriate indices or at valuation. Depreciation is restated proportionately with any change in the gross carrying amount so that the carrying amount after revaluation equals its revalued amount. The minimum level for capitalisation of a single tangible asset is £3,000, subject to grouping conventions where appropriate. Furniture and fittings are not capitalised. Fixtures are defined as substantial modifications to buildings occupied by FCO Services, which enhance the economic usefulness of the building.

On initial recognition, property, plant and equipment 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 valuation applicable as at the Statement of Financial Position date; any movements in valuation during the year are taken to the revaluation reserve or treated as impairments where appropriate.

Costs incurred in creating internally constructed assets are capitalised as plant and equipment assets. Internal charges for labour costs include an appropriate recovery of overheads.

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

Information technology	– up to 8 years
Transport equipment	– 2 to 8 years
Plant and machinery	– 5 to 20 years
Fixtures	– 10 years

Property, plant and equipment assets are reviewed annually for impairments and any impairment is charged to the income statement.

1.9 Intangible 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 valuation cannot be readily ascertained, these are restated to fair value at the Statement of Financial Position date through the use of indices. Software licences are amortised over the shorter of the term of the licence and the useful economic life.

1.10 Internally created intangible assets

Research and development costs exclude those incurred on behalf of a customer as part of a specific project. These are directly chargeable to the customer on whose behalf the work is undertaken. Internally funded development expenditure is capitalised in the Statement of Financial Position where there is a clearly defined project, the expenditure is separately identifiable, the project is technically and commercially feasible, all costs are recoverable by future revenue and the resources are committed to complete the project. Such capitalised costs are amortised over the forecast period of sales resulting from the development.

All other research and development costs are expensed to the income statement in the period in which they are incurred. If the research phase cannot be clearly distinguished from the development phase, the respective project-related costs are treated as if they were incurred in the research phase only and expensed.

1.11 Government grants

Government grants relate to plant and equipment and are recognised at fair value in the government grant reserve. The grant is recognised as income over the life of the asset by way of a reduced depreciation charge.

1.12 Bad debts provision

Specific provision is made for any debts where recovery is considered to be doubtful.

1.13 Provisions

FCO Services provides for legal and constructive obligations which are of uncertain timing or amount at the Statement of Financial Position 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 HM Treasury discount rate of 2.2% in real terms.

1.14 Pension costs

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

Notes to the Accounts

2009/2010

1.15 Foreign exchange gains and losses

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

1.16 Contingent liabilities

Contingent liabilities are disclosed in accordance with IAS 37. Where the time value of money is material, contingent liabilities are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

In addition, FCO Services discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Managing Public Money*.

2. First-time adoption of IFRS

	Public Dividend Capital £000	General Reserve £000	Revaluation Reserve £000	Income & Expenditure Account £000	Total Reserves £000
Taxpayers' equity at 31 March 2009 under UK GAAP	4,981	948	83	11,693	17,705
IAS 19 Staff holiday pay accrual as at 31 March 2008	–	(1,070)	–	–	(1,070)
Movement in staff holiday pay accrual as at 31 March 2009	–	–	–	(38)	(38)
Taxpayers' equity at 1 April 2009 under IFRS	4,981	(122)	83	11,655	16,597
Retained surplus for 2008/09 under UK GAAP					11,693
Adjustments for IAS 19 Staff holiday pay accrual as at 31 March 2009					(38)
Retained surplus for 2008/09 under IFRS					11,655

3. Revenue

	2009/10 £000	2008/09 £000
Foreign and Commonwealth Office	102,675	113,749
Other UK Government bodies and other organisations	24,162	23,456
	126,837	137,205

Notes to the Accounts

2009/2010

4. Segmental reporting

FCO Services has three service delivery functions: Client Delivery, Operations and Services & Logistics:

Client Delivery Group manages all commercial and delivery aspects

of multiple, project-based programmes including installations, ICT projects and technical architecture and project management construction.

Operations Group delivers global secure technical services, property management,

technical security and ICT operations services across the UK and internationally.

Services and Logistics Group delivers vetting, logistics, translation and interpreting and Queen's Messengers services across the UK and internationally.

Analysis of Operating Surplus by Service Delivery Group					
	Client Delivery £000	Operations £000	Services & Logistics £000	Total £000	
2009/10					
Revenue	63,536	40,807	22,494	126,837	
Cost of sales	(46,042)	(25,084)	(18,618)	(89,744)	
Gross surplus	17,494	15,723	3,876	37,093	
Operating expenses	(14,602)	(11,918)	(4,485)	(31,005)	
Operating surplus	2,892	3,805	(609)	6,088	
2008/09					
Revenue	73,836	41,015	22,354	137,205	
Cost of sales	(55,100)	(22,344)	(15,447)	(92,891)	
Gross surplus	18,736	18,671	6,907	44,314	
Operating expenses	(15,584)	(12,452)	(4,776)	(32,812)	
Operating surplus	3,152	6,219	2,131	11,502	
Analysis of Assets less Liabilities by Service Delivery Group					
	Client Delivery £000	Operations £000	Services & Logistics £000	Corporate £000	Total £000
2009/10					
Segment Assets					
Intangible assets	14	–	126	168	308
Property, plant and equipment	428	2,795	991	56	4,270
Inventories	481	566	346	–	1,393
Trade and other receivables	5,064	2,595	3,534	843	12,036
Cash and cash equivalents	–	–	–	39,056	39,056
Segment Liabilities					
Current liabilities	(7,562)	(546)	(309)	(20,647)	(29,064)
Non current financial liabilities	–	–	–	(8,754)	(8,754)
Segment assets less liabilities	(1,575)	5,410	4,688	10,722	19,245

Notes to the Accounts

2009/2010

Note 4 continued

Analysis of Assets less Liabilities by Service Delivery Group	Client Delivery £000	Operations £000	Services & Logistics £000	Corporate £000	Total £000
2008/09					
Segment Assets					
Intangible assets	18	–	129	–	147
Property, plant and equipment	141	2,013	613	90	2,857
Inventories	598	838	619	–	2,055
Trade and other receivables	16,007	2,086	3,542	641	22,276
Cash and cash equivalents	–	–	–	38,889	38,889
Segment Liabilities					
Current liabilities	(9,419)	(1,125)	(217)	(26,112)	(36,873)
Non-current financial liabilities	–	–	–	(12,754)	(12,754)
Segment assets less liabilities	7,345	3,812	4,686	754	16,597

5. Staff numbers and costs

5(a) Staff numbers

The average number of whole-time equivalent persons employed during the year was as follows:

Staff Numbers	Permanent	Other*	2009/10 Total	2008/09 Total
Service Delivery	809	295	1,104	994
Sales & Marketing	21	10	31	31
Corporate Services	97	40	137	118
	927	345	1,272	1,143

*Other comprises agency staff and fee-paid officers.

Notes to the Accounts

2009/2010

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

Staff Costs	Permanent £000	Other* £000	2009/10 Total £000	2008/09 Total £000
Salaries / agency staff and fee-paid officers	36,746	29,018	65,764	58,616
Social Security costs	2,535	–	2,535	2,304
Other pension costs	5,477	–	5,477	5,232
	44,758	29,018	73,776	66,152

*Other comprises agency staff and fee-paid officers.

5(c) Pensions

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but FCO Services is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2010. Details are in the resource accounts of the Cabinet Office: Civil Superannuation www.civilservice-pensions.gov.uk/my-civil-service.gov.uk/pensions/scheme-guides.index.asp

For 2009/10, employers' contributions of £5,468,000 were payable to the PCSPS (2008/09 £5,461,000) at one of four rates in the range 16.7% to 24.3% (2008/09 17.1% to 25.5%) of pensionable pay, based on salary bands. The scheme's

actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2009/10 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £13,000 (2008/09 £7,000) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £900 (2008/09 £400),

0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the Statement of Financial Position date were £nil (2008/09 £nil). Contributions prepaid at that date were £nil (2008/09 £nil).

In the 12 months to March 2010, two individuals (2008/09 one individual) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £3,000 (2008/09 £3,000).

Notes to the Accounts

2009/2010

6. Cost of sales and operating expenses

	Cost of sales £000	Operating expenses £000	2009/10 Total £000	Cost of sales £000	Operating expenses £000	2008/09 Total £000
Staff costs	26,327	18,431	44,758	25,604	16,074	41,678
Agency staff and fee-paid officers*	25,462	3,556	29,018	21,041	3,433	24,474
Training and recruitment	26	1,194	1,220	51	1,649	1,700
Travel	12,905	637	13,542	11,921	2,617	14,538
Professional services*	1,635	–	1,635	4,103	–	4,103
Consultancy	–	2,257	2,257	–	2,409	2,409
Communications	1,510	433	1,943	846	1,035	1,881
Supplies, services & facilities management **	11,127	2,443	13,570	13,060	3,683	16,743
Work in progress decrease	225	–	225	5,186	–	5,186
Freight	6,416	5	6,421	6,399	–	6,399
Maintenance	2,815	800	3,615	3,461	808	4,269
Operating leases – land & buildings	–	18	18	–	4	4
Operating leases – other	–	1	1	–	7	7
Accommodation charges***	342	534	876	341	534	875
Profit on exchange	–	(2)	(2)	–	(18)	(18)
Other	–	516	516	–	454	454
Depreciation	954	–	954	869	–	869
Amortisation	–	59	59	–	14	14
Impairment losses on fixed assets	–	–	–	9	–	9
Auditors' remuneration and expenses (no non-audit work)	–	123	123	–	109	109
Total costs	89,744	31,005	120,749	92,891	32,812	125,703

* Agency staff, fee-paid officers, and professional services charged to cost of sales are fee earning. ** Includes £2,708,000 in respect of management charges from the FCO (2008/09 £2,927,000). ***Accommodation charges are payable to the FCO.

The total amount of research and development expenditure recognised as an expense during the period was £677,000 (2008/09 £434,000). This includes staff costs and an appropriate recovery of overheads.

7. Financing income and costs

	2009/10 £000	2008/09 £000
Financing income		
HM Paymaster General deposit interest	114	999
	114	999
Financing costs		
Working Capital Loan interest	(321)	(401)
Vesting Day Loan interest	(192)	(192)
	(513)	(593)
Net financing	(399)	406

Interest is payable at a fixed rate to the Foreign and Commonwealth Office (see note 17).

Notes to the Accounts

2009/2010

8. Dividend

	2009/10 £000	2008/09 £000
Statutory dividend	447	207
Discretionary dividend	3,000	–
Dividend payable for the year	3,447	207

9. Intangible assets

	2009/10			2008/09		
	Assets under development £000	Software licences £000	Total £000	Assets under development £000	Software licences £000	Total £000
Cost or valuation						
At 1 April	–	162	162	–	–	–
Additions	150	46	196	–	55	55
Transferred from tangible fixed assets	24	–	24	106	–	106
Assets brought in to use	(24)	24	–	(106)	106	–
Disposals	–	–	–	–	–	–
Impairments	–	–	–	–	–	–
Revaluation	–	–	–	–	–	–
As at 31 March	150	232	382	–	161	161
Amortisation						
At 1 April	–	15	15	–	–	–
Provided during the year	–	59	59	–	14	14
Disposals	–	–	–	–	–	–
Impairments	–	–	–	–	–	–
Revaluation	–	–	–	–	–	–
As at 31 March	–	74	74	–	14	14
Net book value						
As at 31 March	–	147	147	–	–	–
As at 31 March	150	158	308	–	147	147
Owned as at 31 March	150	158	308	–	147	147

Notes to the Accounts

2009/2010

10. Property, plant and equipment

2009/10	Assets under construction £000	Fixtures £000	Information technology £000	Transport equipment £000	Plant and machinery £000	Total £000
Cost or valuation						
At 1 April 2009	139	–	945	1,112	3,342	5,538
Additions	743	80	836	70	556	2,285
Assets brought into use	(88)	–	24	16	48	–
Transferred to intangible fixed assets	(24)	–	–	–	–	(24)
Disposals	(2)	–	(13)	(121)	(41)	(177)
Revaluation	–	–	204	58	74	336
As at 31 March 2010	768	80	1,996	1,135	3,979	7,958
Depreciation						
At 1 April 2009	–	–	638	672	1,371	2,681
Provided during the year	–	–	250	138	566	954
Disposals	–	–	(14)	(108)	(41)	(163)
Revaluation	–	–	148	35	33	216
As at 31 March 2010	–	–	1,022	737	1,929	3,688
Net book value						
As at 31 March 2010	768	80	974	398	2,050	4,270
As at 31 March 2009	139	–	307	440	1,971	2,857
Owned as at 31 March 2010	768	80	974	398	2,050	4,270

All assets have been revalued at 31 March 2010 using appropriate indices.

Notes to the Accounts

2009/2010

Note 10 continued

2008/09	Assets under construction £000	Fixtures £000	Information technology £000	Transport equipment £000	Plant and machinery £000	Total £000
Cost or valuation						
At 1 April 2008	261	–	1,265	886	2,473	4,885
Additions	139	–	38	34	1,319	1,530
Assets brought into use	(155)	–	10	145	–	–
Transferred to intangible fixed assets	(106)	–	–	–	–	(106)
Disposals	–	–	(258)	(62)	(475)	(795)
Revaluation	–	–	(110)	109	25	24
As at 31 March 2009	139	–	945	1,112	3,342	5,538
Depreciation						
At 1 April 2008	–	–	801	538	1,214	2,553
Provided during the year	–	–	168	124	577	869
Disposals	–	–	(254)	(57)	(431)	(742)
Revaluation	–	–	(77)	67	11	1
As at 31 March 2009	–	–	638	672	1,371	2,681
Net book value						
As at 31 March 2009	139	–	307	440	1,971	2,857
As at 31 March 2008	261	–	464	348	1,259	2,332
Owned as at 31 March 2009	139	–	307	440	1,971	2,857

Notes to the Accounts

2009/2010

11. Inventories

	2009/10 £000	2008/09 £000
Raw materials and consumables	1,321	1,479
Work in progress	72	576
	<u>1,393</u>	<u>2,055</u>
Amount of inventory write down	<u>84</u>	–

Included within work in progress is £27,000 in respect of the FCO (31/03/09 £434,000)

12. Trade receivables and other current assets

12(a) Analysis by type

Amounts falling due within one year:	2009/10 £000	2008/09 £000
Trade receivables	6,027	17,506
VAT	188	–
Other receivables	393	501
Prepayments and accrued income	5,428	4,269
	<u>12,036</u>	<u>22,276</u>

12(b) Intra-government balances

	2009/10 £000	2008/09 £000
Foreign and Commonwealth Office	4,835	18,309
Other central government bodies	5,978	2,722
<i>Subtotal: intra-government bodies</i>	<u>10,813</u>	<u>21,031</u>
Balances with bodies external to government	1,223	1,245
Total trade receivables and other current assets	<u>12,036</u>	<u>22,276</u>

Notes to the Accounts

2009/2010

13. Cash and cash equivalents

	2009/10 £000	2008/09 £000
Balance at 1 April	38,889	–
Net change in cash and cash equivalents	167	38,889
Balance at 31 March	39,056	38,889

The above balances at 31 March were held at the Office of HM Paymaster General.

14. Trade payables and other current liabilities

14(a) Analysis by type

Amounts falling due within one year:	Note	2009/10 £000	Restated 2008/09 £000
Trade payables		637	58
Accruals		10,131	15,160
Payments on account*		8,008	11,161
Other payables**		5,525	6,871
VAT		–	1,416
Dividends payable		447	207
Loans repayable in one year	17	4,000	2,000
		28,748	36,873

* Included within payments on account is £5,968,000 from the FCO (2008/09 £8,611,000).

** Included in other payables is £533,000 (2008/09 £2,077,000) due to FCO in respect of management charges and accommodation.

In 2008/09, trade payables incorrectly included certain accruals amounting to £2,553,000. As a consequence for 2008/09, trade payables are restated to £58,000 (previously £2,611,000) and accruals are restated to £15,160,000 (previously £12,607,000).

Notes to the Accounts

2009/2010

14(b) Intra-government balances

	2009/10 £000	2008/09 £000
Foreign and Commonwealth Office	17,722	22,838
Other central government bodies	2,401	2,692
<i>Subtotal: intra-government bodies</i>	20,123	25,530
Balances with bodies external to government	8,625	11,343
Trade payables and other current liabilities	28,748	36,873

15. Commitments under leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

Obligations under operating leases comprise	2009/10 £000	2008/09 £000
Buildings		
Expiry within one year	–	–
Expiry after 1 year but not more than 5 years	–	–
Expiry thereafter	156	174
	156	174
Other:		
Expiry within one year	–	2
Expiry after 1 year but not more than 5 years	1	4
Expiry thereafter	–	–
	1	6

There are no obligations under operating leases for land or for finance leases.

Notes to the Accounts

2009/2010

16. Provision for liabilities and charges

	2009/10 £000	2008/09 £000
Provided in the year against contract losses and expected to be utilised within one year	316	–
	<u>316</u>	<u>–</u>

17. Financial liabilities

	2009/10 £000	2008/09 £000
Loans		
Repayable in under a year	4,000	2,000
Repayable in one to two years	2,951	4,000
Repayable in two to five years	4,852	7,803
Repayable after five years	951	951
	<u>8,754</u>	<u>12,754</u>

The above loans were provided to the Fund by the Secretary of State for Foreign and Commonwealth Affairs.

Loans comprise:

Loans	Total Outstanding £000	Interest Rate%	Date drawn	Due within 12 months £000 Note 13(a)	2009/10 Due after 12 months £000
Vesting Day Loan	4,754	4.03%	01/04/08	–	4,754
Working Capital Loan	8,000	4.01%	01/04/08	4,000	4,000
	<u>12,754</u>			<u>4,000</u>	<u>8,754</u>

Notes to the Accounts

2009/2010

18. Adjustments for non-cash transactions

	Note	2009/10 £000	2008/09 £000
Loss on disposal of property, plant and equipment		12	46
Amortisation	9	59	14
Depreciation	10	954	869
Impairment		–	9
		1,025	938

19. Capital commitments

There are no contracted capital commitments at 31 March 2010 (2008/09 £nil) for which provision has not been made.

Capital expenditure approved but not contracted amounted to £415,000 at 31 March 2010 (2008/09 £177,000).

20. Other financial commitments

The Trading Fund has not entered into any non-cancellable contracts (which are not leases or PFI contracts).

21. Contingent liabilities disclosed under IAS 37

At 31 March 2010 contingent liabilities existed in respect of employment £11,000 (2008/09 £nil) and commercial disputes £91,000 (2008/09 £nil). While the outcome of these matters cannot be precisely foreseen, it is anticipated that the matters will be resolved within the next financial year.

22. Financial instruments

For FCO Services, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. FCO Services' treasury operations are governed by the FCO Services Trading Fund Order 2008 (SI 2008 No 590) as supplemented by the Framework Document 2008.

FCO Services' financial instruments comprise cash deposits, government loans and other items such as trade receivables and trade payables. The main purpose of the financial instruments is to finance the Trading Fund's continuing operations.

Credit risk

Exposures to credit risk are as a result of transactions in FCO Services' ordinary course of business, the major risks being trade receivables and cash. Customers are mainly the Foreign and Commonwealth Office, other government bodies and other central government bodies. These risks are managed through the credit management policy issued by the FCO Services Board.

Liquidity risk

The Trading Fund is not exposed to a liquidity risk as long as its annual surplus is sufficient to clear the loan and interest repayments. The level of capital expenditure payments is managed to be met from available cash balances. Further borrowing requirements should they arise, will be met by loans from the Secretary of State for Foreign and Commonwealth Affairs.

Interest rate risk

Under the FCO Services Trading Fund Order 2008, the Trading Fund may only borrow from the Secretary of State for Foreign and Commonwealth Affairs.

Interest rates on the loans are fixed for the period of the loans. Cash not immediately required is invested with the Office of HM Paymaster General. The interest rate earned on cash deposits varies and will offset the interest on loans to some extent.

Foreign currency risk

The majority of assets and liabilities are denominated in sterling. There are, however, some non-material transactions that are subject to currency fluctuations. Any gains or losses are taken to the income and expenditure account in the year.

23. Losses and special payments

During the year, costs falling into the categories of losses and special payments were below the level of £250,000, at which they needed to be reported separately (2008/09 £nil).

24. Related party transactions

FCO Services is a Trading Fund of the FCO. The FCO (The Department) is regarded as a related party. During the year, FCO Services had various material transactions with the Department.

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

Notes to the Accounts

2009/2010

Note 24 continued

No Board member, key manager or other related parties has undertaken any material transaction with FCO Services during the year.

Tim Gardner served on the Audit Committee of FCO Services during the period. He is Finance Director of the FCO, the sponsoring department and a major customer.

25. Events after the reporting period

There were no reportable events between the end of the reporting period and the date the accounts were signed.

The accounts were authorised for issue on 7 July 2010.



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