

Foreign and Commonwealth Office

Resource Accounts 2007-08

(For the year ended 31 March 2008)

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Annual Report

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

1. Scope

1.1 Entities within the Departmental Accounting Boundary

The Foreign and Commonwealth Office (FCO) includes FCO Services (executive agency) and Wilton Park Executive Agency within its Departmental Accounting Boundary. The accounts of these three entities are consolidated within these resource accounts.

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

FCO programmes include payments to :

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

Further details are included in the Notes to the Accounts.

2. Management Commentary

2.1 The role of the FCO

The staff of the FCO work in the UK and in 278 diplomatic Posts abroad. The FCO works for UK interests by delivering:

- A flexible Global Network serving the whole of the British Government.
- Three Essential Services that:-
 - Support the British economy
 - Support British nationals abroad
 - Support managed migration for Britain.
- Four new Policy Goals to:-
 - Counter terrorism, weapons proliferation and their causes
 - Prevent and resolve conflict
 - Promote a low carbon, high growth, global economy
 - Develop effective international institutions, above all the UN.

2.2 FCO priorities

During the year ended 31 March 2008 the FCO worked to the Strategic Priorities (SPs) identified in the March 2006 White Paper "Active Diplomacy for a Changing World: The UK's International Priorities". These were:

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

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

The FCO's settlement under the 2007 Comprehensive Spending Review identified the resources that the FCO will bring to bear on the longer-term delivery of these priorities.

When David Miliband became Foreign Secretary in June 2007 he set in hand a strategic review to ensure that the FCO was focused on the most important issues where it could make the most difference. Following this review, the FCO now has four new policy goals. These are to counter terrorism, prevent and resolve conflict, promote a low carbon, high growth global economy, and develop effective international institutions. Highlights in these areas have included successful negotiation for the return of former UK residents from Guantanamo Bay, work undertaken with the Afghan Government to improve Afghanistan's capacity to govern itself, UK promotion of the first UN Security Council debate on low carbon, high growth economies, and central FCO involvement in the negotiation of the Lisbon Treaty.

The FCO has also reaffirmed its commitment to maintaining a flexible, global network that serves the whole of Government and it continues to deliver essential services by supporting the British economy, providing assistance for nearly 35,000 British nationals in serious distress abroad, and supporting managed migration into Britain. More information can be found in the FCO's Departmental Annual Report 2007-08 (Chapter 1, Highlights of the Year, an overview).

As part of the new strategic framework, the FCO also has a new mission statement – "Better World, Better Britain" – reflecting the fact that, in our interdependent world, we can no longer have environmental, physical or economic security in the UK without promoting it overseas. A better world is necessary for a better Britain.

The new strategic framework explicitly recognises the role of the FCO's global network in delivering for the Government as a whole. This means that, in addition to delivering the FCO's own new policy priorities and its public services, FCO posts will continue to provide a platform for the rest of Government to deliver their own international priorities.

2.3 Key relationships with stakeholders

Some of the more important stakeholder categories are:

- Foreign governments and international organisations who we seek to influence and work in partnership with in order to promote UK interests.
- Other UK government departments since FCO Posts overseas support the international work of partners across government, providing a platform for their staff overseas, gathering information and lobbying on their behalf.
- Customers of services provided by the FCO – these include British nationals travelling or living overseas, UK companies seeking to do business abroad and foreign nationals seeking to enter the UK.
- Partners in service delivery – key among these are UKVisas, UK Trade and Investment, public diplomacy partners (eg BBC World Service, British Council) and consular partners (travel industry, insurance industry, certain Non-Governmental Organisations (NGO's)).
- Broader stakeholders – these include Parliament, especially the Foreign Affairs Committee, the international NGO community, faith communities, the media and the wider public.

2.4 Report on meeting Public Service Agreement (PSA) targets

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

- The Autumn Performance Report 2007 (published online only) contained a summary of progress between April and September 2007 and was published on 13 December 2007. The report is available at www.fco.gov.uk.
- The Departmental Report 2007-08 was published in May 2008 and contained final assessments for all PSA targets the FCO was working towards between April 2007 and March 2008. The report is available at www.fco.gov.uk.
- Between April 2007 and March 2008, the FCO was working towards the nine PSA targets set during the 2004 spending review (SR 2004) covering 2005-2008.
- Progress assessments were made using scorecards. These are developed from PSA technical notes which detail the full PSA text and contain background information and performance indicators for all PSA targets. A summary can be viewed at www.fco.gov.uk.
- Final assessments for the nine 2005-2008 PSA targets were rated as one being "met" (PSA 8: Sustainable development), seven being "partially met" and one being "not met" (PSA 1: Weapons of mass destruction).

2.5 Comparison of 2007-08 Outturn against Estimate (see Notes 2 to 4 to the accounts)

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

Net total resources expended for both RfR 1 and RfR 2 was £1,957,738,000 against the Estimate of £2,075,750,000, resulting in an overall underspend of resources of £118,012,000 (6%).

On RfR 1 this comprises an underspend of £62,008,000 (4%) before an adjustment for impairment reversals of £53,920,000 referred to under Line F below. On RfR 2 the underspend was £2,084,000 (0.6%).

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

- Expenditure on RfR1 Line A: Administration, programmes and international organisations subscriptions is £56,725,000 below Estimate.
This is because of lower than planned expenditure on staff (where we exceeded our efficiency target), internal market, security (relating to efficiencies made in Middle East expenditure) and travel costs (following a change in travel provider).
- Expenditure on RfR1 Line E: British Council Capital Grant is £4,700,000 below Estimate because the purchase of their new Mumbai office could not be completed before the end of the financial year.
- Expenditure on RfR1 Line F (AME): Administration is £53,920,000 below Estimate representing impairment reversals as a result of estate valuations being higher than expected and the new IT building at Hanslope Park not being completed before the year end.
- Expenditure on RfR2 Line B: Global – Peacekeeping is £1,567,000 above Estimate because the final distribution of project costs between FCO, DFID and MOD differed from earlier estimates submitted for the Spring Supplementary Estimates.
- RfR2 Line C: Sub-Saharan Africa – Peacekeeping and Line D: Global – Peacekeeping are jointly managed. Net expenditure was £3,420,000 below Estimate, less than 10%.

As shown in Note 3.2 RfR1 Administration costs expenditure is £76,286,000 (9%) below budget. This is principally a result of lower than expected impairment, staff, internal market, security and travel costs.

As shown in Note 4 Capital expenditure is £10,066,000 (5%) below Estimate. This was because of lower expenditure on armoured vehicles, security works not completed, visa biometrics expenditure less than planned, consular expenditure lower than originally planned and expenditure on major estates projects was less than expected.

2.6 Resources available to the FCO

Assets

- The FCO's Departmental Investment Strategy was published in April 2005 (available at www.fco.gov.uk) and gives details of the FCO's asset base and broad strategies for the estate, security, and information and communications investment. A further updated strategy will be published in 2008.
- The Home Estate was rationalised in 2006-07, relinquishing leased offices in Albert Embankment (Vauxhall) and Apollo House (Croydon) concentrating on our central London properties (King Charles Street and Old Admiralty Building) and Hanslope Park (Milton Keynes). Recently, it has been necessary to obtain small leased offices in Centrepont and Milton Keynes to provide legalisation services to business and the public.
- The current overseas estate consists of some 4,850 properties, ranging from Embassy buildings, accommodation and other facilities. The overseas estate accommodates not only FCO staff but also partners across Government and public sector organisations.
- The FCO estate is actively managed using Key Performance Indicators (KPIs) to inform our estate decisions on the composition of the estate and the balance between leased and owned properties. Approximately 40% of properties are leased and 60% are owned. We assess a property's worth to us in terms of value for money criteria, fitness for purpose, physical condition and size relative to our needs. Our portfolio is therefore not static: the estate mix responds to operational needs as well as the performance of properties.

People

- The FCO has a total permanent staff of around 16,000, of whom 6,000 are recruited in the UK and 10,000 recruited overseas. Information on Human Resources policies can be found in Part 2 of the FCO Departmental Report.

2.7 Risk

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

2.8 Key Contractual Arrangements

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

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

The FCO's largest ICT project is the contract with Hewlett Packard (HP) for the management, support and development of its global ICT desktop infrastructure, 'Future Firecrest'. Under the 7-year contract, the private sector partner will have overall responsibility for the end-to-end delivery of the desktop services to a pre-agreed level of performance. In December 2007 the FCO changed its travel provider from American Express to Hogg Robinson.

2.9 Contingent Liabilities

Note 31 to the Resource Accounts states that the FCO has £10,773,000 of contingent liabilities which are disclosed under parliamentary reporting requirements but which are not disclosed under FRS12 as the likelihood of payment resulting is remote.

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

In addition, the FCO has reported operational contingent liabilities under FRS 12 as shown in Note 30.

2.10 Sustainable Development Strategy

Following the review of the FCO's strategy in late 2007, the FCO no longer has a team that focusses on sustainable development work. However, it is worth noting that in 2007-08 the FCO delivered concrete results in priority areas such as Sustainable Forest Management, Environmental Democracy and UN Environment Programme (UNEP) reform. The work on UNEP and Environment reform more generally will see increased focus in 2008-09 given the PM's initiative on reforming international institutions and its focus on environment.

The FCO will however continue to produce a Sustainable Development Action Plan to draw together the different work across the FCO related to sustainable development. The plan is currently in draft and it is hoped will be published on the FCO's website in the summer.

2.11 Personal Data Losses

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

Table 1: Summary of protected personal data related incidents formally reported to the Information Commissioners Office in 2007-08

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
May 2007	Unauthorised disclosure by contractor	Name, address, date of birth, passport number, employment and other details	Less than 50 believed to be affected	Public statements made in the UK and overseas. Independent investigator's report submitted to Parliament
September 2007	Loss of inadequately protected PC from outside secured Government premises	Name, address, date of birth, family details	70	Individuals notified by post
October 2007	Loss of paper documents from outside secured Government premises	Name, address, date of birth, passport number	13	Individuals notified by post
October 2007	Loss of paper documents from outside secured Government premises	Name, address, date and place of birth	19	Individuals notified by post
December 2007	Loss of paper documents from outside secured Government premises	Name, address, date of birth, passport number, financial details, employment details	36	Individuals notified by post

Further action on information risk: The Department will continue to monitor and assess its information risks, in light of the events noted above, in order to identify and address any weaknesses and ensure continuous improvement of its systems.

Table 2: Summary of other protected personal data related incidents in 2007-08.

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures.

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	1
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	2
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	–
IV	Unauthorised disclosure	1
V	Other	–

The FCO did not collect information on personal data incidents centrally before 2007-08 and consequently year-on-year numbers are not presented this year.

3. Corporate Governance

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

- Ensuring the organisation delivers the Departmental Strategic Objectives (DSOs), PSA targets and service delivery targets set by Ministers.
- Taking strategic decisions on the FCO's corporate agenda, including change.
- Effectively allocating and managing resources, in line with the Departmental Strategic Objectives.
- Communicating the FCO's purpose, priorities and vision to staff and other stakeholders.
- Monitoring and improving performance and accountability; and
- Protecting and enhancing the FCO's reputation for professionalism, effectiveness, integrity and efficiency.

3.2 The FCO Board is made up of ten members: the Permanent Under-Secretary of State (PUS) who chairs, Directors-General for Finance, Political, Change & Delivery, Europe & Globalisation and Defence & Intelligence, the Chief Information Officer, the Chief Executive of UK Trade & Investment, and two independent Non-Executive Directors. The FCO's Senior Appointments Board ("the No. 1 Board") appoints Board members and decisions are ratified by the Secretary of State.

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

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

3.5 FCO Ministers' portfolios and responsibilities are set out for all staff on the FCO internal website. The Foreign Secretary, joined by other Ministers as appropriate, holds regular meetings with the Board, to set strategic direction.

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

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

3.8 The Audit & Risk Committee (ARC) was created in 2002 to provide support to the Board. It is chaired by an independent Non Executive Director and the majority of its members are non-executive. It has an important responsibility in reviewing the work of Internal Audit and the National Audit Office and providing advice on the adequacy of controls in place – both to the Board and personally to the PUS as the FCO's Accounting Officer. The ARC keeps under review counter-fraud measures (e.g. whistleblowing) and the work of the FCO's dedicated counter-fraud teams, the Financial Compliance Unit and (until 1 April 2008) the UKvisas Operational Integrity Section. The ARC encourages an appropriate and proportionate approach to handling operational risks that balances the extent of the controls with the magnitude of the risk they are designed to address. Certain assurance work (e.g. security and health and safety) falls outside of their scope. Formal terms of reference for the ARC are available on FCO web site (www.fco.gov.uk) together with details of the Committee's membership.

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

3.10 They include regular bilateral meetings at Ministerial level and regular bilateral meetings at Permanent Under-Secretary level to maintain strategic and financial oversight. The Public Diplomacy Board is also responsible for agreeing overall public diplomacy strategy, advising on resource allocation, and for performance management and monitoring. This Board is chaired by the FCO Minister for Europe and includes the British Council Chief Executive, FCO Communications Director, BBC World Service Director and two independent members. The BBC World Service has observer status in recognition of its editorial independence. Further details on the Public Diplomacy Board and strategy, and FCO corporate governance, are contained in the annual FCO Departmental Report.

4. Senior Management

4.1 Ministers

Ministerial portfolios and responsibilities during the year were as follows:

Secretary of State for Foreign and Commonwealth Affairs: Rt Hon David Miliband MP (from June 2007; Rt Hon Margaret Beckett MP until June 2007)

Overall responsibility for the work of the FCO; Communications; Policy Planning and Research Analysts; Honours; Whitehall Liaison Department.

Minister for Africa, Asia and the UN, attending Cabinet: Rt Hon Lord Malloch-Brown (from June 2007)
FCO business in the Lords, Asia – Afghanistan/Sub-continent and Far East, Africa, United Nations, Human Rights, Global Issues, Commonwealth, Chair Ministerial Oversight Board for FCO Services.

Minister of State: Dr Kim Howells MP
Middle East (including Iraq and Iran); South America and North America; Drugs and International Crime; Counter-Terrorism; Counter-Proliferation; UKvisas; Migration Policy; Leads on Afghanistan/Sub-Continent in Commons.

Minister of State for Trade and Investment: Lord Jones (from July 2007; Rt Hon Ian McCartney MP until June 2007)
(jointly with the Department for Business, Enterprise and Regulatory Reform)

Minister for Europe: Jim Murphy MP (from June 2007; Rt Hon Geoff Hoon MP until June 2007)
European Union and Europe; Russia, South Caucasus and Central Asia; Balkans; Ukraine, Belarus and Moldova. OSCE and Council of Europe; NATO; Public Diplomacy Board.

Parliamentary Under-Secretary of State: Meg Munn MP (from June 2007)
Overseas Territories; Caribbean/Central America; South East Asia and Pacific; Consular Policy; Responsible for UKTI; Leads on Africa/Asia in Commons.

Until June 2007 Lord Triesman of Tottenham was Parliamentary Under-Secretary of State with responsibility for:

All FCO business in the House of Lords; Africa; Latin America, the Caribbean and Overseas Territories; the Commonwealth; UKvisas; FCO Services; Migration Policy; Consular Policy (casework to be handled according to geographical responsibilities); Public Diplomacy, including the British Council and BBC World Service.

4.2 Members of the FCO Board

The composition of the Board during the year was as follows:

Peter Ricketts

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

Andrew Cahn

Chief Executive, UK Trade and Investment

Mark Lyall Grant

Director General – Political

Mariot Leslie (from August 2007)

Director General – Defence and Intelligence

David Richmond (until November 2007)

Director General – Defence and Intelligence

Simon Fraser (from February 2008)

Director General – Europe and Globalisation

Martin Donnelly (until February 2008)

Director General – Europe and Globalisation

Keith Luck

Director General – Finance

James Bevan (from July 2007)

Director General – Change and Delivery

Richard Stagg (until June 2007)

Director General – Corporate Affairs

David Warren (until September 2007)

Director – Human Resources

Tony Mather
Chief Information Officer

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

Alistair Johnston
Non-executive Director

Alison Platt
Non-executive Director

4.3 Senior Official Appointments

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

5. Remuneration report

5.1 Remuneration policy

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

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

The salary of the Chief Executive of UKTI is set by the Department for Business, Enterprise and Regulatory Reform.

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

The salaries of members of the Board in Senior Management Structure Payband 2 follow a framework set centrally for the civil service in response to the recommendations of the Senior Salaries Review Board. Annual pay awards for these staff are determined by the Payband 2 Remuneration Committee, which is chaired by the Director General for Change and Delivery.

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

The information given below relates to the Ministers and other senior managers of the FCO for the period in which they were in office or on the Board. Equivalent information relating to FCO Services and Wilton Park Executive Agency is given in their own accounts.

Remuneration

Ministers	2007-08	2006-07
	Ministerial salary	Ministerial salary
	£000	£000
Rt Hon David Miliband MP (from June 2007)	50-55	–
Rt Hon Margaret Beckett MP (until June 2007)	15-20	60-65
Rt Hon Lord Malloch-Brown (from June 2007)	60-65	–
Dr Kim Howells MP	35-40	35-40
Lord Jones (from July 2007)	85-90	–
Rt Hon Ian McCartney MP (until June 2007)	5-10	30-35
Jim Murphy MP (from June 2007)	25-30	–
Rt Hon Geoff Hoon MP (until June 2007)	5-10	30-35
Meg Munn MP (from June 2007)	20-25	–
Lord Triesman of Tottenham (until June 2007)	25-30	100-105

In addition to the above, severance payments were made to Margaret Beckett and Ian McCartney.

In respect of the senior managers of the FCO, the information given below relates to **the period for which they were on the Board.**

Members of the FCO Board	2007-08	2006-07
	Salary	Salary
	£000	£000
Peter Ricketts	180-185	110-115
Andrew Cahn*	–	–
Mark Lyaall Grant	180-185	20-25
Mariot Leslie (from August 2007)	90-95	–
David Richmond (until November 2007)	105-110	125-130
Simon Fraser (from February 2008)	15-20	–
Martin Donnelly (until February 2008)	120-125	125-130
Keith Luck	180-185	45-50
James Bevan (from July 2007)	100-105	–
Richard Stagg (until June 2007)	30-35	195-200
David Warren (until September 2007)	50-55	100-105
Tony Mather	125-130	10-15
Anne Pringle (until April 2007)	0-5	100-105
<i>Non-executive:</i>		
Alistair Johnston	15-20	15-20
Alison Platt	5-10	10-15

*Andrew Cahn is remunerated by the Department for Business, Enterprise and Regulatory Reform and relevant disclosures can be found in the resource accounts of that Department for 2007-08.

This table has been subject to audit.

Salary

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

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

Benefits in kind

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

Pension benefits

Ministers	Accrued pension at age 65	Real increase in pension at age 65	CETV at 31 March 2008	CETV at 31 March 2007	Real increase in CETV
	£000	£000	£000	£000	£000
Rt Hon David Miliband MP (from June 2007)	5-7.5	0-2.5	50	41	3
Rt Hon Margaret Beckett MP (until June 2007)	17.5-20	0-2.5	275	267	4
Rt Hon Lord Malloch-Brown (from June 2007)*	–	–	–	–	–
Dr Kim Howells MP	7.5-10	0-2.5	141	111	17
Lord Jones (from July 2007)	0-2.5	0-2.5	13	–	9
Rt Hon Ian McCartney MP (until June 2007)	5-7.5	0-2.5	73	69	1
Jim Murphy MP (from June 2007)	2.5-5	0-2.5	34	27	2
Rt Hon Geoff Hoon MP (until June 2007)	12.5-15	0-2.5	138	135	1
Meg Munn MP (from June 2007)	0-2.5	0-2.5	13	8	3
Lord Triesman of Tottenham (until June 2007)	5-7.5	0-2.5	81	75	4

*Rt Hon Lord Malloch-Brown has opted out of the pension scheme.

CETV (the Cash Equivalent Transfer Value) is defined below.

Ministerial pensions

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

Those Ministers who are Members of Parliament may also accrue an MP's pension under the PCPF (details of which are not included in this report). The arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change) but Ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate and a lower rate of employee contribution.

Benefits for Ministers are payable at the same time as MP's benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office from age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate or 10% of salary if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost as advised by the Government Actuary. This is currently 26.8% of the ministerial salary.

The accrued pension quoted is the pension the Minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

The Cash Equivalent Transfer Value (CETV)

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

The real increase in the value of the CETV

This is effectively the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the Minister and are calculated using common market valuation factors for the start and end of the period.

Members of the FCO Board	Accrued pension at age 60 at 31 March	Related lump sum at 31 March	Real increase in pension at age 60	Related lump sum at age 60	CETV at 31 March 2008	CETV at 31 March 2007	Real increase in CETV
	£000	£000	£000	£000	£000	£000	£000
Peter Ricketts	70-75	215-220	5-7.5	17.5-20	1,609	1,292	132
Andrew Cahn*	–	–	–	–	–	–	–
Mark Lyall Grant	40-45	125-130	0-2.5	0-2.5	826	713	8
Mariot Leslie (from August 2007)	40-45	130-135	10-12.5	30-32.5	922	606	223
David Richmond (until November 2007)	40-45	130-135	0-2.5	5-7.5	846	764	46
Simon Fraser (from February 2008)	20-25	70-75	0-2.5	0-2.5	442	423	7
Martin Donnelly (until February 2008)	40-45	125-130	0-2.5	5-7.5	778	651	42
Keith Luck	2.5-5	–	2.5-5	–	55	10	38
James Bevan (from July 2007)	35-40	105-110	5-7.5	17.5-20	635	412	104
Richard Stagg (until June 2007)	50-55	150-155	2.5-5	10-12.5	837	826	95
David Warren (until September 2007)	45-50	–	0-2.5	–	818	815	6
Tony Mather	0-2.5	–	0-2.5	–	28	2	22
Anne Pringle (until April 2007)**	–	–	–	–	–	634	–
<i>Non-Executive:</i>							
Alistair Johnston	–	–	–	–	–	–	–
Alison Platt	–	–	–	–	–	–	–

*Andrew Cahn is remunerated by the Department for Business, Enterprise and Regulatory Reform and relevant disclosures can be found in the resource accounts of that Department for 2007-08.

**Anne Pringle served on the Board for the first three days of 2007-08 and therefore full pension data is not given.

This table has been subject to audit.

5.3 Pensions

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

Civil Service Pension

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either 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 being 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 good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, 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' 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 in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his 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) pension for 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 selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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 PCSPS arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has

accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated 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 drawn.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

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

Three individuals retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £5,132.

Other information

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit scheme but the FCO is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007. Details can be found in the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk). For 2007-08, contributions of £43,132,000 were paid to the PCSPS (2006-07: £39,119,000) at one of four rates in the range of 16.2% to 24.6% of pensionable pay, based on salary bands. Rates will remain the same for the next year, subject to evaluation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

5.4 Compensation for loss of office

David Richmond left under early retirement terms in November 2007 and received immediate payment of his pension and associated lump sum plus a compensation payment in the range £55,000-£60,000.

6. Public interest and other matters

6.1 Employment of People with a Disability

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

6.2 Equal Opportunities

The FCO is an equal opportunities employer. Policies are in place to guard against unfair discrimination or barriers to employment and advancement. The FCO Equal Opportunity policy states that no staff should be exposed to unfair discrimination, including harassment, bullying or victimisation on any

grounds, particularly age, gender, marital status, race, disability, religion or sexual orientation. The FCO aims to provide all staff with equality of opportunity in all aspects of their work. Employment and promotion are on merit. Staff whose working patterns are atypical are assessed on exactly the same basis as those working full time. Equal opportunity considerations are at the core of FCO personnel policies.

6.3 Sickness absence

The FCO adopted new Sickness Absence Management Policy and Procedures in December 2007. The new arrangements clarify and tighten the way we handle absences, especially short-term sickness absence. We have also introduced new arrangements from January 2008 for the electronic recording of sickness absence, which should improve the accuracy and completeness of our absence records.

The following table summarises sickness absence rates for UK civil servants employed by the FCO:

	2007-08	2006-07
Working days lost (short-term absence)	17,720	16,094
Working days lost (long-term absence)	3,602	5,627
Total working days lost	<u>21,322</u>	<u>21,721</u>
Average annual working days lost per employee	<u>3.5</u>	<u>3.6</u>

6.4 Payment of Suppliers

The Foreign and Commonwealth Office follows the CBI Prompt Payment Code and aims to settle suppliers' accounts within 30 days. During 2007-08, this was achieved in 93% of cases (2006-07: 93%). Invoice Processing for UK Departments was centralised in November 2007 and this will lead to improvements in process and payment performance.

6.5 Disclosure of relevant audit information

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

7. Post balance sheet events

On 1 April 2008 FCO Services (executive agency) was established as a trading fund in accordance with the FCO Services Trading Fund Order 2008 (SI 2008 No.590). At that date the FCO funded the new trading fund by a long-term loan of £10,000,000.

On 1 April 2008 UKvisas was transferred to UK Border Agency (UKBA) as an executive agency of the Home Office under a Machinery of Government change. From that date the new body will continue to operate through the FCO worldwide network through a Service Level Agreement and all visa income formerly shown in the accounts of the FCO will fall to UKBA.

8. Auditors

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

Peter Ricketts
Accounting Officer
23 June 2008

Statement on Internal Control

1. Scope of responsibility

1.1 As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of FCO 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. I discharge this responsibility in conjunction with Directors-General, Directors and Sub-Accounting Officers who head the FCO overseas missions. The Department's two Executive Agencies (one of which – FCO Services – became a Trading Fund on 1 April 2008) and six Executive Non-Departmental Public Bodies are also headed by Accounting Officers and were overseen by FCO Directors or Directors General in 2007-08 as follows:

Sponsored Body	Accounting Officer	FCO Oversight
FCO Services	Chris Moxey	Keith Luck
Wilton Park	Donald Lamont	Lucian Hudson
British Council	Martin Davidson	Lucian Hudson
BBC World Service	Nigel Chapman	Lucian Hudson
Westminster Foundation for Democracy	David French	Stephen Pattison and Paul Johnston
Great Britain-China Centre	Katie Lee	Sebastian Wood
British Association for Central & Eastern Europe	Nicholas Jarrold	Shan Morgan and Anthony Smith
Marshall Aid Commemoration Commission	Jonathan Taylor and Dr Frances Dow	Chris Wood

1.2 My relationship with these Accounting Officers and Sub-Accounting Officers is set out in statements contained in the respective letters of delegation, Framework Documents and Financial Memoranda. The Foreign Secretary chairs regular meetings with the Board to set the strategic direction of the Office. These meetings have ad hoc agenda, but can be used for either Ministers or the Board to raise any risk management issue of concern.

2. The purpose of the system of internal control

2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of FCO policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them economically, efficiently and effectively. The system of internal control has been in place in the FCO for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

3.1 The FCO Risk Management Framework has been approved by the Board and is designed to spread best practice throughout the office in a way that is relevant to the FCO, drawing on existing mechanisms, while maintaining adequate audit trails. The FCO has continued to make good progress in embedding risk management throughout the office. There is explicit leadership from senior management and the FCO framework for managing risks has further evolved and improved. Conscious risk management is an increasingly integral part of how FCO business is done, in both policy and operational areas, and staff expertise continues to grow.

4. The risk and control framework

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

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

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

- **Top Risks Register:** captures the top risks to FCO operational and strategic performance. It is updated quarterly for the FCO Board to consider, though particular risks may be discussed at any Board meeting. Any Board decisions on each risk are logged in the register, which is then circulated to risk owners, Board members, Directors and the Senior Leadership Forum.
- **Operational Risks Register:** captures the major, high-level risks to FCO operations or service delivery. It is updated quarterly for consideration by the Audit & Risk Committee. Those risks requiring Board attention are elevated to the Top Risks Register.
- **Strategic Risks Register:** captures the major, high-level strategic risks – risks associated with the delivery of the FCO Departmental Strategic Objectives (DSOs) that have the potential to impact seriously on FCO reputation, resources and/or operations. It is updated quarterly, with input from DSO Plans, for consideration by the Directors General Political, Defence & Intelligence and Europe & Globalisation. We have recently extended the strategic review process by creating a formal opportunity for the Directors General to challenge risk owners on mitigation strategies. Those risks requiring Board attention are elevated to the Top Risks Register.
- **Risk in the Network:** a quarterly exercise, which enables operational risks from overseas Posts to be reported and elevated, as appropriate, for attention/action at the right level. Posts identify key operational risks through their Country Business Plans and use the Risk in the Network exercise to report progress and developments to Regional Directors, who in turn flag up common themes and significant risks to the Director General Change & Delivery. The most serious, high-level risks from the network can then be included in the Operational Risks Register and brought to the attention of the Audit & Risk Committee. If appropriate, they may then be elevated to the Top Risks Register for consideration by the FCO Board.
- **Self-Audit:** FCO Internal Audit facilitates an annual programme of control risk self-assessment for all Directors-General, Directors and Sub-Accounting Officers overseas. All Home Departments, Groups & Teams undertake detailed testing once every three years.

4.3 The generic risk priorities for the period covered by this Statement on Internal Control were: the security of staff and physical assets, the responsiveness to international crises, whether consular or political in nature, financial control systems and IT project risk.

4.4 FCO exposure to foreign currency risk could be significant because of the nature of its business and geographical presence. Historically, FCO budgets have been protected from exchange rate and differential inflationary pressures by HM Treasury, but, with effect from CSR 08, this protection has been withdrawn. Future budget certainty will be increased through hedging with the Bank of England. Exchange rate differences – comparing budget settlement/spot/hedge rates – will be monitored throughout the year.

5. Review of effectiveness

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

5.2 FCO Internal Audit operates to Government Internal Audit Standards. Their work is informed by the Board's analysis of the risk to which the FCO is exposed, and annual internal audit plans are endorsed by the FCO Audit & Risk Committee and approved by me. The Head of Internal Audit reports, at least annually, on internal audit activity in the FCO and provides me with an independent opinion on the adequacy and effectiveness of FCO systems of governance, risk management and internal control, together with recommendations for improvement. In addition to this, the Audit & Risk Committee Secretary maintains an Assurance Map of services, both internal and external to the FCO, which contribute to my review of the effectiveness of the system of internal control, but which are outside of the committee's scope. These include: health and safety, security and public appointments to arms length bodies. Where appropriate, reports from these assurance providers are considered by the Board.

5.3 The FCO also has a Financial Compliance Unit and (prior to its transfer to the Home Office on 1 April 2008) a UKvisas Operational Integrity Section. Their main role is to investigate actual or suspected irregularity, fraud or corruption and to carry out pro-active surprise visits to test counter-fraud controls. Various other functional departments perform a compliance-monitoring role with regard to their respective areas of responsibility.

5.4 My review of the effectiveness of the system of internal control this year has highlighted the need for some improvement in compliance with established entry clearance and financial procedures overseas, in particular to avoid the retrospective raising of Purchase Orders after funds have been committed and invoices received, and ensure adequate segregation of duties in our purchase to pay systems. The UK Procurement Compliance Panel has extended its remit from 1 April 2008 to cover overseas budget managers and the FCO Board and Audit and Risk Committee will be monitoring performance closely.

5.5 The Office has continued to develop its financial reporting and management information processes during the year, as part of the FCO Five Star Finance programme, although further improvements are needed. As such, I have invited the NAO to conduct a review of our financial management arrangements later this year and their report will be published in 2009.

Peter Ricketts
Accounting Officer
23 June 2008

Statement of Accounting Officer Responsibilities

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

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

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

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

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

I certify that I have audited the financial statements of the Foreign and Commonwealth Office for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and Auditor

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

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

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

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

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

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

Basis of audit opinion

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

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

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2008 and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Annual Report, which comprises the Management Commentary and Remuneration Report is consistent with the financial statements.

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

TJ Burr
Comptroller and Auditor General
27 June 2008

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SP

Statement of Parliamentary Supply

Summary of Resource Outturn 2007-08

Request for resources	Note	Estimate			Outturn			2007-08	2006-07
		Gross expenditure	A in A	Net Total	Gross expenditure	A in A	Net Total	Net total outturn compared with Estimate: Saving/ (excess)	Net Total
		£000	£000	£000	£000	£000	£000	£000	£000
RfR 1	2	2,167,640	(464,352)	1,703,288	1,998,744	(411,384)	1,587,360	115,928	1,579,938
RfR 2	2	377,462	(5,000)	372,462	372,110	(1,732)	370,378	2,084	345,580
Total Resources	3	2,545,102	(469,352)	2,075,750	2,370,854	(413,116)	1,957,738	118,012	1,925,518
Non-operating cost A-in-A				(15,300)			(15,481)	181	(57,256)

Net cash requirement 2007-08

	Note	Estimate	Outturn	2007-08	2006-07
				£000	£000
				Net total outturn compared with Estimate: Saving/ (excess)	Outturn
Net cash requirement	4	2,070,371	2,056,137	14,234	1,853,428

Summary of income payable to the Consolidated Fund

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

	Note	Forecast 2007-08		Outturn 2007-08	
		£000	£000	£000	£000
		Income	Receipts	Income	Receipts
Non-supply income	5	2,401	2,402	14,396	14,396
Non-operating income – excess A in A	5	–	–	181	181
		2,401	2,402	14,577	14,577

Cash receipts are shown in italics.

The notes following these main schedules form part of these accounts.

Operating Cost Statement

for the year ended 31 March 2008

	Note	FCO		Consolidated		2007-08	2006-07
		£000	£000	£000	£000	£000	£000
		FCO		Consolidated		Consolidated	
		Expenditure	Income	Expenditure	Income	Total	Total
Administration							
Staff costs	7	421,514	–	477,222	–	477,222	462,906
Other administration costs	8	833,180	–	785,988	–	785,988	717,742
Operating income	10	–	(66,754)	–	(82,857)	(82,857)	(100,574)
Consular and UKvisas allocated to programme	8, 10	(433,587)	33,664	(433,587)	33,664	(399,923)	(273,316)
		<u>399,593</u>	<u>(33,090)</u>	<u>352,401</u>	<u>(49,193)</u>	<u>303,208</u>	<u>343,852</u>
Total administration costs		<u>821,107</u>	<u>(33,090)</u>	<u>829,623</u>	<u>(49,193)</u>	<u>780,430</u>	<u>806,758</u>
Programme							
Request for Resources 1							
Expenditure	9	1,169,121	–	1,169,121	–	1,169,121	1,046,977
Income	10	–	(368,340)	–	(368,340)	(368,340)	(277,845)
Request for Resources 2							
Expenditure	9	372,110	–	372,110	–	372,110	345,580
Income	10	–	(9,979)	–	(9,979)	(9,979)	(5,164)
Total programme costs		<u>1,541,231</u>	<u>(378,319)</u>	<u>1,541,231</u>	<u>(378,319)</u>	<u>1,162,912</u>	<u>1,109,548</u>
Totals		<u>2,362,338</u>	<u>(411,409)</u>	<u>2,370,854</u>	<u>(427,512)</u>		
Net operating cost	3, 11					<u>1,943,342</u>	<u>1,916,306</u>

The notes following these main schedules form part of these accounts.

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2008

	Note	£000	2007-08 £000	2006-07 £000
		FCO	Consolidated	Consolidated
Net change on revaluation of assets:				
Net gain on revaluation of tangible fixed assets	21	181,626	181,623	50,207
Net loss on revaluation of intangible fixed assets	21	–	–	(18)
Value of assets taken on at nil cost	12	–	–	12,296
Change in valuation of current assets	20	(10,512)	(10,512)	1,608
Retirement benefit actuarial gain	28	1,893	1,893	1,696
		173,007	173,004	65,789

The notes following these main schedules form part of these accounts.

Balance Sheet

as at 31 March 2008

	Note	31 March 2008	31 March 2007
		£000	£000
		FCO	Consolidated
Fixed assets			
Tangible assets	12	1,820,999	1,529,089
Intangible assets	13	1,341	2,301
		1,822,340	1,531,390
Current assets			
Stocks	15	11,784	11,966
Debtors	16	266,778	219,617
Cash at bank and in hand	17	29,757	99,473
		308,319	331,056
Creditors: amounts falling due within one year	18	(235,552)	(299,718)
Net current (liabilities)/assets		72,767	31,338
Total assets less current liabilities		1,895,107	1,562,728
Creditors: amounts falling due after more than one year	18	(42,076)	(32,850)
Provisions for liabilities and charges	19	(65,366)	(66,426)
Net assets before net retirement benefit schemes liability		1,787,665	1,463,452
Net retirement benefit schemes liability			
Retirement benefit schemes asset	28	1,212	326
Retirement benefit schemes liability	28	(1,875)	(2,906)
		(663)	(2,580)
Net assets		1,787,002	1,460,872
Taxpayers' equity			
General fund	20	1,010,457	858,255
Revaluation reserve	21	703,464	538,280
Donated asset reserve	21	73,081	64,337
		1,787,002	1,460,872

Peter Ricketts
Accounting Officer
23 June 2008

Authorised for issue on 30 June 2008.

The notes following these main schedules form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 March 2008

	Note	<u>2007-08</u> £000	<u>2006-07</u> £000
Net cash outflow from operating activities	22.1	(1,883,163)	(1,748,197)
Capital expenditure	22.2	(176,093)	(104,922)
Payments of amounts due to the Consolidated Fund		(14,208)	(4,219)
Financing	22.4	1,983,542	1,838,212
Net change in cash balances	22.5	<u>(89,922)</u>	<u>(19,126)</u>

The notes following these main schedules form part of these accounts.

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

for the year ended 31 March 2008

	2007-08		2006-07			
	£000	£000	£000	£000		
	Gross	Income	Net	Gross	Income	Net
Aim: To work for the United Kingdom's interests in a safe, just and prosperous world						
Strategic Priorities (SP):						
SP1 Making the world safer from global terrorism and weapons of mass destruction.	189,226	(7,588)	181,638	169,817	(6,602)	163,215
SP2 Reducing the harm to the UK from international crime, including drug trafficking, people smuggling and money laundering.	122,310	(2,455)	119,855	87,010	(6,949)	80,061
SP3 Preventing and resolving conflict through a strong international system.	684,041	(19,903)	664,138	763,252	(25,375)	737,877
SP4 Building an effective and globally competitive EU in a secure neighbourhood.	167,322	(5,890)	161,432	207,139	(6,335)	200,804
SP5 Supporting the UK economy and business through an open and expanding global economy, science and innovation and secure energy supplies.	330,654	(11,669)	318,985	298,106	(15,097)	283,009
SP6 Achieving climate security by promoting a faster transition to a sustainable, low carbon global economy.	134,559	(2,360)	132,199	38,412	(932)	37,480
SP7 Promoting sustainable development and poverty reduction underpinned by human rights, democracy, good governance and protection of the environment.	256,165	(14,111)	242,054	326,093	(11,260)	314,833
SP8 Managing migration and combating illegal immigration.	339,662	(293,145)	46,517	219,801	(212,081)	7,720
SP9 Delivering high quality support for British nationals abroad, in normal times and in crises.	123,470	(69,112)	54,358	107,527	(60,935)	46,592
SP10 Ensuring the security and good governance of the UK's Overseas Territories.	23,445	(1,279)	22,166	46,778	(2,063)	44,715
Net Operating Costs	2,370,854	(427,512)	1,943,342	2,263,935	(347,629)	1,916,306

Notes

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

Staff costs	43,384	–	43,384	45,995	–	45,995
Other administration costs	124,355	(6,667)	117,688	86,446	(8,448)	77,998
Depreciation	3,750	–	3,750	9,431	–	9,431
Capital costs	3,408	–	3,408	5,770	–	5,770
	174,897	(6,667)	168,230	147,642	(8,448)	139,194

2. See Note 23 for an analysis of programme costs by objective.

3. Income includes consular, visas and other income. Other income (e.g. receipts from other departments) is administration income and is allocated across all SPs based on weighted headcount.

The notes following these main schedules form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2007-08 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

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

1.1 Accounting convention

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

1.2 Basis of consolidation

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

1.3(a) Tangible fixed assets

Land and buildings are stated at the lower of replacement cost and recoverable amount using periodic professional valuations. The overseas estate is subject to a three-to-five-year rolling revaluation programme and interim annual review. Antiques and works of art are grouped and valued on a market value basis by professional valuers and are included where the valuations equate to or exceed £5,000. Other tangible fixed assets are stated at current value using appropriate indices. The minimum level for capitalisation of a single tangible asset is £3,000, subject to grouping conventions where appropriate. On initial recognition, tangible fixed assets are measured at cost including any costs such as installation directly attributable to bringing them into working condition. Assets are included in the accounts at the cost or valuation applicable as at the balance sheet date; any movements in valuation during the year are taken to the revaluation reserve or treated as impairments where appropriate.

1.3(b) Intangible fixed assets

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

1.4 Depreciation

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

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

1.5 Donated assets

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

1.6 Private Finance Initiative (PFI) transactions

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

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

1.7 Investments

The FCO does not currently hold any fixed asset investments.

1.8 Stocks

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

1.9 Research and development

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

1.10 Operating income

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

1.11 Administration and programme expenditure

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

1.12 Capital charge

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

1.13 Foreign exchange

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

1.14 Pensions

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

1.15 Early departure costs

The FCO meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early retirement and normal retirement date. The FCO provides for this in full when the early retirement programme becomes binding on the Department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2% in real terms (2006-07: 2.2%).

1.16 Terminal benefits for locally engaged staff

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

1.17 Leases

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

1.18 Grants payable

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

1.19 Provisions

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

1.20 Value Added Tax

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

1.21 Third party assets

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

1.22 Contingent liabilities

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

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

2. Analysis of net resource outturn by section

	Admin	Other current	Grants	Gross resource expenditure	A-in-A	Outturn net total	Estimate net total	2007-08 Outturn compared with Estimate	2006-07 Outturn net total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
RfR 1: Promoting internationally the interests of the UK and contributing to a strong world community									
Spending in Departmental Expenditure Limits (DEL)									
<i>Central Government spending</i>									
A: Administration, programmes and international organisations subscriptions	833,543	534,586	172,613	1,540,742	(411,384)	1,129,358	1,186,083	56,725	1,131,784
B: BBC World Service broadcasting	–	222,043	–	222,043	–	222,043	222,043	–	208,543
C: British Council	–	186,362	–	186,362	–	186,362	186,362	–	183,124
D: BBC World Service – Capital grant	–	–	33,000	33,000	–	33,000	33,000	–	31,000
E: British Council – Capital grant	–	–	3,100	3,100	–	3,100	7,800	4,700	5,000
Spending in Annually Managed Expenditure (AME)									
<i>Central Government spending</i>									
F: Administration, programmes and international organisations subscriptions*	–	(3,920)	–	(3,920)	–	(3,920)	50,000	53,920	–
Non-budget									
G: Reimbursement of certain duties, taxes and licence fees	–	–	17,417	17,417	–	17,417	18,000	583	20,487
Total	833,543	939,071	226,130	1,998,744	(411,384)	1,587,360	1,703,288	115,928	1,579,938
RfR 2: Conflict prevention									
Spending in Departmental Expenditure Limits (DEL)									
<i>Central Government spending</i>									
A: Sub-Saharan Africa – Programme expenditure	–	–	7,642	7,642	–	7,642	7,873	231	3,485
B: Global – Programme expenditure	–	–	48,530	48,530	(1,732)	46,798	45,231	(1,567)	40,638
C: Sub-Saharan Africa – Peacekeeping	–	–	204,855	204,855	–	204,855	195,986	(8,869)	198,255
D: Global Peacekeeping	–	–	111,083	111,083	–	111,083	123,372	12,289	103,202
Total	–	–	372,110	372,110	(1,732)	370,378	372,462	2,084	345,580
Resource outturn	833,543	939,071	598,240	2,370,854	(413,116)	1,957,738	2,075,750	118,012	1,925,518

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

*Subhead F above represents impairment reversals (impairments fell under DEL in 2006-07).

3. Reconciliation of outturn to net operating cost and against Administration Budget**3.1 Reconciliation of net resource outturn to net operating cost**

		2007-08	2006-07
		Outturn compared with	
	Supply Estimate	Outturn	Estimate
	£000	£000	£000
Net Resource Outturn	2	2,075,750	1,957,738
Non-supply income (CFERs)	5	–	(14,396)
Net operating cost		2,075,750	1,943,342
		118,012	1,925,518
		14,396	(9,212)
		132,408	1,916,306

3.2 Outturn against final Administration Budget

		2007-08	2006-07
		Outturn compared with Budget	
	Budget	Outturn	with Budget
	£000	£000	£000
Gross Administration Budget	2	962,597	833,543
Income allowable against the Administration Budget	10	(101,961)	(49,193)
Net outturn against final Administration Budget		860,636	784,350
		129,054	871,378
		(52,768)	(64,620)
		76,286	806,758

4. Reconciliation of resources to cash requirement

		2007-08	2006-07
		Saving/ (excess)	
	Estimate	Outturn	Outturn
	£000	£000	£000
Resource Outturn	2	2,075,750	1,957,738
Capital			
Acquisition of fixed assets	12	201,640	191,574
Non-operating A in A			
Proceeds of fixed asset disposals	6	(15,300)	(15,481)
Proceeds of sale of goods and services		–	–
Accruals adjustments			
Non-cash items	8	(191,719)	(135,952)
Changes in working capital other than cash	22	–	48,746
Changes in creditors falling due after more than one year		–	(9,226)
Use of provisions	19	–	16,640
Retirement benefit schemes	28	–	1,917
Excess cash receipts surrenderable to the Consolidated Fund	5	–	181
Net cash requirement		2,070,371	2,056,137
		118,012	1,925,518
		181	(57,256)
		(181)	–
		14,234	1,853,428

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

5. Analysis of income payable to the Consolidated Fund

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

	Forecast 2007-08		Outturn 2007-08	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Other operating income and receipts – not classified as A in A	2,401	2,402	14,396	14,396
Non-operating income and receipts – excess A in A	–	–	181	181
Total income payable to the Consolidated Fund	2,401	2,402	14,577	14,577

6. Analysis of non-operating income – excess A in A

	2007-08	2006-07
	£000	£000
Proceeds of fixed asset disposals	15,481	57,256
Income authorised to be appropriated in aid	(15,300)	(57,687)
Non-operating income – excess A in A	181	(431)

7. Staff and related costs

7.1 Staff costs comprise:

	Permanent Staff		Others	Ministers	Special advisers	2007-08	2006-07
	Local Staff	UK Staff				Total	Total
	£000	£000				£000	£000
Salaries	122,233	262,746	14,832	536	245	400,592	390,454
Social Security costs	–	14,023	–	27	8	14,058	13,780
Other pension costs	21,930	42,981	–	–	10	64,921	60,377
Sub total	144,163	319,750	14,832	563	263	479,571	464,611
Less: recoveries in respect of outward secondments	–	(2,349)	–	–	–	(2,349)	(1,705)
Total net costs	144,163	317,401	14,832	563	263	477,222	462,906
Representing							
Core FCO	144,163	271,226	5,299	563	263	421,514	410,765
Executive Agencies	–	46,175	9,533	–	–	55,708	52,141

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

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

	Permanent staff		Others	2007-08	2006-07
	Local staff	UK staff		Total	Total
SP 1	146	555	67	768	922
SP 2	127	237	28	392	429
SP 3	281	935	112	1,328	1,213
SP 4	375	528	63	966	987
SP 5	3,127	765	92	3,984	4,056
SP 6	232	195	23	450	186
SP 7	455	519	63	1,037	1,015
SP 8	3,785	1,564	184	5,533	5,681
SP 9	1,813	597	72	2,482	2,401
SP10	23	141	17	181	217
Total	10,364	6,036	721	17,121	17,107
Representing					
Core FCO	10,364	5,063	460	15,887	15,740
Executive Agencies	–	973	261	1,234	1,367

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

Others includes contract and agency staff.

8. Other administration costs

	2007-08 FCO	2007-08 Consolidated	2006-07 Consolidated
	£000	£000	£000
Rentals under operating leases			
Hire of plant and machinery	4,267	5,935	6,454
Property rentals	68,742	68,742	63,773
	<u>73,009</u>	<u>74,677</u>	<u>70,227</u>
Interest charges			
Finance leases	88	88	98
On-balance sheet PFI contracts	2,958	2,958	2,535
	<u>3,046</u>	<u>3,046</u>	<u>2,633</u>
PFI service charges			
Off-balance sheet contracts	30,452	30,452	23,928
Service element of on-balance sheet contracts	1,009	1,009	1,412
	<u>31,461</u>	<u>31,461</u>	<u>25,340</u>
Non-cash items			
Depreciation:			
Tangible fixed assets	71,519	72,382	80,616
Amortisation:			
Intangible fixed assets	838	838	889
Gain on disposal of fixed assets	(1,410)	(1,415)	(472)
Impairments/(reversals)	(3,922)	(3,920)	27,206
Cost of capital charge at 3.5%	53,011	53,055	50,536
Auditors' remuneration and expenses*	250	345	345
Provisions:			
Provided in year	14,315	14,569	14,471
Unwinding of discount on provisions	98	98	74
	<u>134,699</u>	<u>135,952</u>	<u>173,665</u>
Other expenditure			
Loss on exchange	8,478	8,494	370
Training, medical, travel and other allowances	133,421	146,317	139,025
Estate, security and capital related costs	178,604	187,855	194,460
IT and communications	86,913	114,643	78,959
Consular and UKvisas	51,160	51,160	17,285
Information and commercial services	11,613	11,613	11,629
Other	3,059	20,770	4,150
FCO Services recharges	117,717	-	-
	<u>590,965</u>	<u>540,852</u>	<u>445,878</u>
	<u>833,180</u>	<u>785,988</u>	<u>717,742</u>
Administration cost of Consular and UKvisas operations worldwide allocated to programme as frontline service	<u>433,587</u>	<u>433,587</u>	<u>309,270</u>

*In addition to the notional audit fee of £345,000, the Department also paid the NAO a total of £256,000 in the year (2006-07 – £16,000) in respect of capacity-building work carried out on behalf of the Department with overseas Governments and Supreme Audit Institutions.

9. Programme costs

Current grants and other current expenditure:

	2007-08 FCO	2007-08 Consolidated	2006-07 Consolidated
	£000	£000	£000
Subscriptions to International Organisations	134,663	134,663	143,656
FCO programmes (including non-cash)	138,948	138,948	145,897
Consular and UKvisas operations	433,587	433,587	309,270
Re-imbursements of duties etc to other governments	17,418	17,418	20,487
	724,616	724,616	619,310
BBC World Service	255,043	255,043	239,543
British Council	189,462	189,462	188,124
Conflict Prevention/Peacekeeping	372,110	372,110	345,580
	1,541,231	1,541,231	1,392,557
Less: Programme income (Note 10)	(378,319)	(378,319)	(283,009)
Net programme costs	1,162,912	1,162,912	1,109,548
Subscriptions include the following over £1 million:			
UN Regular Budget	70,061	70,061	79,201
Other UN contributions	2,321	2,321	2,174
Council of Europe	19,620	19,620	19,018
NATO	20,962	20,962	18,355
OECD	12,826	12,826	15,628
Commonwealth Secretariat	3,435	3,435	5,153
OSCE	3,223	3,223	2,804
Others	2,215	2,215	1,323
	134,663	134,663	143,656

10. Income

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

	2007-08	2007-08	2006-07
	FCO	Consolidated	Consolidated
	£000	£000	£000
RfR 1			
<i>Administration income</i>			
General	17,360	20,946	23,251
Fees and charges to external customers	274	12,791	15,409
Fees and charges to other departments	48,979	48,979	61,154
External interest	141	141	760
	<u>66,754</u>	<u>82,857</u>	<u>100,574</u>
Allocated to Consular and UKvisas programme income below	(33,664)	(33,664)	(35,954)
	<u>33,090</u>	<u>49,193</u>	<u>64,620</u>
<i>Programme income</i>			
Consular and UKvisas	368,340	368,340	273,015
Other departments funding	-	-	4,830
	<u>368,340</u>	<u>368,340</u>	<u>277,845</u>
RfR 1	<u>401,430</u>	<u>417,533</u>	<u>342,465</u>
RfR 2			
<i>Programme income</i>	9,979	9,979	5,164
	<u>9,979</u>	<u>9,979</u>	<u>5,164</u>
Total	<u>411,409</u>	<u>427,512</u>	<u>347,629</u>

An analysis of income and fee-bearing costs from services provided to external customers, provided for fees and charges purposes only, not for SSAP25 purposes, is as follows. It excludes FCO migration income and consular income payable to the Consolidated Fund:

	2007-08			2006-07		
	Income	Full cost	Surplus/ (deficit)	Income	Full cost	Surplus/ (deficit)
	£000	£000	£000	£000	£000	£000
Passport and consular income	69,112	(69,458)	(346)	60,935	(61,240)	(305)
Visa income	291,854	(310,116)	(18,262)	211,160	(201,743)	9,417
	<u>360,966</u>	<u>(379,574)</u>	<u>(18,608)</u>	<u>272,095</u>	<u>(262,983)</u>	<u>9,112</u>

11. Analysis of net operating cost by spending body

	Budget	2007-08 Outturn	Budget	2006-07 Outturn
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Foreign and Commonwealth Office	1,232,094	1,109,236	1,168,127	1,120,634
Wilton Park	699	666	699	530
Government Hospitality Fund	3,290	1,138	3,290	1,408
BBC World Service	255,043	255,043	239,543	239,543
British Council	194,162	189,462	188,124	188,124
Reimbursements	18,000	17,418	18,000	20,487
Others (including international organisations in respect of conflict prevention)	<u>372,462</u>	<u>370,379</u>	<u>365,530</u>	<u>345,580</u>
	<u>2,075,750</u>	<u>1,943,342</u>	<u>1,983,313</u>	<u>1,916,306</u>

The Retained profit for the year of £8,317,000 shown in the accounts of FCO Services is included in the FCO figures for 2007-08.

12. Tangible fixed assets – consolidated

	Non-residential land and buildings	Residential land and buildings	Information technology	Transport equipment	Plant and machinery	Antiques and works of art
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2007	673,343	646,129	82,516	57,246	36,895	20,329
Additions	–	–	324	41	40	–
Disposals	(19,065)	(12,411)	(266)	(7,654)	(277)	–
Impairments	836	10,287	(2,386)	(378)	(31)	(380)
Revaluation	71,396	77,575	(52)	36	535	332
Reclassification*	34,404	12,143	31,355	11,739	4,172	–
At 31 March 2008	760,914	733,723	111,491	61,030	41,334	20,281
Depreciation						
At 1 April 2007	50,162	2,854	42,502	31,353	15,791	–
Charge for the year	28,149	16,197	14,701	9,006	4,329	–
Charge for the year – donated assets	86	827	–	–	–	–
Disposals	(18,507)	(885)	(264)	(5,717)	(244)	–
Impairments	–	–	(1,136)	(124)	(11)	–
Revaluation	(16,110)	(15,939)	(30)	19	259	–
Reclassification *	(10)	–	(33)	(2)	12	–
At 31 March 2008	43,770	3,054	55,740	34,535	20,136	–
Net book value						
At 31 March 2008	717,144	730,669	55,751	26,495	21,198	20,281
At 31 March 2007	623,181	643,275	40,014	25,893	21,104	20,329
Asset financing:						
Owned	517,881	534,793	55,751	26,495	19,695	20,281
Leased	188,119	195,876	–	–	1,503	–
On-balance-sheet PFI contracts	11,144	–	–	–	–	–
Net book value						
At 31 March 2008	717,144	730,669	55,751	26,495	21,198	20,281
Analysis of tangible fixed assets						
The net book value of tangible fixed assets comprises:						
Core FCO	717,144	730,669	54,718	26,135	19,737	20,281
Agencies	–	–	1,033	360	1,461	–
At 31 March 2008	717,144	730,669	55,751	26,495	21,198	20,281

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

12. Tangible fixed assets *(continued)*

	Assets under construction	Total tangible assets
	£000	£000
Cost or valuation		
At 1 April 2007	155,293	1,671,751
Additions	191,169	191,574
Disposals	(11)	(39,684)
Impairments	–	7,948
Revaluation	–	149,822
Reclassification*	(93,795)	18
At 31 March 2008	252,656	1,981,429
Depreciation		
At 1 April 2007	–	142,662
Charge for the year	–	72,382
Charge for the year – donated assets	–	913
Disposals	–	(25,617)
Impairments	–	(1,271)
Revaluation	–	(31,801)
Reclassification*	–	(33)
At 31 March 2008	–	157,235
Net book value		
At 31 March 2008	252,656	1,824,194
At 31 March 2007	155,293	1,529,089
Asset financing:		
Owned	252,656	1,427,552
Leased	–	385,498
On-balance-sheet PFI contracts	–	11,144
Net book value		
At 31 March 2008	252,656	1,824,194
Analysis of tangible fixed asset		
The net book value of tangible fixed assets comprises:		
Core FCO	252,315	1,820,999
Agencies	341	3,195
At 31 March 2008	252,656	1,824,194

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

12. Tangible fixed assets *(continued)*

Tangible fixed assets – FCO only

	Non-residential land and buildings	Residential land and buildings	Information technology	Transport equipment	Plant and machinery	Antiques and works of art
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2007	673,343	646,129	80,299	56,335	33,995	20,329
Additions	–	–	–	–	–	–
Disposals	(19,065)	(12,411)	(112)	(7,450)	(122)	–
Impairments	836	10,287	(2,386)	(375)	(25)	(380)
Revaluation	71,396	77,575	–	31	508	332
Reclassification*	34,404	12,143	31,355	11,581	4,172	–
At 31 March 2008	760,914	733,723	109,156	60,122	38,528	20,281
Depreciation						
At 1 April 2007	50,162	2,854	41,371	30,720	14,720	–
Charge for the year	28,149	16,197	14,347	8,911	3,915	–
Charge for the year – donated assets	86	827	–	–	–	–
Disposals	(18,507)	(885)	(111)	(5,536)	(98)	–
Impairments	–	–	(1,136)	(123)	(6)	–
Revaluation	(16,110)	(15,939)	–	17	248	–
Reclassification *	(10)	–	(33)	(2)	12	–
At 31 March 2008	43,770	3,054	54,438	33,987	18,791	–
Net book value						
At 31 March 2008	717,144	730,669	54,718	26,135	19,737	20,281
At 31 March 2007	623,181	643,275	38,928	25,615	19,275	20,329
Asset financing:						
Owned	517,881	534,793	54,718	26,135	18,234	20,281
Leased	188,119	195,876	–	–	1,503	–
On-balance-sheet PFI contracts	11,144	–	–	–	–	–
Net book value						
At 31 March 2008	717,144	730,669	54,718	26,135	19,737	20,281

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

12. Tangible fixed assets *(continued)*

	Assets under construction	Total tangible assets
	£000	£000
Cost or valuation		
At 1 April 2007	155,045	1,665,475
Additions	190,907	190,907
Disposals	–	(39,160)
Impairments	–	7,957
Revaluation	–	149,842
Reclassification*	(93,637)	18
At 31 March 2008	252,315	1,975,039
Depreciation		
At 1 April 2007	–	139,827
Charge for the year	–	71,519
Charge for the year – donated assets	–	913
Disposals	–	(25,137)
Impairments	–	(1,265)
Revaluation	–	(31,784)
Reclassification*	–	(33)
At 31 March 2008	–	154,040
Net book value		
At 31 March 2008	252,315	1,820,999
At 31 March 2007	155,045	1,525,648
Asset financing:		
Owned	252,315	1,424,357
Leased	–	385,498
On-balance-sheet PFI contracts	–	11,144
Net book value		
At 31 March 2008	252,315	1,820,999

Notes to tangible fixed assets**Non Specialised Properties:**

The valuations of the home estate and properties in the European Union and Wider Europe were carried out by Colliers CRE. The effective valuation date was 30 June 2005. Desk reviews for revaluation purposes were carried out by in-house valuers on 31 March 2008. The valuations of properties in the Americas were carried out by CB Richard Ellis. The effective valuation date was 30 June 2005. Desk reviews for revaluation purposes were carried out by in-house valuers on 31 March 2008. The valuations of properties in the Middle East and North Africa were carried out by Cluttons. The effective valuation date was 30 June 2005. Desk reviews for revaluation purposes were carried out by in-house valuers on 31 March 2008.

The valuations of properties in Sub-Saharan Africa were carried out by CB Richard Ellis. The effective valuation date was 30 June 2006, with an in-house desk review on 31 March 2008. The valuations of properties in Asia were carried out by Cluttons. The effective valuation date was 30 June 2006 with an in-house desk review on 31 March 2008.

Replacement cost of non specialised FCO properties is deemed to be at existing use value.

Specialised Properties:

Specialised properties were valued by the Valuation Office Agency (VOA) using Depreciated Replacement Cost based upon a Modern Equivalent Replacement and an assumption that alternate sites would be used in any replacement. The effective date of valuation was 31 March 2008. Market Values of specialised properties were provided by SED chartered surveyors as at 31 March 2008, based upon inspections undertaken by the VOA.

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

13. Intangible fixed assets**Consolidated and FCO**

	Purchased software licences
	<u>£000</u>
Cost or valuation	
At 1 April 2007	3,927
Additions	–
Impairments	(128)
Revaluation	–
Reclassification*	(18)
At 31 March 2008	<u>3,781</u>
Amortisation	
At 1 April 2007	1,626
Charge for the year	838
Impairments	(57)
Revaluation	–
Reclassification*	33
At 31 March 2008	<u>2,440</u>
Net book value	
At 31 March 2008	<u>1,341</u>
At 31 March 2007	<u>2,301</u>
Asset financing:	
Owned	–
Leased	1,341
Net book value	
At 31 March 2008	<u>1,341</u>

*Some Information technology assets have been reclassified to tangible fixed assets (note 12).

14. Investments

The FCO held no investments between 1 April 2007 and 31 March 2008.

15. Stocks and work in progress

	<u>2007-08</u>	<u>2006-07</u>
	£000	£000
	FCO	Consolidated
Stocks	11,784	12,805
Long term contracts and work in progress	–	142
	11,784	12,947
		11,966

16. Debtors

16.1 Analysis by type	<u>2007-08</u>	<u>2006-07</u>
	£000	£000
	FCO	Consolidated
Amounts falling due within one year		
Trade debtors	32,643	38,856
Deposits and advances	8,861	8,893
FCO Services	16,951	–
Other debtors	13,131	13,727
Prepayments and accrued income	190,662	191,619
	262,248	253,095
Amounts falling due after more than one year		
Other debtors	4,530	4,530
	266,778	257,625
Total		219,617

The FCO no longer accounts for the Anglo-American School in Moscow under current assets. The adjustment is shown in the Statement of Recognised Gains and Losses.

16.2 Intra-Government Balances
– Consolidated

	Amounts falling due within one year 2007-08	2006-07	Amounts falling due within one year 2007-08	2006-07
	£000	£000	£000	£000
Balances with other central government bodies	26,005	29,841	–	–
Balances with public corporations and trading funds	8,725	974	–	–
Total intra-government balances	34,730	30,815	–	–
Balances with bodies external to government	218,365	184,786	4,530	4,016
Total debtors at 31 March	253,095	215,601	4,530	4,016

17. Cash at bank and in hand

	<u>£000</u>	<u>2007-08</u> £000	<u>2006-07</u> £000
	FCO	Consolidated	Consolidated
Balance at 1 April 2007	82,692	96,059	115,185
Net change in cash balances	(79,949)	(89,922)	(19,126)
Balance at 31 March 2008	<u>2,743</u>	<u>6,137</u>	<u>96,059</u>
The following balances and overdrafts at 31 March are held at:			
<i>Balances</i>			
Office of HM Paymaster General	–	3,087	34,401
Commercial banks and cash in hand UK and overseas	<u>29,757</u>	<u>30,064</u>	<u>65,072</u>
	<u>29,757</u>	<u>33,151</u>	<u>99,473</u>
<i>Overdrafts</i>			
Office of HM Paymaster General (note 18)	(25,792)	(25,792)	–
Commercial banks overseas	<u>(1,222)</u>	<u>(1,222)</u>	<u>(3,414)</u>
	<u>2,743</u>	<u>6,137</u>	<u>96,059</u>

18. Creditors

18.1 Analysis by type	2007-08		2006-07	
	£000	£000	£000	£000
	FCO	Consolidated		Consolidated
Amounts falling due within one year				
Bank overdrafts (note 17)	27,014	27,014		3,414
Other taxation and social security	972	973		858
Payments on account	–	3,377		714
Trade creditors	16,192	16,934		3,845
FCO Services	24,229	–		–
Other creditors	18,803	18,820		15,278
Accruals and deferred income	144,069	153,858		169,796
Current part of finance leases (note 25)	792	792		781
Current part of imputed finance lease element of on-balance sheet PFI contracts (note 26)	737	737		507
Total excluding amounts due to the Consolidated Fund	232,808	222,505		195,193
Amounts issued from the Consolidated Fund for supply but not spent at year end	2,556	5,949		91,066
Excess cash receipts surrenderable to the Consolidated Fund	–	–		8,466
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	188	188		4,993
	235,552	228,642		299,718
Amounts falling due after more than one year				
Finance leases (note 25)	881	881		1,598
Imputed finance lease element of on-balance sheet PFI contracts (note 26)	41,195	41,195		31,252
	42,076	42,076		32,850
Total	277,628	270,718		332,568
18.2 Intra-Government Balances – Consolidated				
	Amounts falling due within one year		Amounts falling due within one year	
	2007-08	2006-07	2007-08	2006-07
	£000	£000	£000	£000
Balances with other central government bodies	22,109	118,695	–	–
Balances with public corporations and trading funds	1,973	–	–	–
Total intra-government balances	24,082	118,695	–	–
Balances with bodies external to government	204,560	181,023	42,076	32,850
Total creditors at 31 March	228,642	299,718	42,076	32,850

19. Provisions for liabilities and charges

Consolidated	Early	LE staff	Other	Estate	FCO	Total
	departure	terminal	staff	related	Services	
	costs	gratuities	provisions	provisions	restructuring	
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2007	26,994	29,947	838	5,200	3,447	66,426
Provided in year	10,287	2,553	913	1,475	254	15,482
Provisions utilised in the year	(12,641)	–	(298)	–	(3,701)	(16,460)
Unwinding of discount	98	–	–	–	–	98
Balance at 31 March 2008	24,738	32,500	1,453	6,675	–	65,366
Of which core FCO	24,738	32,500	1,453	6,675	–	65,366

20. General fund

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

	2007-08		2006-07
	£000	£000	£000
	FCO	Consolidated	Consolidated
General Fund at 1 April	864,948	858,255	831,825
Net Parliamentary funding – drawn down	1,979,306	1,979,306	1,837,266
Year end adjustment:			
Current year supply creditor	(2,556)	(5,949)	(91,066)
Prior year Consolidated Fund creditor	77,699	91,066	107,228
Net transfer from Operating Activities:			
Net Operating Cost	(1,950,929)	(1,943,342)	(1,916,306)
Consolidated Fund Extra Receipts	(188)	(188)	(4,993)
Income not appropriated in aid paid to Consolidated Fund	(14,208)	(14,208)	(4,219)
Non-cash charges :			
Cost of capital	53,011	53,055	50,536
Auditors remuneration	250	345	345
Fixed asset revaluation adjustments	–	–	51,080
Fixed asset transfer of property to OGD	–	–	(6,684)
Current asset revaluation adjustments	(10,512)	(10,512)	1,608
Consolidation and other in-year adjustments	7,084	1,478	(6,710)
Transfer from revaluation reserve (note 21.1)	6,527	6,527	8,345
Transfer from donated asset reserve (note 21.2)	25	25	–
	145,509	157,603	26,430
General Fund at 31 March	1,010,457	1,015,858	858,255

21. Reserves**21.1 Revaluation reserve**

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

	<u>£000</u>	<u>2007-08</u> £000	<u>2006-07</u> £000
	FCO	Consolidated	Consolidated
Balance at 1 April	538,217	538,280	541,817
Unrealised gain on revaluation of fixed assets	171,944	171,941	50,189
Fixed asset revaluation adjustments through General Fund	(170)	(138)	(45,381)
Transfer to general fund of realised element of revaluation reserve	(6,527)	(6,527)	(8,345)
Balance at 31 March	<u>703,464</u>	<u>703,556</u>	<u>538,280</u>

21.2 Donated assets reserve

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

	<u>£000</u>	<u>2007-08</u> £000	<u>2006-07</u> £000
	FCO	Consolidated	Consolidated
Balance at 1 April	64,337	64,337	59,956
Unrealised gain on revaluation of fixed assets	9,682	9,682	948
Fixed asset revaluation adjustments through General Fund	–	16	4,286
Transfer to general fund of realised element of revaluation reserve	(25)	(25)	–
Release to the operating cost statement	(913)	(913)	(853)
Balance at 31 March	<u>73,081</u>	<u>73,097</u>	<u>64,337</u>

The unrealised gains on revaluation of fixed assets shown at 21.1 and 21.2 above are recognised in the Statement of Recognised Gains and Losses in total as net gain on revaluation of tangible fixed assets of £181,626,000 (FCO) and £181,623,000 (Consolidated).

22. Notes to the Consolidated Cash Flow Statement**22.1 Reconciliation of operating cost to operating cash flows**

	<u>2007-08</u> £000	<u>2006-07</u> £000
Net Operating Cost	1,943,342	1,916,306
Adjustments for non-cash transactions	(135,952)	(173,665)
Increase in stock	980	4,419
Increase/(decrease) in debtors	38,008	(6,300)
<i>Adjustment for movements in debtors relating to items not passing through the OCS</i>	10,512	–
Decrease in creditors	85,449	1,345
<i>Adjustment for movements in creditors relating to items not passing through the OCS</i>	(77,733)	(11,168)
Use of provisions	16,640	15,367
Retirement benefit schemes	1,917	1,893
Net cash outflow from operating activities	<u>1,883,163</u>	<u>1,748,197</u>

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

	<u>2007-08</u>	<u>2006-07</u>
	£000	£000
Tangible fixed asset additions	404	4,017
Additions to assets in the course of construction	191,170	158,161
Proceeds from disposal of fixed assets	(15,481)	(57,256)
Net cash outflow from investing activities	<u>176,093</u>	<u>104,922</u>

22.3 Analysis of capital expenditure and financial investment

Request for Resources 1

	Capital expenditure	A in A	Net total
	£000	£000	£000
Total 2007-08	<u>191,574</u>	<u>(15,481)</u>	<u>176,093</u>
Total 2006-07	<u>162,178</u>	<u>(57,256)</u>	<u>104,922</u>

22.4 Analysis of financing

	<u>2007-08</u>	<u>2006-07</u>
	£000	£000
From the Consolidated Fund (Supply) – current year	2,070,372	1,944,494
From the Consolidated Fund (Supply) – prior year	(91,066)	(107,228)
Advances from the Contingency Fund	125,000	–
Repayments to the Contingency Fund	(125,000)	–
Capital element of payments in respect of on-balance sheet PFI contracts	4,236	946
Net financing	<u>1,983,542</u>	<u>1,838,212</u>

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

	<u>2007-08</u>	<u>2006-07</u>
	£000	£000
Net financing		
Net cash requirement	(2,056,137)	(1,853,428)
From the Consolidated Fund (Supply) – current year	2,070,372	1,944,494
From the Consolidated Fund (Supply) – prior year	(91,066)	(107,228)
Amounts due to the Consolidated Fund received in a prior year and paid over	(13,460)	(7,699)
Adjustment to prior year Consolidated Fund creditor	–	(258)
Non-operating A in A – Excess cash receipts	181	–
Amounts due to the Consolidated Fund received and not paid over	188	4,993
Net change in cash balances	<u>(89,922)</u>	<u>(19,126)</u>

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

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

	<u>2007-08</u>	<u>2006-07</u>
	£000	£000
Strategic Priorities (SP):		
SP1	100,234	81,975
SP2	75,537	44,190
SP3	509,454	592,886
SP4	82,250	97,950
SP5	77,707	42,532
SP6	89,144	15,047
SP7	132,252	173,046
SP8	31,530	(9,618)
SP9	54,928	46,149
SP10	9,876	25,391
	<u>1,162,912</u>	<u>1,109,548</u>

23.2 Capital employed by aim and objectives

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

24. Capital commitments

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

	<u>2008</u>	<u>2007</u>
	£000	£000
	FCO	Consolidated
Estates projects	159,129	156,085
IT infrastructure	44,423	86,322
	<u>203,552</u>	<u>242,407</u>

25. Commitments under leases**25.1 Operating leases**

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

	2008	2008	2007
	FCO	Consolidated	Consolidated
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Obligations under operating leases comprise			
Land and buildings:			
Expiry within 1 year	25,939	25,939	27,466
Expiry after 1 year but not more than 5 years	47,345	47,345	46,678
Expiry thereafter	19,548	19,548	7,556
	92,832	92,832	81,700
Other:			
Expiry within 1 year	212	227	314
Expiry after 1 year but not more than 5 years	1,372	1,375	308
Expiry thereafter	–	–	7
	1,584	1,602	629

25.2 Finance leases

	2008	2008	2007
	FCO	Consolidated	Consolidated
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Obligations under finance leases comprise			
Land and buildings: nil			
Other:			
Rentals due within 1 year	826	826	845
Rentals due after 1 year but within 5 years	896	896	1,633
Rentals due thereafter	–	–	–
	1,722	1,722	2,478
Less: interest element	(49)	(49)	(98)
	1,673	1,673	2,380

26. Commitments under PFI contracts**26.1 Off-balance sheet**

Global Crossing

The contract is in respect of the provision of a worldwide telecommunications network for a term of ten years from 10 May 2000. The estimated capital value of the contract is £250 million but it is considered by the Board that the equipment brought into use under the contract is not an asset of the Department. The present unitary payment charged to the operating cost statement is £30.5 million per annum.

26.2 On-balance sheet

Arteos

The contract is in respect of the building, operation and maintenance of the British embassy in Berlin for a term of 30 years from 23 June 2000 with an option to extend for a further 30 years. Overall, the balance of the risks and rewards of ownership of the property are borne by the Department, and, therefore, the embassy is included in these accounts as a tangible fixed asset. The initial capitalisation of the contract was reflected in the accounts for 2002-03. The unitary charge which covers the occupation of the building has been discounted over the remaining life of the contract and capitalised.

The service element of the contract remains an operating cost. In 2007-08 this amounted to £1,009,000 (2006-07: £1,412,000).

The liability to pay for the property is in substance a finance lease obligation. Contractual payments therefore comprise two elements: imputed finance lease charges and service charges. Following a review of current contract rates combined with a movement of the euro against sterling there has been an increase in the lease obligation and net liability increased in the current year. The imputed finance lease obligation is as follows:

	2008	2008	2007
	FCO	Consolidated	Consolidated
	£000	£000	£000
Imputed finance lease obligations under on-balance sheet PFI contracts comprises:			
Rentals due within 1 year	4,030	4,030	3,004
Rentals due within 2 to 5 years	16,120	16,120	12,014
Rentals due thereafter	<u>68,688</u>	<u>68,688</u>	<u>54,197</u>
	88,838	88,838	69,215
Less: interest element	<u>(46,906)</u>	<u>(46,906)</u>	<u>(37,456)</u>
	<u>41,932</u>	<u>41,932</u>	<u>31,759</u>

26.3 Charge to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of off-balance sheet PFI transactions and the service element of on-balance sheet PFI transactions was £31,461,000 (2006-07: £25,340,000).

The payments to which the department is committed during 2007-08, analysed by the period during which the commitment expires, are as follows:

	2008	2008	2007
	FCO	Consolidated	Consolidated
	£000	£000	£000
Expiry within 1 year	–	–	–
Expiry within 2 to 5 years	30,000	30,000	24,000
Expiry within 6 to 10 years	–	–	–
Expiry within 11 to 15 years	–	–	–
Expiry within 16 to 20 years	–	–	–
Expiry within 21 to 25 years	1,386	1,386	1,217
Expiry within 26 to 30 years	<u>–</u>	<u>–</u>	<u>–</u>
	<u>31,386</u>	<u>31,386</u>	<u>25,217</u>

27. Other financial commitments

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

	2008 FCO	2008 Consolidated	2007 Consolidated
	£000	£000	£000
Expiry within 1 year	39,599	39,599	38,098
Expiry within 2 to 5 years	15,628	15,628	22,811
Expiry thereafter	–	–	–
	55,227	55,227	60,909

28. Retirement benefit schemes

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

Defined contribution schemes

The FCO operates defined contribution schemes in: Barbados, Denmark, New Zealand and Zambia. The schemes operated in Belgium and Holland are defined benefit but multi-user, where the individual insurers' assets cannot be identified; these are treated as direct contribution schemes. The value of contributions in 2007-08 was £489,180 (2006-07 – £471,567).

Defined benefit schemes	2008	2007
	Fair value of assets	Present value of future liabilities
	£000	£000
Retirement benefits schemes – asset		
Canada (2007 – deficit)	5,241	(4,991)
Irish Republic	1,625	(1,594)
Jamaica	570	(430)
South Africa (2007 – deficit)	3,549	(2,951)
Trinidad and Tobago	304	(111)
	11,289	(10,077)
Surplus	1,212	326
Retirement benefits schemes – liability		
Canada (2008 – asset)	–	–
Mauritius	164	(173)
Portugal	351	(358)
South Africa (2008 – asset)	–	–
USA	22,221	(24,080)
	22,736	(24,611)
Deficit	(1,875)	(2,906)
Net deficit	(663)	(2,580)

All of the FCO's known defined benefit schemes have been subject to actuarial valuation or review as at 31 March 2008. The schemes in USA, Canada, Ireland, Jamaica and Mauritius have been reviewed and updated as at 31 March 2008; the schemes in South Africa, Portugal and Trinidad and Tobago have been estimated based on last year's figures. Portugal and Trinidad and Tobago are in the final stages of converting their schemes to defined contribution, completion of which is expected in July. The major part of the net pension liabilities in Colombia have been crystallised and an annuity contract agreed with a major insurance company; the full liability against this contract was discharged in March 2006. Residual liabilities of some £570,000 for long-serving members of staff remain; these are fully covered by insurance investments pending final acceptance/discharge by the Colombian Department of Social Security.

Valuations were carried out as at 31 March 2008 by qualified independent actuaries. The major assumptions used by the actuaries were:

	Rate of increase in salaries	Rate of increase in pensions in payment	Discount rate	Inflation assumption
Canada	3.50%	2.50%	6.25%	2.50%
Irish Republic	4.00%	2.25%	4.75%	2.50%
Jamaica	9.00%	3.50%	12.00%	7.00%
Mauritius	8.00%	0.00%	10.00%	8.00%
Portugal	3.00%	0.00%	4.75%	2.25%
South Africa	7.37%	5.10%	9.37%	5.87%
Trinidad and Tobago	7.00%	0.00%	6.50%	5.50%
USA	3%–5%	3.00%	6.50%	2.50%

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

Long-term rate of return expected at 31 March 2008

	Equities	Bonds	Other
Canada	6.80%	3.00%	–
Irish Republic	7.70%	4.70%	5.70%
Jamaica	12.50%	–	12.50%
Mauritius	13.00%	11.00%	6.00%
Portugal	–	–	3.50%
South Africa	–	–	10.97%
Trinidad and Tobago	–	–	8.50%
USA	8.75%	6.00%	8.25%

	Value as at 31 March 2008			2007	
	Equities £000	Bonds £000	Other £000	Total £000	Total £000
Canada	2,903	2,338	–	5,241	4,704
Irish Republic	1,099	225	302	1,626	1,510
Jamaica	90	–	480	570	509
Mauritius	98	57	8	163	129
Portugal	–	–	351	351	299
South Africa	–	–	3,549	3,549	3,761
Trinidad and Tobago	–	–	304	304	319
USA	11,668	8,602	1,951	22,221	24,497
Total market value of assets	15,858	11,222	6,945	34,025	35,728

Present value of scheme liabilities	2008	2007
	£000	£000
Canada	(4,991)	(5,214)
Irish Republic	(1,594)	(1,473)
Jamaica	(430)	(374)
Mauritius	(173)	(156)
Portugal	(358)	(305)
South Africa	(2,951)	(3,937)
Trinidad and Tobago	(111)	(165)
USA	(24,080)	(26,684)
Total present value of scheme liabilities	(34,688)	(38,308)
Net pension liability	(663)	(2,580)

Analysis of the amount charged to the Operating Cost Statement in 2007-08

	Current service cost	Past service cost	2007-08 Total operating charge	2006-07 Total operating charge
	£000	£000	£000	£000
Canada	198	–	198	175
Irish Republic	85	–	85	83
Jamaica	28	–	28	29
Mauritius	9	–	9	6
Portugal	27	–	27	23
South Africa	123	–	123	151
Trinidad and Tobago	11	–	11	9
USA	868	–	868	1,015
	1,349	–	1,349	1,491

Analysis of the amount credited to other finance income in 2007-08

	Expected return on pension scheme assets	Interest on pension scheme liabilities	2007-08 Net return	2006-07 Net return
	£000	£000	£000	£000
Canada	258	(303)	(45)	(37)
Irish Republic	116	(79)	37	17
Jamaica	60	(40)	20	20
Mauritius	20	(20)	–	1
Portugal	8	(13)	(5)	(4)
South Africa	301	(204)	97	91
Trinidad and Tobago	15	(9)	6	6
USA	1,635	(1,541)	94	109
	2,413	(2,209)	204	203

Analysis of amount recognised in Statement of Recognised Gains and Losses

				2007-08	2006-07
	Actual return less expected return on pension scheme assets	Experience gains and losses arising on the scheme liabilities	Changes in assumptions underlying the present value of the scheme liabilities	Actuarial gain/(loss) recognised	Actuarial gain/(loss) recognised
	£000	£000	£000	£000	£000
Canada	(342)	79	946	683	(71)
Irish Republic	(402)	91	220	(91)	135
Jamaica	(6)	(12)	–	(18)	(44)
Mauritius	–	18	–	18	(4)
Portugal	(2)	(4)	–	(6)	(79)
South Africa	59	355	248	662	28
Trinidad and Tobago	(12)	(16)	72	44	(28)
USA	(2,408)	765	2,244	601	1,759
	(3,113)	1,276	3,730	1,893	1,696

Movement in surplus/(deficit) during the year

	Surplus/(deficit)			Movement in year	Surplus/(deficit) in scheme at end of the year
	in scheme at beginning of the year				
	£000			£000	£000
Canada	(510)			760	250
Irish Republic	37			(6)	31
Jamaica	135			5	140
Mauritius	(27)			18	(9)
Portugal	(6)			(1)	(7)
South Africa	(176)			774	598
Trinidad and Tobago	154			39	193
USA	(2,187)			328	(1,859)
	(2,580)			1,917	(663)

Movement in year

	Current service cost	Contributions	Other finance income	Actuarial gain/(loss) recognised	Movement in year
	£000	£000	£000	£000	£000
Canada	(198)	320	(45)	683	760
Irish Republic	(85)	133	37	(91)	(6)
Jamaica	(28)	31	20	(18)	5
Mauritius	(9)	9	–	18	18
Portugal	(27)	37	(5)	(6)	(1)
South Africa	(123)	138	97	662	774
Trinidad and Tobago	(11)	–	6	44	39
USA	(868)	500	94	601	328
	(1,349)	1,168	204	1,893	1,917

History of experience gains and losses

Difference between the expected and actual return on scheme assets

	2007-08		2006-07	
	Amount £000	Percentage of scheme assets	Amount £000	Percentage of scheme assets
Canada	(342)	-6.52%	189	4.01%
Irish Republic	(402)	-24.72%	18	1.17%
Jamaica	(6)	-1.07%	30	5.82%
Mauritius	-	-0.04%	(2)	-1.28%
Portugal	(2)	-0.61%	(2)	-0.61%
South Africa	59	-1.66%	197	5.23%
Trinidad and Tobago	(12)	-3.89%	(12)	3.79%
USA	(2,408)	-10.84%	524	2.14%
	(3,113)		942	

Experience gains and losses on scheme liabilities

	2007-08		2006-07	
	Amount £000	Percentage of the present value of the scheme liabilities	Amount £000	Percentage of the present value of the scheme liabilities
Canada	79	1.58%	-	0.00%
Irish Republic	91	5.70%	29	1.98%
Jamaica	(12)	-2.84%	(74)	-19.73%
Mauritius	18	10.58%	(2)	-1.56%
Portugal	(4)	-1.12%	(77)	-25.28%
South Africa	355	12.03%	(134)	-3.39%
Trinidad and Tobago	(16)	-14.16%	(16)	-9.76%
USA	765	3.18%	981	3.68%
	1,276		707	

Total amount recognised in statement of recognised gains and losses

	2007-08		2006-07	
	Amount £000	Percentage of the present value of the scheme liabilities	Amount £000	Percentage of the present value of the scheme liabilities
Canada	683	13.68%	(71)	-1.37%
Irish Republic	(91)	-5.70%	135	9.12%
Jamaica	(18)	-4.26%	(44)	-11.82%
Mauritius	18	-2.31%	(4)	-2.62%
Portugal	(6)	-1.71%	(79)	-25.87%
South Africa	662	22.43%	28	0.71%
Trinidad and Tobago	44	39.82%	(28)	-17.07%
USA	601	2.50%	1,759	6.59%
	1,893		1,696	

29. Financial instruments

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

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

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

Liquidity risk

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

Interest-rate risk

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

<i>Currency</i>	2008		2007	
	Non-interest bearing financial assets £000	Non-interest bearing financial liabilities £000	Non-interest bearing financial assets £000	Non-interest bearing financial liabilities £000
Sterling	15,955	(55,543)	65,076	(34,543)
Bosnian and Herzegovian Marka	1,526	–	–	–
Brazilian Real	–	(1,738)	–	–
Euro	3,487	(5,823)	2,200	(6,267)
Hong Kong Dollar	930	–	–	(1,099)
Indian Rupee	501	–	13,054	–
Japanese Yen	–	(3,497)	–	(274)
Nepalese Rupee	580	–	1,398	–
Nigerian Naira	1,145	–	5,548	–
Sri Lankan Rupee	1,375	–	–	–
Turkish New Lira	–	(1,192)	–	(1,482)
US dollar	3,229	–	3,472	–
Other	4,423	(24,586)	8,725	(26,175)
Gross financial assets/(liabilities)	33,151	(92,380)	99,473	(69,840)

Foreign currency risk

The FCO's exposure to foreign currency risk can be significant because of the nature of its business and geographical presence, however expenditures denominated in foreign currency constitute a minor part of total expenditures. To manage exposure risks, the FCO has an Overseas Price Movements (OPM) mechanism in conjunction with HM Treasury designed to maintain its purchasing power at a level equivalent to that of Home Departments. The OPM adjustment is based on expenditure incurred in foreign currencies on administration, capital, subscriptions to international organisations and the British Council Grant-in-Aid. From 2008-09 the OPM mechanism will no longer be available and the FCO has introduced alternative methods to manage its exposure.

Fair values

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

	2008		2007	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Primary financial instruments:				
<i>Financial assets</i>				
Cash at bank and in hand	33,151	33,151	99,473	99,473
<i>Financial liabilities</i>				
Bank overdrafts	(27,014)	(27,014)	(3,414)	(3,414)
Provisions	(65,366)	(65,366)	(66,426)	(66,426)
	(92,380)	(92,380)	(69,840)	(69,840)

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

30. Contingent liabilities disclosed under FRS 12

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

	<u>2008</u>	<u>2007</u>
	£000	£000
Disputed claims for rents payable and other estate related matters	4,525	788
Potential overseas national insurance liabilities and various other related claims	<u>1,252</u>	<u>2,230</u>
	<u>5,777</u>	<u>3,018</u>

31. Contingent liabilities not required to be disclosed under FRS 12 but included for Parliamentary reporting and accountability purposes**31.1 Quantifiable**

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

	<u>1 April 2007</u>	<u>Increase in year</u>	<u>31 March 2008</u>	<u>Amount reportable to Parliament by Departmental minute</u>
	£000	£000	£000	£000
Indemnities	<u>5,525</u>	<u>5,248</u>	<u>10,773</u>	<u>10,773</u>
	<u>5,525</u>	<u>5,248</u>	<u>10,773</u>	<u>10,773</u>

31.2 Unquantifiable

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

32. Losses and special payments

	<u>2007-08</u>	<u>2006-07</u>
	Number	Number
Losses total	<u>105</u>	<u>167</u>
Cash losses/(gains)	40	68
Claims abandoned	6	26
Administrative write-offs	39	47
Fruitless payments and constructive losses	4	3
Stores losses	7	11
	<u>96</u>	<u>155</u>
Special payments total	<u>9</u>	<u>12</u>
	<u>3,339</u>	<u>1,777</u>
	£000	£000
	(198)	218
	2,238	115
	412	365
	270	1,058
	392	1
	<u>3,114</u>	<u>1,757</u>
	<u>225</u>	<u>20</u>

Details of cases over £250,000:

Included in Claims abandoned is an amount of £2.15 million in respect of the liquidation of a contractor engaged on building work in Islamabad.

Included in Fruitless payments and constructive losses is an amount of £250,000 in respect of the withdrawal from a development project in the Solomon Islands.

Included in Stores losses is an amount of £378,479 in respect of stocks of obsolescent passports.

In addition to the above, an accounts discrepancy at an overseas Post in Afghanistan amounting to £750,000 is currently under investigation.

33 Related party transactions

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

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

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

KPMG

Alistair Johnston (non-executive Board member) is Vice-Chairman at KPMG. KPMG have provided consultancy services on various projects for the FCO in the UK at a cost of £147,123 and overseas at a cost of £27,444 (sterling equivalent), and for FCO Services at a cost of £128,312. KPMG were also responsible for paying rent to various Belgian landlord bank accounts on behalf of the FCO in return for a management fee of £9,879 (sterling equivalent). In addition, KPMG are the external auditors of the BBC World Service.

Mr Johnston had no role in the decision to engage in KPMG, nor a role in the firm's proposal or provision of services to the FCO or to the BBC World Service.

Reed

Michelle Luck, wife of Keith Luck (DG Finance) works for Reed, which is a subsidiary of Reed Elsevier. Reed have provided various publications for UK customers at a cost of £13,334 and to overseas customers at a cost of £673 (sterling equivalent).

Mr Luck had no role in the decision to purchase from Reed. Mrs Luck had no role in the company's provision of publications to the FCO.

BUPA

Alison Platt (non-executive Board member) is the Group Development Director at BUPA. BUPA have provided healthcare to local staff in Riyadh at a cost of £51,036 (sterling equivalent) and medical insurance for UK based staff amounting to £13,579. BUPA also provided sponsorship for a security event in Quito at a cost of £619 (sterling equivalent).

Ms Platt had no role in the decision to engage BUPA, nor any role in the organisation's proposal or provision of services to the FCO.

34. Third-party assets

	<u>2008</u>	<u>2007</u>
	£000	£000
Funds held by the FCO in designated bank accounts for disbursement to individual beneficiaries on behalf of the United Nations Compensation Commission	289	400
Overall UNCC liability	<u>289</u>	<u>400</u>

35. Entities within the departmental boundary

The entities within the boundary during 2007-08 were:

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

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



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