



Foreign & Commonwealth Office

FCO Services

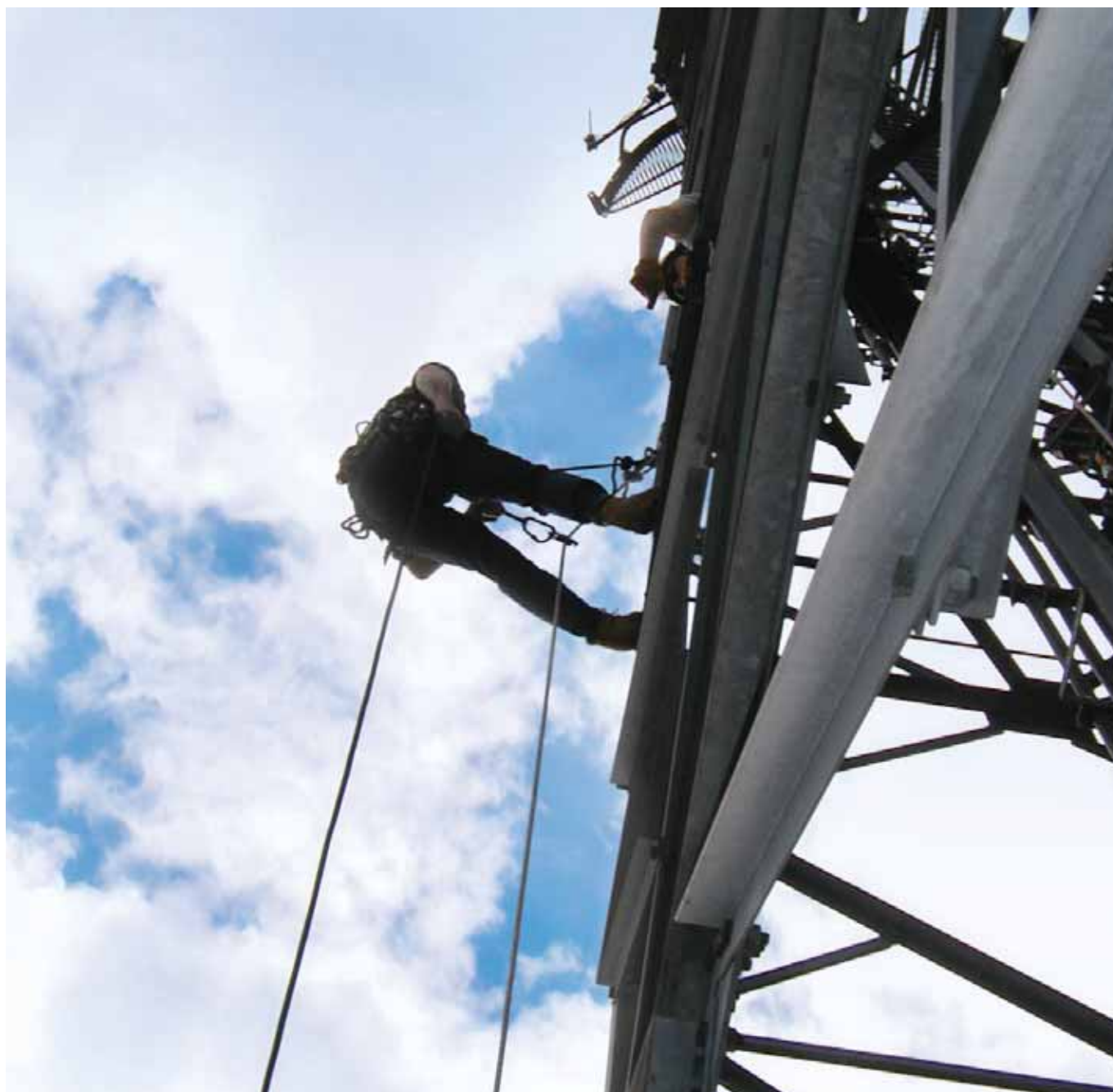
An Executive Agency of the
Foreign & Commonwealth Office

FCO Services Annual Report and Accounts 2007/2008



INVESTOR IN PEOPLE

SECURE | WORLDWIDE | TRUSTED



FCO Services
Annual Report and Accounts 2007-2008

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Overview

Foreword by Lord Malloch-Brown, Minister of State, Foreign and Commonwealth Office



SUPPORTING BRITISH INTERESTS OVERSEAS AT BEST VALUE FOR THE PUBLIC PURSE

Foreword by Lord Malloch-Brown, Minister of State, Foreign and Commonwealth Office

As Minister responsible to the Foreign Secretary for supporting FCO Services in setting and achieving their strategic goals, I am delighted to introduce their second Annual Report and Accounts as an Executive Agency of the FCO.

2007/08 has been a year of challenges and achievements for FCO Services. The organisation has continued its impressive progress from an internal FCO department just two years ago, to an Executive Agency that is uniquely placed to deliver vital secure services to the FCO and to other customers across government and more widely. The transition is now complete, with FCO Services' move to Trading Fund status on 1 April this year.

As a self-funding organisation, FCO Services will be subject to greater commercial disciplines but also benefit from greater commercial freedoms as a Trading Fund. Operating in a more competitive environment, FCO Services will be freed from some of the constraints of traditional government departments, to enable them to grow their business with existing and new customers and to invest in their own long-term sustainability. The positive financial result achieved this year shows that FCO Services can be successful as an independent business within government, whilst continuing to deliver the vital secure services needed by the FCO.

As a Government, we are committed to using the public resources with which we are entrusted as efficiently and effectively as possible, so that we deliver the very best value for money to the taxpayer.

As such, we must focus on using our resources where we can make the biggest difference. This is the priority of the FCO and FCO Services, working as our partner to provide efficiently and at best value for money the secure services described in this report, plays a vital role in helping us to achieve this. FCO Services plays an integral part in enabling us to represent effectively British interests overseas and deliver first class diplomacy for Britain.

Undoubtedly, there will be challenges for FCO Services in the year ahead but I have every confidence that the Chief Executive, his management team and colleagues throughout the organisation are well prepared to meet them. Their excellent financial results and good levels of customer satisfaction, achieved in a context of significant organisational change, are ample evidence that they can succeed.

I congratulate FCO Services on their achievements so far and wish them every success for the future.



Lord Mark Malloch-Brown
Minister of State, Foreign
and Commonwealth Office

DELIVERING FOR OUR CUSTOMERS TODAY, BUILDING OUR BUSINESS FOR TOMORROW

Foreword by Chris Moxey, Chief Executive, FCO Services

2007/08 has been a momentous year for FCO Services. On 1 April 2008, we formally made the transition from Executive Agency to Trading Fund status. This was the culmination of a tremendous amount of work by our colleagues in FCO Services and the FCO, supported by strong engagement from our Ministers.

Trading Fund status will provide the right framework for us to thrive as a successful, customer-focused organisation, delivering vital support services to the FCO, other UK government departments as well as a number of other overseas government bodies with whom we have close links.

From 1 April, our revenues will come entirely from the business we generate and any future surpluses we create may be retained and invested in our organisation to support our development needs. Throughout 2007/08, our priority has been to ensure that we are well equipped to meet the challenges of working in a more competitive commercial environment, while continuing to meet our customers' current needs throughout the year.

We have rationalised our historically diverse business to focus on delivering the range of security-related services that our customers really value and that represent our core strengths. Further, we have undertaken a comprehensive programme of change to ensure that we have the right structure, the right processes and controls and the right skills and capabilities to thrive as a business within government.

This past year of change and preparation has involved extensive activity across our organisation which has produced equally significant achievements – most notably our ability to demonstrate, under the external scrutiny of the National Audit Office, that we would be fit to trade as a Trading Fund.

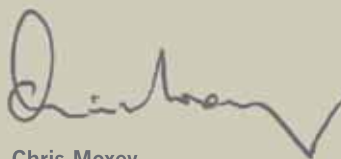
Despite the scale of our internal preparations for Trading Fund status, we have continued to focus on meeting the needs of our customers and building a strong financial platform for the future. We achieved an overall turnover of £130.2m, versus £120.6m in 2006/07. Our net surplus was £8.3m, which compares to a re-stated figure of £1.6m last year and equates to a net margin of 6.4%.

This performance has been fuelled by strong demand from our largest customer, the FCO, whom we have supported in a number of key initiatives this year. For example, we have completed vital construction projects in Afghanistan and Iraq to support British embassies and other UK Government personnel operating in these countries. We have also worked with Hewlett Packard to design, plan and begin deploying the FCO's new global IT infrastructure. Other parts of our business have grown too, notably Vetting which has expanded its customer base to include customers from other government departments and the private sector.

In terms of non-financial targets, we have achieved a customer satisfaction rating of 84% which, though fractionally lower than our 85% target, still represents an outstanding achievement, consolidating the major improvements delivered in this area last year. We exceeded our staff utilisation growth target by nearly 3%, which provides encouraging evidence that our recent efforts to improve the efficiency of our operations is starting to have an impact.

The achievements generated this past year simply would not have been possible without the outstanding dedication and commitment of our people. In particular, the internal programme of work to prepare for Trading Fund status has seen an exceptional contribution from hundreds of individuals working well beyond their normal responsibilities.

Looking forward, we have a demanding year ahead as we continue to embed our organisational changes and invest in our capabilities, whilst strengthening our customer relationships and growing our business. Our results for 2007/08 give us every reason to be confident that we can meet these challenges and that we are well positioned for future success.



Chris Moxey
Chief Executive, FCO Services



SECURE, WORLDWIDE, TRUSTED

WHO
WE ARE

WE DELIVER A UNIQUE COMBINATION OF SECURE SERVICES, ENABLING OUR CUSTOMERS TO BUILD A SAFER FUTURE.

OUR CUSTOMERS TRUST US TO MEET THEIR SECURITY NEEDS ACROSS THE GLOBE. THEY ARE CONFIDENT IN OUR UNIQUE EXPERTISE, GAINED OVER 60 YEARS, IN PROVIDING ESSENTIAL SECURE SUPPORT SERVICES TO THE FCO, OTHER UK GOVERNMENT DEPARTMENTS AND FOREIGN GOVERNMENTS AND GOVERNMENT BODIES WITH WHOM THE UK HAS CLOSE LINKS.

WE KEEP OUR CUSTOMERS **SECURE**, DELIVERING CUTTING EDGE SOLUTIONS IN BIOMETRICS AND BORDER CONTROL AND PROVIDING SECURE IT NETWORKS AND BUILDINGS.

WE OPERATE **WORLDWIDE**, WITH OUR GLOBAL NETWORK ENABLING US TO PROVIDE ESSENTIAL SUPPORT SERVICES WHEREVER THEY MAY BE NEEDED. OUR TEAMS OPERATE IN SOME OF THE MOST CHALLENGING LOCATIONS IN THE WORLD TO KEEP OUR CUSTOMERS AND THEIR COMMUNICATIONS SECURE.

WE ARE THE **TRUSTED** PARTNER OF GOVERNMENTS AND OTHER ORGANISATIONS FOR WHOM SECURITY IS ESSENTIAL. WE DEVELOP CLOSE RELATIONSHIPS WITH OUR CUSTOMERS TO BUILD A DEEP UNDERSTANDING OF THEIR NEEDS AND TO PROTECT THEIR PEOPLE, THEIR INFORMATION AND THEIR WORKING ENVIRONMENT.

HIGHLIGHTS 2007/2008

WHERE
WE'VE
BEEN

- WE HAVE COMPLETED VITAL CONSTRUCTION PROJECTS IN KABUL AND LASHKAR GAH IN AFGHANISTAN, HELPING THE FCO TO ESTABLISH A SECURE LIVING AND WORKING ENVIRONMENT FOR ITS PEOPLE THERE
- IN IRAQ, WE HAVE HELPED TO DELIVER A NEW TRANSIT FACILITY AT BAGHDAD INTERNATIONAL AIRPORT AND ARE CONTINUING TO PROVIDE MAJOR IMPROVEMENTS TO THE EMBASSY, MAKING IT EASIER FOR FCO STAFF TO LIVE, WORK AND TRAVEL IN AND OUT OF THE CAPITAL
- WE HAVE WORKED WITH UKVISAS TO COMPLETE THE GLOBAL ROLL-OUT OF BIOMETRIC DATA COLLECTION IN 135 COUNTRIES, WITH MORE THAN 1 MILLION BIOMETRICS APPLICANTS NOW ENROLLED
- WE HAVE DESIGNED AND IMPLEMENTED SECURE VIDEO CONFERENCING SYSTEMS IN 76 FCO OFFICES THROUGHOUT THE WORLD, ENABLING TEAMS TO MEET VIRTUALLY AND SECURELY AND HELPING THE FCO TO REDUCE ITS TRAVEL CARBON FOOTPRINT
- WE HAVE SHIPPED OVER 100,000 DIPLOMATIC BAGS SECURELY WORLDWIDE TO SUPPORT THE VITAL WORK OF FCO STAFF ACROSS THE GLOBE. DEMAND HAS INCREASED, BUT WE HAVE RISEN TO THE CHALLENGE AND OUR RECORD FOR ON-TIME DELIVERY HAS BEEN MAINTAINED.

HIGHLIGHTS 2007/2008

WHAT
WE'VE
DONE

- WE HAVE CONTINUED TO DEVELOP NEW TECHNOLOGY TO IMPROVE THE SECURITY OF FCO FACILITIES. FOR EXAMPLE, WE HAVE INTRODUCED MIDAS, A NEW SYSTEM TO IDENTIFY THE UNAUTHORISED USE OF MOBILE PHONES AND OTHER ELECTRONIC PERSONAL DEVICES IN RESTRICTED AREAS. INNOVATIONS SUCH AS THESE HAVE ENABLED US TO MAINTAIN OUR LEADING POSITION AS THE UK NATIONAL AUTHORITY FOR COUNTER-EAVESDROPPING (UKNACE).
- WE HAVE WORKED WITH HEWLETT PACKARD AS PART OF A JOINT TEAM RESPONSIBLE FOR DELIVERING THE FCO'S NEXT GENERATION GLOBAL IT INFRASTRUCTURE. DEPLOYMENT OF THE NEW VISTA AND OFFICE 2007 DESKTOPS IN THE UK CONTINUES TO MAKE SIGNIFICANT PROGRESS, WITH THE JOINT TEAM MEETING ITS FIRST ROLL-OUT MILESTONE, COMPLETING THE DELIVERY OF OVER 2000 DESKTOPS TO THE FCO'S MAIN LONDON BUILDING BY MAY 2008.
- OUR GLOBAL TEAM OF SECURITY-CLEARED TECHNICAL EXPERTS HAS CONTINUED TO PROVIDE SPECIALIST TECHNICAL SERVICES FOR THE FCO'S OFFICES AROUND THE WORLD. COVERING FACILITIES, SECURITY, IT AND COMMUNICATIONS SYSTEMS, THIS SUPPORT EXTENDS TO OTHER UK GOVERNMENT DEPARTMENTS CO-LOCATED IN THE SAME OFFICES AND TO EMBASSIES OF OTHER GOVERNMENTS WITH WHOM THE UK HAS CLOSE LINKS.
- WE HAVE TRANSFORMED OUR BUSINESS THROUGH A COMPREHENSIVE CHANGE PROGRAMME, DESIGNED TO ENSURE THAT WE REALLY DELIVER FOR OUR CUSTOMERS AS WE MOVE TOWARDS A MORE COMPETITIVE, COMMERCIAL ENVIRONMENT

DELIVERING SERVICES FOR OUR CUSTOMERS

**“YOU KEEP OUR PEOPLE SAFE,
YOU KEEP OUR CONFIDENTIAL
MATERIAL SAFE AND YOU KEEP
US COMMUNICATING WITH
EACH OTHER”**

Sir Peter Ricketts, Permanent Under Secretary, Foreign and Commonwealth Office

We provide vital services to the FCO, other UK government departments and foreign governmental bodies closely linked to the UK.

Although the services we offer are tailored to the unique needs of each customer, they fall broadly into seven market segments:

Biometrics and Border Control ■

Secure Network Services ■

Establishment Security ■

Global Management Services ■

Secure Logistics ■

Vetting ■

Translation and Interpreting ■

In the pages that follow, we look in more detail at these areas and the customers we work for. We are also proud to share our biggest achievements over the past financial year and how we intend to build on our success in 2008/09.

SECURE FOR OUR CUSTOMERS
IS ESSENTIAL. WE HAVE
SECURE SERVICES AND
TO THE HIGHEST SECURITY STANDARDS.



S, SECURITY IS NOT AN OPTION, IT
VE UNRIVALLED EXPERTISE IN DELIVERING
D, AS PART OF GOVERNMENT, WE OPERATE



Biometrics and Border Control

Globalisation has led to increasing threats to the integrity of our borders from illegal immigration, organised crime and terrorism.

Biometric technology is an increasingly important tool in helping the UK Government and private sector organisations to address these challenges by verifying the identity of individuals and tracking any future links they have with the UK. Biometrics is now a central part of the Government's strategy to improve the security of passports and visa applications and we have been at the forefront of developing this technology in the UK. Other countries face similar challenges and we also deliver biometric solutions to several Commonwealth governments.

FCO Services has extensive technical expertise in biometrics and has security accreditation by HM Government. We operate worldwide, including locations with remote IT infrastructure. We provide robust services in:

- security accreditation
- technical design, system development, testing and implementation
- project management / project support
- equipment hosting
- a 24/7 helpdesk providing first, second and third line support.

One of our major current contracts is with UKvisas, supporting the implementation of their ground-breaking biometrics programme in partnership with Software AG. Our implementation service for UKvisas included collaboration on the design and quality assurance of the technical architecture, design of the security model, design and delivery of the biometrics software application and database, integration of 3rd party technology components and a fully managed global installation. We now provide a managed operational service for the solution.

Our specialist expertise, network of overseas implementation teams and physical infrastructure are viewed by UKvisas as crucial to the success of the programme so far, helping them to complete the global roll-out of biometric data collection technology to 135 countries. Through this, over 10,000 visa applicants connected to earlier immigration cases and asylum requests have been identified, in addition to 1,200 cases of identity swapping.

During the year, our particular achievements on this programme have included:

- setting up an on-line watchlist, so that embassies can check traveller details in real time and prevent those without the right to come to the UK from travelling here;
- updating the local servers for 'Proviso' (the visa issuing system) with new hardware and operating systems (for completion in August 2008) so that travellers applying for visas to visit the UK can do so at local visa application centres. This is resulting in an

improved service, with customers no longer having to travel to the main embassy to make their application.

Looking ahead

The recent merger of UKvisas and the Home Office UK Borders Agency, to form UKBA International Group, presents a range of new opportunities. The new organisation has specific, sophisticated requirements with a key priority to combine and improve its systems and processes. We are already working closely with UKBA International Group to support them in this.

Looking further ahead, other government initiatives will result in similar technology needs. We will continue to expand and improve our services in this field, to ensure we are in a strong position to respond to these needs.

We have worked with UKvisas to complete the global roll-out of biometric data collection technology in 135 countries, enabling UKvisas to enrol over 1 million biometrics applicants to date.

"A momentous milestone has been reached. This is a truly fantastic achievement. We now have the capability to enrol and check biometrics in support of the visa process in 135 countries. Can I therefore take this opportunity to thank all of you, both at home and overseas, for your support and commitment in helping to deliver what was thought by many to be mission impossible."

Geoff Lockwood, UKBAIG



Examples of the fingerprint and facial recognition technology used by UKvisas in their worldwide biometrics programme, supported by FCO Services.



Maintained by a joint service delivery team from FCO Services, the FCO and Hewlett Packard, the IT server room in the UK enables secure communications across the FCO estate worldwide.

Secure Network Services

Maintaining data security is an increasingly complex challenge, given the continuous development of new technology and the proliferation of IT networks and devices.

Our customers require a high level of resilience and flexibility from their secure IT networks. They also need these networks to operate globally, with enough system capacity to guarantee high-quality service at all times. They rely on their partners to provide support around the clock, with the ability to deploy both at high speed and at a reasonable cost.

FCO Services can meet these needs through our highly-skilled team of

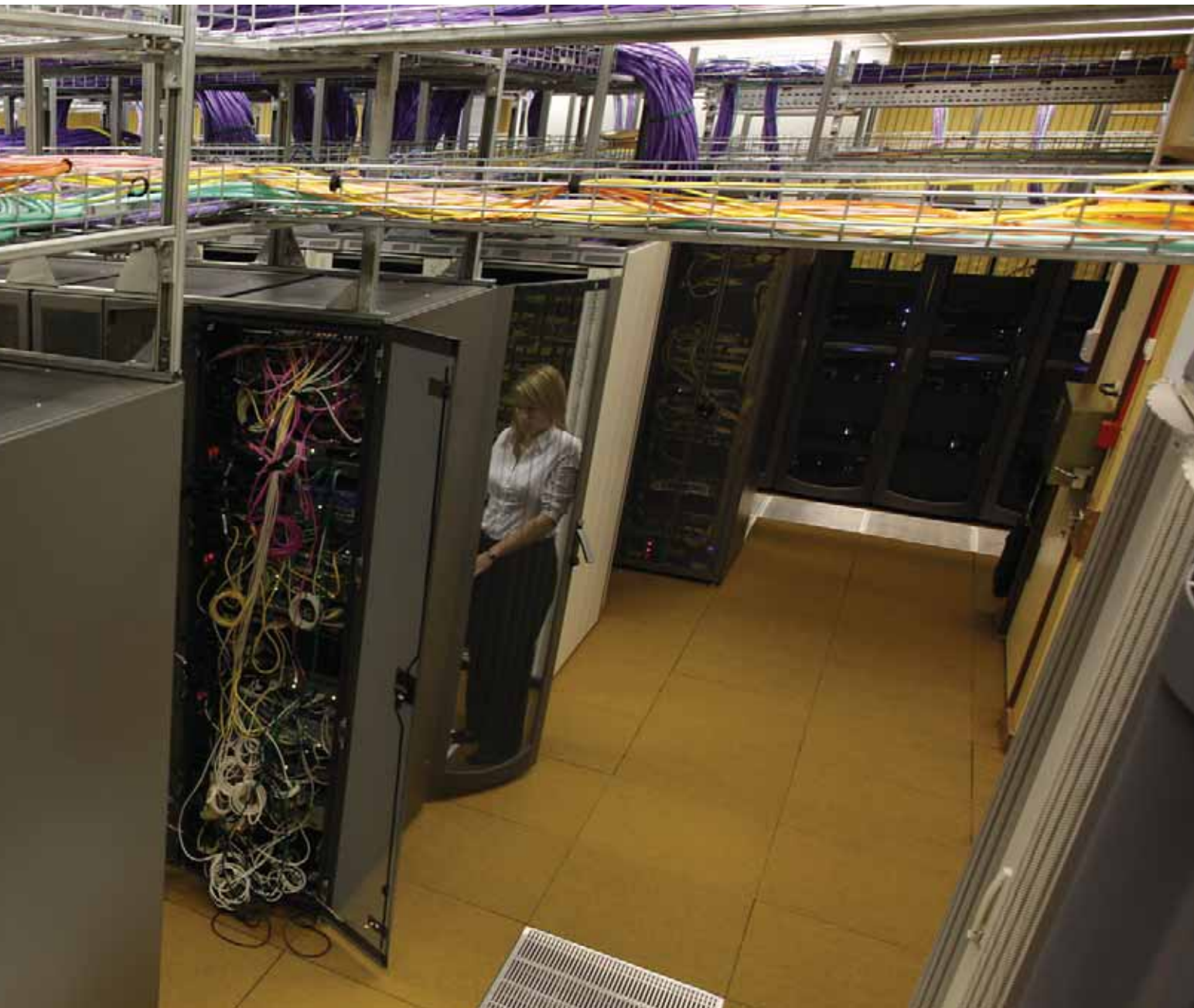
qualified and experienced networking specialists. We use the latest technologies and real-time monitoring tools to deliver and maintain our secure solutions worldwide. We also have state-of-the-art facilities in the UK to enable us to host systems securely for our customers.

To highlight just two examples of the work we have delivered for the FCO in 2007/08:

- We have worked with Hewlett Packard as part of a joint team responsible for delivering the FCO's next generation global IT infrastructure. Deployment of the new Vista and Office 2007 desktops in the UK continues to make significant progress, with the

joint team meeting its first roll-out milestone, completing the delivery of over 2000 desktops to the FCO's main London building by May 2008. Overseas deployment is due to start in October 2008, with the new system scheduled to be deployed in all embassies by the end of 2009.

- We have designed and implemented secure video conferencing systems in 76 FCO offices in the UK and overseas, using the latest technology to provide virtual meeting facilities. This has enabled teams to communicate securely on confidential issues without having to travel, helping to reduce the FCO's travel carbon footprint.



To supplement our technology implementation, hosting and maintenance services, we also provide ongoing user support. Indeed, we are currently rolling out a new customer service desk to enable us to provide even higher levels of service to our customers.

Looking ahead

Our customers are looking for ever-more flexible access to local area networks and the Internet, using secure networks. One example of how we are responding to this need is the implementation of services which check that laptops and other devices connected to the network have the most up-to-date security protection.

We recognise that business continuity is also a growing priority for our customers, from failover devices to full-scale Disaster Recovery sites. This is an area FCO Services is investing in as part of our commitment to improve continuously the depth and quality of our offer.

Working in close collaboration with the FCO, we successfully rolled out cutting-edge secure video conferencing systems to 76 FCO offices around the world this year, including many where travel connections are most challenging, enabling virtual meetings and helping the FCO to reduce their carbon footprint from travel.

"This is really good news - great work done in deploying technology that is delivering good value to the FCO."

**Tony Mather, Chief
Information Officer, Foreign
and Commonwealth Office**



▲ A secure meeting room facility, installed by FCO Services in embassy buildings around the world to enable teams to discuss sensitive and classified information securely.

◀ FCO Services helps the FCO in the UK and overseas to keep its embassies and classified information secure by installing and supporting a wide range of physical security hardware.

Establishment Security

Rising threats from international terrorism have increased our customers' needs for more secure facilities and sophisticated security systems.

FCO Services has a unique capability to offer a worldwide service in this area. We provide both project management services to build secure environments and the high-tech security solutions to support them.

We have specialised in sophisticated security solutions for over 60 years, from CCTV and access control systems to intruder detection and incident alarm systems. We are also the UK National Authority for Counter-Eavesdropping (UKNACE) and are constantly innovating and improving to ensure that we retain this position. We provide security solutions for key government departments including the FCO, No. 10, the Cabinet Office, the Ministry of Defence, HM Revenue and Customs, plus some foreign governments with whom the UK has close links.

Our work in establishment security is both varied and complex:

- In Iraq, we helped to deliver a new transit facility this year at Baghdad International Airport. We are also continuing to provide major improvements to the embassy, including new security provisions that are making it easier for FCO staff to live, work and travel in and out of the capital.

- In Lashkar Gah in Afghanistan, we provided vital support to the FCO in helping them to open new offices within extremely tight time-scales. We offered logistical support and contributed to the construction of the infrastructure. As a result, the FCO was able to deliver the required operating environment for its staff on time, enabling them to fulfil their vital roles in this country.

- At the other end of the spectrum, we have also delivered new high-specification modern offices in places such as Geneva, which combine practicality with cutting-edge design, helping to promote a positive image of Britain overseas.

The pace of change in this field is such that we constantly need to review and improve our products and services. During the year we conducted a fundamental redesign of one of our protective security systems to meet the requirements of the FCO more effectively. We developed and tested a new combined Incident Alarm / Public Announcement system, known as VOICE, then began its deployment in a small number of posts, with a view to accelerating this roll-out during 2008/09. VOICE is a far more user-friendly security solution that is quicker to install and gives optimum communications and control at a reasonable cost.

We have also continued to develop new communications technology to improve the security of FCO facilities. For example, we are developing MIDAS, a new system to check whether mobile phones and other personal electronic devices are being used in controlled areas. This system will be available within the next financial year.

Looking ahead

The UK Government's new National Security Strategy is set to have a significant impact on this area of our business and we are working with our customers to assess its implications. We are confident that, with our depth of expertise and experience and our capacity to adapt quickly to new requirements, we will be able to respond effectively.

Our in-house team has developed a new combined Incident Alarm / Public Announcement system for FCO offices overseas, making a real difference to staff safety in some of the most challenging locations.

"All of us here are extremely grateful to the team for the enhancement the new system has made to our safety. A job well done!" Iraq

We have worked on major improvements to embassy buildings overseas, making them secure for our staff and our visitors. One example is the British Consulate General in Istanbul, tragically destroyed in 2003.

**"An excellent result. This smooth transition, with no loss of business continuity, was achieved through remarkable teamwork. This move completes all the major Istanbul post-bomb works. Well done!"
Barbara Hay, Consul General, Istanbul**

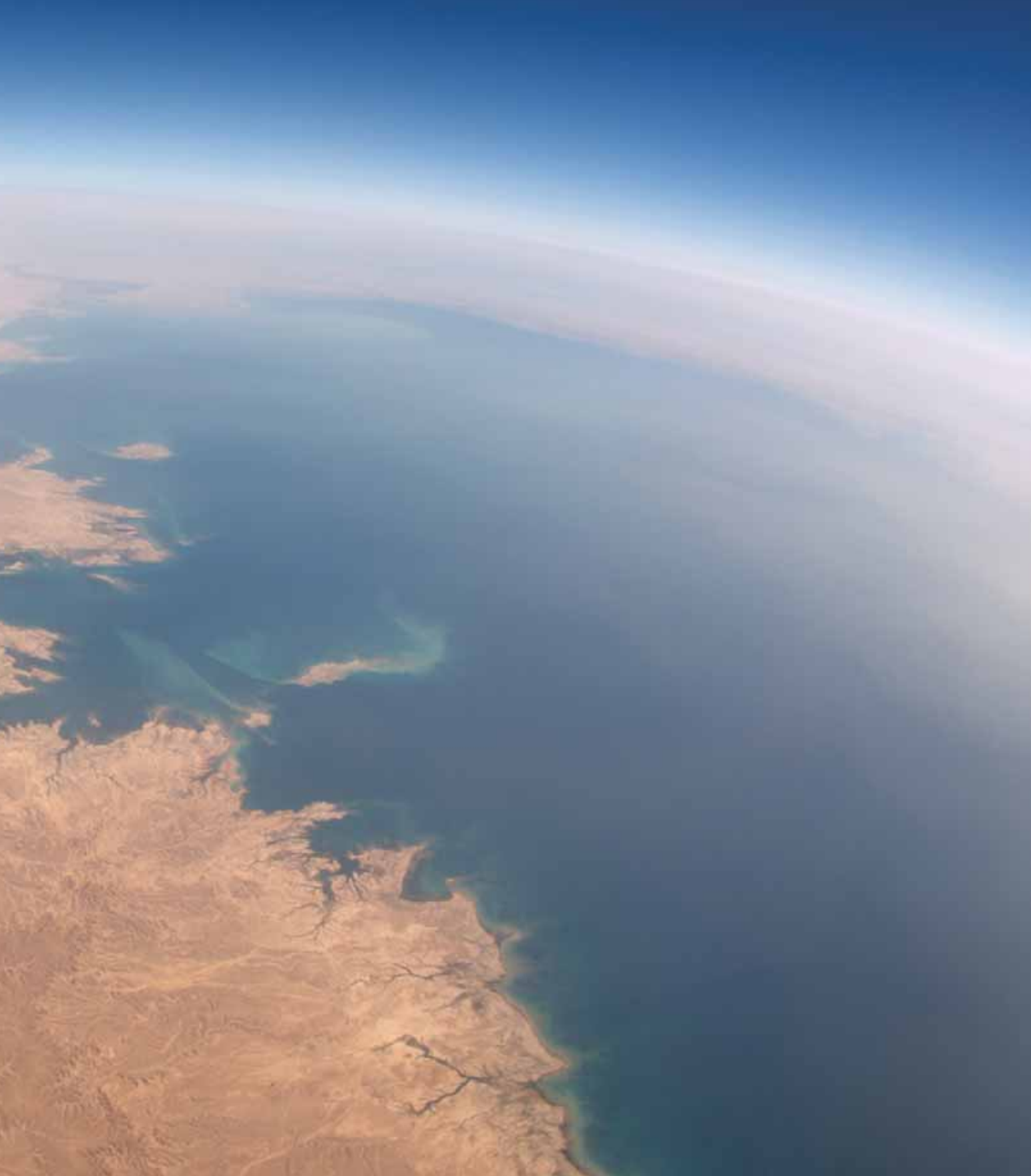
WORLDWIDE

WE
WE
KEEP

WHEREVER THEY ARE IN THE WORLD, SUPPORTING



HAVE A GLOBAL REACH THAT IS SECOND TO NONE.
OPERATE A GENUINE WORLDWIDE NETWORK,
KEEPING OUR CUSTOMERS' BUSINESS FUNCTIONING
FOR THEM 24/7.





Global Management Services

The FCO relies on us to provide their staff around the world with safe and secure working environments and communication channels to enable them to carry out their vital roles representing the UK overseas.

We have a global network of technical specialists responsible for maintaining embassy buildings and ensuring their security. This includes:

- technical services to protect staff, buildings, classified information and communications channels
- professional advice on all aspects of maintaining an estate and its technical infrastructure

- property management, from mechanical and electrical works to construction and civil engineering and physical security defences
- health and safety management services.

We provide specialist technical systems support for IT, telephones, CCTV, intruder detection systems, incident alarms, access control and public address systems. This support extends to other UK government departments co-located in FCO offices overseas and to the embassies of some other governments with whom the UK has close links. We help support the day-to-day operation of FCO facilities, for example by providing lift inspection and fire safety services. We also help

plan, administer and complete locally-funded estate projects for embassies overseas.

Our network extends across the world. Our team of security-cleared technical specialists includes members of the Royal Institution of Chartered Surveyors, the Institute of Electrical Engineers and the Institution of Occupational Safety and Health.

Among this year's major projects, our property management team has developed a new Property Health & Safety Assessment system for the FCO. For the first time, information on the health and safety aspects of all FCO buildings overseas, including rented buildings, is now monitored centrally



so that the FCO can be confident they are meeting their duty of care to their staff and visitors around the world.

Looking ahead

Safety and security will continue to be our key priorities. We are also strengthening our existing construction and estate management services to meet a growing need to reduce the environmental impact of the FCO's estate at home and overseas.

In terms of secure communications, one major initiative will be the worldwide roll-out of the FCO's new IT system. Working closely with both the FCO and Hewlett Packard to support this roll-out, our teams will operate through new

Regional Support Centres to provide essential hardware support for the new IT system. We will maximise the use of these centres so that we can provide the most efficient overseas support service possible for the FCO.

This year we provided specialist training for local electricians servicing embassies around the world, to ensure that their work conforms to stringent UK standards. This training has led directly to an improved electrical maintenance service for the FCO.

"I believe this course will benefit all who attended. Huge boost for Locally Engaged staff, thanks for your efforts."
Course Attendee

Secure Logistics

Managing the logistics of a government department that has the majority of its network overseas presents a different set of challenges from many other logistical operations.

We provide vital secure logistical services to the FCO, UK Government departments and other governments with whom the UK has close links, enabling these customers to focus on their core business.

Working with our strategic partners we support our customers in the UK and around the world by providing logistical services, including:

- air and road freight
- worldwide handling and delivery of classified and unclassified mail
- worldwide courier services
- UK-based goods in, stores and despatch functions
- secure disposal of confidential material.

This year we have increased both the efficiency and flexibility of our operations, enabling us to improve our service quality and respond more effectively to rapid increases in demand. We have enhanced our logistics capabilities and systems, improving our ability to track packages anywhere in the world in order to keep our customers informed of their progress. We have also streamlined our mail-sorting facilities to improve speed of delivery and upgraded our vehicle fleet to reduce our carbon footprint.

The following examples highlight just two of our achievements this year:

- Our team played a significant role in developing British representation in Afghanistan, including the embassy in Kabul. We delivered a wide range of components and materials that for security reasons could not be sourced locally. One major shipment involved the successful delivery of over 78,000 kilos of materials and equipment for the FCO, other government departments and FCO Services teams working in Afghanistan. This played a vital role in supporting the FCO's operations in this country.
- Despite growing demand from the FCO for our Diplomatic Bag service, we have been able both to increase our volumes and improve our service. In 2007/08 we helped maintain communications across the FCO's worldwide network by consigning over 116,000 movements of Diplomatic Bags. Over 96% of all shipments were 'flown as booked', which is an improvement on the previous year and above the industry standard. This demonstrates our commitment to meet the high standards that the FCO rightly demands, to provide secure, on-time delivery for staff working in every part of its global network.

Looking ahead

Demand for our logistics services is both increasing and changing in nature. There are opportunities for our logistics business to continue to grow, particularly given the FCO's roll-out of its new IT system worldwide and their increasing focus on delivering security improvements to embassies overseas.

We are responding to these challenges by reviewing our business to identify efficiency and improvement opportunities. This includes introducing new, higher-quality inventory management systems to improve service levels to our customers. We are also increasing our capacity by adding new stores facilities, simplifying customer contracts, developing a specialist customer services team and extending driver skills to make more efficient use of our vehicle fleet.

We have developed an innovative system for identifying whether mail has been compromised during transit. This year we worked with another government to introduce the system in their country, providing their staff with supporting materials and training. Our work has helped them improve the security of their own logistics operations.



The FCO relies on FCO Services to safeguard the despatch of Diplomatic Bags to its network of embassies around the world.

TRUSTED WE ARE ENTRUSTED
OF PEOPLE, THEIR
ENVIRONMENT. THE
ONE THAT WE ARE PROUD TO SHOULDER.



ED WITH ENSURING THE SECURITY
R INFORMATION AND THEIR WORKING
HAT IS A GREAT RESPONSIBILITY AND





Vetting involves carrying out in-depth document and background checks to establish the personal credentials of people who are applying for positions of trust in both the government and private sectors.

Vetting

For our customers, being confident in the identity and background of their employees is of critical importance, particularly those being recruited to work in sensitive positions.

FCO Services is at the forefront of security vetting. We conduct a full range of vetting services for many UK Government departments, from the FCO to the Home Office, Cabinet Office and DFID. We also work for private companies who, in turn, deliver services to government.

We conduct vetting for all levels of clearance but have particular expertise in Developed Vetting (DV), the more in-depth investigation needed for the highest government clearance. We currently have almost a 25% share of the Developed Vetting market (excluding Defence) and our business is growing fast, with demand doubling since 2006/07.

As our customers' requirements are always different, we design each service to suit their particular needs. Our people are flexible and can adapt their approach to provide our customers with the right information to support their vetting decisions.

The strength and quality of our vetting capability is demonstrated by our long-standing relationships with our customers and their feedback on our service. In a recent survey, they particularly valued our flexibility and responsiveness, with 84% saying they were either 'satisfied' or 'very satisfied' with the service we provide.

In addition to the high level of satisfaction from our existing customers, we have also seen a growth in demand from new customers. For example, this year we won a major contract to deliver DV clearances for a new customer in the private sector. They were impressed with both our depth of experience and the range of advanced investigative systems and tools that we are able to apply.

Looking ahead

2008/9 will see important changes to the vetting market, with a Government-wide programme underway to deliver greater efficiencies in this area. We believe our unique strength in Developed Vetting, our track record of delivery across government and our uniquely flexible approach, position us well to respond effectively to these changes.

"As Departmental Security Officer, I rely heavily not only on my own personnel vetting team but also on the investigating officers who provide the front line service. The FCO Services team have consistently delivered a first class service."

**Jerry Page, Cabinet Office
Departmental Security Officer**

"I have got to know the team very well indeed and this is particularly valuable in dealing with matters such as vetting where we are after all dealing with people and not commodities. They are always willing to do whatever they can to accommodate our needs, some of which can be unreasonable on occasion, particularly where timing is concerned."

Danielle Branch, Head of Personnel Security, Cabinet Office

Translation and Interpreting

Increasing international travel and the growth of multi-cultural societies has led to a rise in demand by both domestic and international organisations for reliable translation and interpreting services.

We have the capability to work from and into any sovereign state language. We provide these services to the FCO and to a wide range of other public sector customers, including other government departments and agencies, EU institutions and international organisations.

Our services include:

- interpreting at a range of events including summits, conferences, meetings, presentations and visits
- providing full textual translation from English into foreign languages and vice versa
- aligning different language versions of treaty and agreement texts
- translating and typesetting material for printed or electronic publication.

We have a small in-house team complemented by an extensive panel of specialist external translators. Both our team and panel members hold degrees in modern languages and/or postgraduate qualifications in translation and have considerable experience in their own specialist field. This gives us a solid base from which to provide a bespoke and highly professional service, which is reflected in the consistently high levels of customer satisfaction we achieve.

2007/08 has been a challenging year, with the translation market becoming increasingly competitive. Nevertheless, we have succeeded in maintaining the high standards our customers demand from us. The following list highlights a few examples of our most significant projects this year:

- We provided interpreters for the State Visit of French President, Nicholas Sarkozy, to the UK in March, fielding interpreters specifically for the VIP section of the visit and interpreting for UK dignitaries and officials at the dinners, the ceremonial parts of the visit and for some of the speeches.
- We were responsible for delivering translation and interpreting services for the Saudi State visit to the UK in October 2007. Our team was praised for the outstanding quality of their work and the positive contribution it made to the success of the visit.
- Our linguistic interpretation of a number of the provisions of the Chicago Convention on Civil Aviation played an important supporting role in enabling the UK Government, represented by HM Treasury, to defend successfully a case brought against it.

Looking ahead

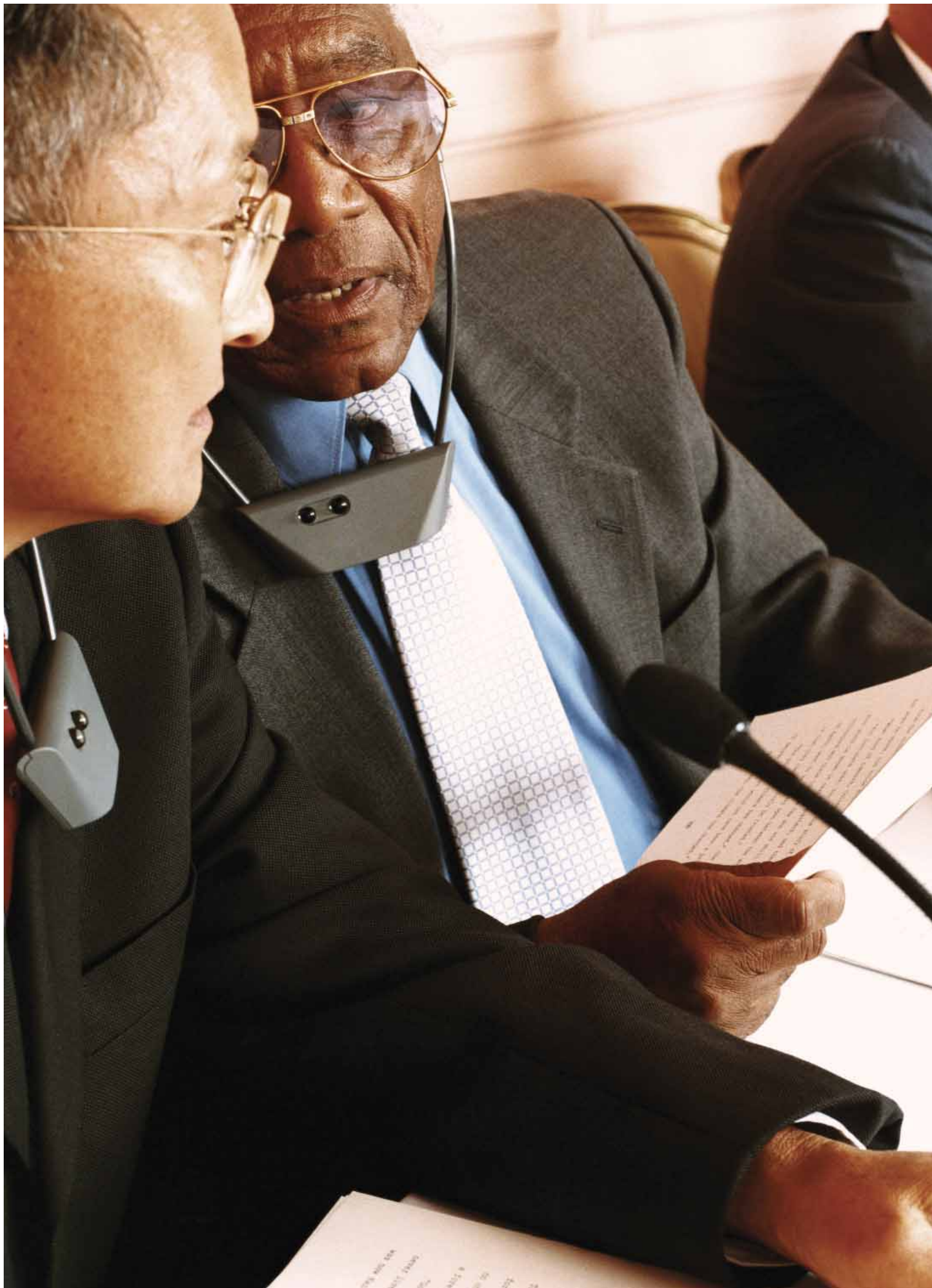
Our UK customers face a growing need to provide material in different languages for an increasingly diverse audience and to comply with complex statutory requirements.

We are in a strong position to respond to these needs, with an excellent reputation among our existing customers and we aim to build on this to secure new business. For example, the European Commission has recently selected FCO Services as their preferred supplier for a number of major translation contracts.

When the provisions of a key treaty amendment were due to be implemented in each of the five national State Parties, we ensured that there was legal clarity on all sides by translating each national version so that they could be compared with the English original.

"This looks like an excellent example of inter-departmental co-operation with the MoD. My personal thanks to you and your team for your work on this."

Nevil Hagon, Legal Adviser, FCO



MANAGING OUR BUSINESS

**“FCO SERVICES IS A NATURAL TO
BE A SUCCESSFUL BUSINESS. WITH
DETERMINATION AND FORESIGHT
OF WHAT THE CUSTOMER REQUIRES,
IT WILL BE A GREAT SUCCESS”**

Lord David Triesman, Chairman, the Football Association and former FCO Minister

Our unique heritage, delivering vital support services to the FCO, provides an excellent platform upon which to build our future business. This year we have made significant progress towards becoming a more commercially-focused and customer-centric organisation and we aim to build on this progress in the future.

On the following pages you will find information on what we are doing to:

Ensure effective governance ■

Develop our people ■

Invest in our business ■

Meet our Corporate Social
Responsibility commitments.

This section also describes how we plan to take our business forward in 2008/09.

A STRONG AND SUSTAINABLE BUSINESS, A CLOSE AND TRUSTED PARTNER

Foreword by Richard Stagg, Chair, FCO Services Board

As Chair of the FCO Services Board, I am delighted at FCO Services reaching a landmark on 1 April with the move to Trading Fund status. We are thus successfully meeting a deadline set for us by the FCO more than two years ago.

Trading Fund status marks the start of a new chapter for FCO Services. With more flexibility to operate along business lines, FCO Services has exciting opportunities to penetrate new markets and to grow its revenues from non-FCO customers. At the same time, it will remain an integral part of the FCO as a close and trusted strategic partner. It will continue to play a vital role in supporting the FCO's global network, helping to provide a secure platform to deliver for the whole of the UK government overseas.

This is a role which FCO Services has played since its creation. Two of our successes this year illustrate the point:

- As I know from my experience in Delhi, FCO Services' work with UKvisas to complete the global roll-out of biometric technology to more than 135 countries is absolutely vital in helping the UK secure its borders and establish identity in the fight against fraud and other crime. The fact that over 1,200 cases of identity swap have already been uncovered is testament to the success of the programme and the effectiveness of cross-government collaboration.
- Our work with the FCO's IT Directorate to deploy secure video conferencing systems to 76 FCO offices around the world, is another example of successful

cross-departmental co-operation and is an initiative which will play a key role in enabling the FCO to reduce its travel carbon footprint.

These are just two examples of where we have deployed cutting-edge technology to deliver the secure services which really make a difference and are really valued by our customers. Results such as these will stand us in good stead as we plan for success in the future.

The FCO Services Board has evolved during the year. The Non-Executive membership has been strengthened and the Board now includes four external Directors. Our two new Directors, David Kogan and Mike Hayle, will both bring us a broad range of commercial experience gained in the private and public sectors – their biographies are summarised in the Governance section of this report.

All of the Non-Executive Directors have developed a good understanding of FCO Services and its new status as a Trading Fund. My previous role within the FCO included responsibility for FCO Services and its creation as an Executive Agency; Neil Masom has served as a Non-Executive Director for 8 years, currently chairs the Audit Committee and has been closely involved with the development of our corporate strategy; David Kogan was a member of the former Ministerial Advisory Board and Mike Hayle was a member of the FCO's Trading Fund Programme Board, which oversaw FCO Services' journey to Trading Fund status.

The strength of the Board lies in its combination of Non-Executive and Executive Directors. As a Board we bring together direct experience of the external commercial environment with in-depth working knowledge of the organisation. This knowledge and experience will enable us to provide effective support and constructive challenge to Chris Moxey and the FCO Services executive team as they lead it into the future.

The Board has focused during the past year on strengthening its corporate governance arrangements so that it is well placed to support the development of the Trading Fund and ensure that it operates in line with best practice. The Board's Terms of Reference have been strengthened and its performance will be regularly evaluated. More widely, a range of core policies has been introduced across the organisation to meet the needs of a more commercially-focused business.

I am proud of my long association with FCO Services. I am confident that FCO Services will seize the new opportunities of Trading Fund status. The achievements I have detailed above have enabled us to deliver an outstanding financial performance this year and demonstrate FCO Services' excellent track record of Agency trading. I believe that FCO Services can look forward to exciting times ahead.



Richard Stagg
Chair, FCO Services Board





Ensuring Effective Governance

Our Senior Management Team



Sir Richard Stagg
Non-Executive
Director & Chair



Neil Masom
Non-Executive
Director and Chair
of Audit Committee



Mike Hayle
Non-Executive Director



David Kogan
Non-Executive Director



Chris Moxey
Chief Executive and
Accounting Officer



Steven Rymell
Group Director,
ICT and Chief
Information Officer



Nigel Morris
Group Director, Estates
and Security Group and
Services and Logistics



Clive Heaphy
Finance Director



Sarah Phelan
HR Director



Kerry Simmonds
Corporate
Services Director



Phil Colley
Interim Business
Development Director

Governance

As part of the FCO's strategy to bring a more customer-focused approach and improved value for money to service delivery, FCO Services became an Agency of the FCO on 1 April 2006. As such, we did not become a separate legal entity but operated autonomously under powers delegated by Ministers. On 1 April 2008, FCO Services was established as a Trading Fund under the Government Trading Funds Act 1973.

Despite our change in status, we remain an important part of the FCO. Overall responsibility for the strategic direction of our organisation rests with the Secretary of State for Foreign and Commonwealth Affairs, who has delegated these responsibilities to the FCO Minister, Lord Malloch-Brown.

One of the key reasons for changing our status in 2008/09 was to allow us greater autonomy in shaping our future direction. As a responsible, self-reliant organisation, we are dedicated to meeting our objectives, remaining a sustainable business and managing risk.

We have revised our governance structure this year to reflect more accurately our responsibilities as an Agency and Trading Fund. Our Chief Executive has ultimate responsibility for the day-to-day management of our organisation. As Accounting Officer, he is personally responsible and accountable to Parliament for the management and organisation of FCO Services, ensuring proper use of public money and the stewardship of its assets.

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

- The FCO Services Board. This includes the Chief Executive, Executive Directors and part-time independent Non-Executive Directors. Meeting at least 6 times per year, it is responsible for reviewing FCO Services' strategic agenda, setting our corporate policy and monitoring our performance.
- The Audit Committee. This committee supports the Board and Chief Executive in the management of risk, internal control and assurance and governance. Meeting at least 4 times per year, it is also attended by Non-Executive Directors (one serving as Chair), the FCO's Finance Director and external and internal auditors.



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

This year we welcomed 2 new Non-Executive Directors to the FCO Services Board, David Kogan and Mike Hayle, who bring a unique set of skills and experiences.

David Kogan offers a wealth of private sector experience, having built a long and distinguished career in the media before

co-founding a company specialising in rights negotiations, channel development and sport in the media. David also made a valuable contribution as a member of the Ministerial Advisory Board, which offered advice to the Secretary of State on areas such as the long-term vision for FCO Services, its strategic plans and performance monitoring.

Mike Hayle brings a wide range of private and public sector expertise, including direct experience of leading a Trading Fund organisation as Chief Executive of ABRO, the defence engineering services business. Mike was a member of the FCO's Trading Fund Programme Board, a joint

FCO/FCO Services initiative to facilitate FCO Services' transition to Trading Fund status.

Internal communication and engagement

The engagement of our people is crucial to the success of our organisation. By entering into a dialogue and providing the opportunity to discuss issues of importance to them we can make better decisions and build stronger teams.

Accordingly we have put in place a wide-ranging programme of internal engagement and communication. This includes regular planned discussions



Meg Munn, FCO Parliamentary Under Secretary of State, Peter Ricketts, FCO Permanent Under Secretary and Chris Moxey, Chief Executive FCO Services sign the Framework Document that defines the constitutional relationship between FCO Services and the FCO.

with the trade unions and with our staff. We hold 6-weekly discussions with our senior management team and run an annual programme of staff forums, where people from all parts of the organisation can interact with our Chief Executive and Directors.

We have developed a comprehensive programme of targeted training to enable our staff to develop the skills they will need in the new, more commercial environment. We also monitor their views through:

- an organisation-wide annual staff survey;

- feedback from training and communications channels; and
- the 'Investors in People' (IIP) process.

Whistleblowing

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

We encourage them to report any acts that they encounter in the course of their work which they believe to be illegal, improper or unethical. All approaches are taken seriously and treated in confidence. We will not tolerate the

victimisation of anyone who comes forward to raise a genuine concern. The Public Interest Disclosures Act 1998 provides legal protection for employees who make disclosures about suspected malpractice in the workplace.

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

Developing Our People

Developing the talents of our staff and creating a high-performance culture is vital to delivering continuous improvement in the quality of our service. As of 1 April 2008 we have full authority to set our own terms, conditions and pay so that we can develop and reward an enabled and flexible workforce.

Our HR strategy recognises that pay and conditions are only part of the solution. Training and career development are also important in ensuring our people reach their full potential and really deliver for our customers.

Organisation structure

As part of becoming a more customer-focused organisation, we are simplifying our structure to enable us to respond to our customers' needs more effectively. We completed the first stage of our transition this year, moving from 5 operating units to 2. We also set up a new Business Development function to identify new customer needs and develop business opportunities. The next stage in this transition will enable each part of our business to operate seamlessly together, providing a more consistent and efficient service.

Workforce planning and resourcing

We must respond to increasing business volumes by ensuring we always have sufficient numbers of people with the necessary skills to meet our customers' needs. This year, we have recruited approximately 50 people, with expertise in areas such as IT support, counter-measures, vetting and electrical engineering.

We have developed a workforce plan which sets out the key competencies and experience likely to be needed in the future and outlines how we will meet these new needs. One of our key priorities will be to build the capabilities of our permanent staff, in order to reduce gradually the number of external contractors we use.

Learning and development

Our training programmes are targeted towards developing the key skills we need to excel. This year we have delivered commercial process training, to ensure we engage with customers in a consistent way when developing new business, managing projects and delivering services. We have also provided extensive training and support to improve and standardise our approach to managing our finances.

We are now focusing on our longer-term skills gaps and putting plans in place to meet them. This includes an expansion of our highly successful apprenticeship scheme, to grow our in-house specialist skills, build our pipeline of talent and help reduce our use of external contractors.

Diversity

We value the many differences our people bring to the workplace in terms of their skills, perspectives and backgrounds and we work hard to ensure our policies reflect their differing needs. Our strategy covers all aspects of diversity including disability, gender, ethnicity and age and three of our Directors act as diversity champions. We monitor our diversity performance, tracking our progress in recruitment, performance appraisals, bonus awards, promotion and

progression. As of 1 April 2008 our staff included 23.9% women, 6.1% ethnic minorities and 3.3% with a disability. In addition to providing diversity training internally, we have continued our involvement with "Equal Choices for Schools", a local community initiative giving pupils from ethnic minority backgrounds the opportunity to experience the world of work.

Investors in People (IiP)

We currently hold IiP Accreditation as part of the FCO and are now working to become an IiP accredited organisation in our own right, with an external assessment in December 2008. We are moving towards this with a programme of IiP 'health checks' across the organisation which focus on how each business area is working to ensure that the ethos of IiP is embedded in the way we work.

Health and safety

The health and safety of our people and visitors to our sites is of the highest priority. We are committed to promoting good health policies, procedures and standards and raising awareness of health and safety across FCO Services. This year we have appointed a health and safety professional, with one of our Directors also acting as Board champion for health and safety.

As part of our commitment to compliance and continual improvement, we have developed a new health and safety policy and action plan, which includes improving our processes for reporting accidents and incidents.



We have completed risk assessments for office work and overseas travel and conducted regular, formal health and safety inspections of the workplace. To raise awareness and understanding of health and safety best practice, we have provided health and safety training for our people at all levels and improved our communication on these issues through regular forums.

- ▶ We have invested in the latest SmartBoard technology to assist in the professional development of our people.
- ▶ All of our installation teams receive specialist training for working at heights.





- ▶ A state-of-the-art control room which helps to protect the security of FCO embassies based around the world.
- ▶ One of our highly skilled technicians undertakes a series of technical tests on IT equipment.



Investing in Our Business

We are recognised as a leading authority in many of the security fields in which we operate. In technical and protective security, for example, we are the UK National Authority on Counter-Eavesdropping.

However, with the rapidly changing needs of our customers, combined with increasing competition from other suppliers, we need to refresh constantly our services and operations to respond effectively. As a result, we are making significant investments in research and development, our infrastructure and our business processes.

Research and development

This year we have set up a specialist R&D function to support the development of new products and services. This function will manage our pipeline of new ideas, putting a standard framework in place to ensure that each opportunity is rigorously tested and has access to funding at the right time.

One of this year's most significant pieces of R&D was in the field of biometrics, where we developed a workstation to demonstrate how biometric enrolment processes operate in practice. In a field where the technology and its potential applications are still emerging, our work is helping to inform our customers' views on their requirements which, in turn, will help us decide where to focus our future effort.

We have also been working on a joint venture proposal with the FCO and the Communications Electronics Security

Group (CESG), to develop a new piece of Technical Security Countermeasures equipment. This equipment will provide the FCO with the highest level of assurance available, strengthening our position as the UK National Authority in this area.

Investment in our infrastructure

We have invested in our infrastructure to improve the quality of our customer service and increased our physical capacity to enable us to respond effectively to increasing levels of demand.

These are some of the main investments we have made this year:

- We have designed and built a new ICT Customer Service Desk, enabling us to resolve more of our customers' queries at the first point of contact. It also allows us to provide higher quality reporting which we will use to improve our services further. We plan to develop and extend this system during the coming year.
- We are expanding our logistics capacity at Hanslope Park, with the FCO funding a new stores building that will be 612 square metres in size. The building will be completed by September 2008 and will offer both more efficient goods-handling and better working conditions for our people.
- We are supporting the expansion of our logistics capacity by introducing new IT systems and inventory management processes. The new systems and processes will provide higher quality information, enabling

us to track goods and deliveries more efficiently and manage our clients' assets more effectively.

Investment in our business processes

This year we have improved our core business processes to ensure we remain competitive, continue to offer good value for money and can respond consistently to our customers' needs. This will also help us manage our business in a more efficient and financially sustainable way, enabling us to prepare fully for the commercial challenges of operating as a stand-alone business.

We have developed a standardised end-to-end commercial process. Mirroring the 'customer lifecycle' from sales through to service delivery and then after-sales support, we now have one consistent approach to bidding for, winning and delivering business, underpinned by rigorous financial processes and management controls. This means that we can provide the seamless and efficient service that our customers expect.

Key to this process is our new Business Development function. It will help us anticipate the changing needs of our customers, respond to them appropriately and monitor our performance throughout the course of our engagement with them.

Meeting Our Corporate Social Responsibility Commitments

All organisations have a responsibility to reduce the impact of their operations on both the environment and the local communities in which they work and FCO Services is no exception.

The following represents just a few of the initiatives undertaken during 2007/08.

Our impact on the environment

Overseas, we have supported the FCO in reducing both their carbon footprint and the capital and ongoing running costs of their offices overseas by installing smaller generators where possible, which use less fuel and therefore emit less carbon dioxide. In Iraq and Afghanistan, for instance, we have installed diesel generators that produce the lowest carbon footprint and have also installed low carbon emission heating. The result is offices that are equipped to the highest standards, while minimising as far as possible the effect on the environment.

We also aim to use new technology to lessen our impact on the environment and have worked with a supplier to develop a solar hot water system for residential accommodation that can be used in varying climatic conditions. Until now, the only systems available have proved to be unreliable but, as a result of this new system, renewable energy can now be introduced where this was not previously possible.

New construction is a key part of our work. To avoid unnecessary harm to the environment, all of our new UK construction projects are designed to achieve a rating of 'Excellent' under the Building Research Establishment Environmental Assessment Method (BREEAM). This means that they are designed, built and maintained to meet our customers' needs and to align with environmental best practice.

As the provision of secure logistics is a core part of our business, we take very seriously the potential impact of our travel carbon footprint. We record our logistics fleet's mileage and most of the mileage incurred in private vehicles and taxis to monitor our performance against the FCO's targets. To help the FCO reduce its own travel carbon footprint, last year we more than doubled the number of confidential video conferencing systems available in the FCO estate worldwide and we will be adding to this in the year ahead.

In the UK, we are responsible for managing the FCO's Environmental Management System (EMS), which was extended to the Hanslope Park site in 2007. This system enables the FCO to assess its progress in meeting its environmental obligations and ensures that it retains its accreditation to the ISO 14001: 2004 quality standard.

Working with the FCO, we have a strong record on waste reduction and recycling, as was noted by the Sustainable Development Committee in its recent report, 'Sustainable Development in Government 2007'. We already recycle printer cartridges and mobile phones, as well as other materials such as paper, cardboard, plastics and wood and are looking to expand this list where possible.

Our impact on local communities

Our main site in the UK is at Hanslope Park, near Milton Keynes and we are fully committed to operating in harmony with the local community. In particular, this year we worked with our partners in the FCO and environmental consultants to begin developing a 'Green Travel Plan' for the site. This plan features a number of important initiatives, including the promotion of cycling through the extension of local cycleways.



By extending local cycleways around the Hanslope Park site, we are encouraging our people to help us reduce our carbon footprint and providing a benefit to the local community.

OUR PLANS FOR 2008/09

WHAT'S TO COME

OUR PRIORITY IN 2007/08 WAS TO LAY THE FOUNDATIONS FOR SUCCESS IN A COMPETITIVE ENVIRONMENT BY DEVELOPING OURSELVES AS A SELF-RELIANT AND COMMERCIALY CAPABLE BUSINESS. IN 2008/09 OUR FOCUS WILL BE ON EMBEDDING THESE CHANGES AND BUILDING OUR CAPABILITY FURTHER SO THAT WE CONSISTENTLY EXCEED OUR CUSTOMERS' EXPECTATIONS. WE HAVE 4 KEY PRIORITIES:

1) DELIVERING BUSINESS-CRITICAL SERVICES TO THE FCO

WE ENJOY A UNIQUE RELATIONSHIP WITH THE FCO, PLAYING A VITAL ROLE IN ENABLING THEM TO DELIVER THEIR STRATEGIC PRIORITIES WORLDWIDE THROUGH THE GUARANTEED PROVISION OF BUSINESS CRITICAL SECURE SERVICES. IN 2008/09 WE WILL WORK CLOSELY WITH THE FCO TO AGREE A NEW SET OF SERVICE LEVEL AGREEMENTS AND WILL BUILD ON OUR TRACK RECORD FOR DELIVERY TO EXCEED THEIR EXPECTATIONS. TO REFLECT OUR COMMITMENT TO SUPPORTING THE FCO IN DELIVERING THEIR 2007 COMPREHENSIVE SPENDING REVIEW OBLIGATIONS, WE HAVE A NEW FORMAL TARGET THIS YEAR OF DELIVERING £2M IN VALUE THROUGH PRICE STABILISATION AND EFFICIENCY.

2) GROWING THE VOLUME OF WORK WE DELIVER TO CUSTOMERS IN WIDER MARKETS

WE HAVE THE PROVEN CAPABILITY TO DELIVER INNOVATIVE AND RESILIENT SERVICE SOLUTIONS, BUILDING A STRONG REPUTATION IN THE UK PUBLIC SECTOR AS A LEADER IN THE PROVISION OF SECURE SERVICES. WE NOW HAVE THE OPPORTUNITY TO EXTEND THIS RECOGNITION BEYOND 'TRADITIONAL' CUSTOMERS AND DRIVE OUR BUSINESS FORWARD. WE WILL SEEK TO ACHIEVE THIS THROUGH A MORE CUSTOMER-ORIENTED SET OF PRODUCTS AND SERVICES AND AN INTIMATE UNDERSTANDING OF CUSTOMER NEEDS AND BEHAVIOURS. IN PARTICULAR, WE WILL LOOK TO BUILD ON OUR EXISTING PRESENCE IN THE BIOMETRICS / BORDER CONTROL, SECURE IT NETWORKS, ESTABLISHMENT SECURITY AND VETTING MARKETS. OUR 2008/09 TARGET IS TO ACHIEVE A 10% INCREASE IN INCOME FROM WIDER MARKETS.

3) EMBEDDING CHANGES TO OUR ORGANISATIONAL STRUCTURE AND PROCESSES

IN 2008/09 WE WILL COMPLETE OUR TRANSITION TO A NEW STRUCTURE, CREATING A TRULY CUSTOMER-FOCUSSED AND COHESIVE ORGANISATION. WE ARE INVESTING IN OUR PEOPLE, THEIR SKILLS AND THEIR WORKING ENVIRONMENT TO ENSURE THAT WE DELIVER THE BEST POSSIBLE SERVICE TO OUR CUSTOMERS. WE WILL CONTINUE TO EMBED NEW BUSINESS PROCESSES SUPPORTED BY TAILORED MANAGEMENT INFORMATION AND ROBUST BUSINESS CONTINUITY ARRANGEMENTS, TO DRIVE IMPROVEMENTS IN DELIVERY FOR THE CUSTOMER. OUR TARGET IS TO ACHIEVE AN 85% CUSTOMER SATISFACTION RATING IN 2008/09.

4) DRIVING THROUGH EFFICIENCIES

WE AIM TO MAXIMISE THE VALUE THAT WE DELIVER TO THE CUSTOMER AND THE TAX PAYER AND ENSURE THAT WE THRIVE AS A SUCCESSFUL AND SUSTAINABLE BUSINESS. IN 2008/09 OUR PRIORITIES ARE TO DEVELOP A FLEXIBLE WORKFORCE, REDRESSING THE BALANCE BETWEEN CONTRACTORS AND IN-HOUSE STAFF, DRIVE EFFICIENCIES THROUGH STRATEGIC PROCUREMENT, FOCUS ON BILLABLE WORK AND ELIMINATE LOW-VALUE ACTIVITIES AND IMPROVE CASH FLOW THROUGH MORE EFFECTIVE ENGAGEMENT WITH CUSTOMERS.

IN ADDITION TO OUR FORMAL TARGETS OF A 3.5% WEIGHTED AVERAGE RETURN ON CAPITAL EMPLOYED AND A STAFF UTILISATION RATE OF 65%, WE HAVE ADDED A NEW TARGET FOR 2008/09 OF ACHIEVING A SURPLUS OF AT LEAST £1.3M.

Review of Our Financial Performance

Since its inception as an Executive Agency on 1 April 2006, FCO Services has developed and implemented a successful operating model which, in 2007/08, resulted in continued growth in both revenues and profitability and a strong financial platform from which to launch its new 'Trading Fund' status on 1 April 2008.

The principal customer and parent body remains the FCO, with more than 90% of business being undertaken through this source. However, FCO Services has continued to develop its wider markets customer base and generated a significant proportion of its revenues through these channels – a proportion which we expect to see increasing significantly as a Trading Fund.

Transferring and discontinuing activities

During 2006/07, FCO Services undertook an in-depth review of its business strategy and future prospects and took the decision to cease providing a number of services. After full consultation and agreement with the FCO, it was agreed that some of these services could best be provided by the FCO itself and these were transferred back to the FCO during the year. Under FRS6 'merger accounting' rules, all transactions relating to these activities were excluded from the financial statements of FCO Services for the entire year and were included within the FCO's accounts. This necessitated a re-statement of the 2006/07 financial statements to enable like-for-like comparatives to be shown. Full details of these services are shown in note 16 to the accounts on page 84. The impact of this restatement is a reduction in operating profit before provisions in 2006/07 from £8.2m to £5.3m.

A number of other services, principally Language Training, were discontinued during the year as our main customer, the FCO, wished to make alternative arrangements for procuring these. As the value of these services is not material in the context of the overall turnover of FCO Services, disclosure of their financial impact has been shown in note 17 to the accounts.

Financial outturn 2007/08

FCO Services' financial statements for 2007/08 are shown on pages 68 to 89.

FCO Services produced an operating surplus for the year of £8.6m on a turnover of £130.2m, representing an operating margin of 6.6%. After allowing for interest and additional re-structuring costs, the net surplus for the year was £8.3m, equating to a net margin of 6.4%.

This compares with the previous year's operating surplus (after restatement) of £5.3m on revenues of £120.6m, representing an operating margin of 4.4% and a net surplus (after restatement) of £1.6m, equating to a net margin of 1.3%.

FCO revenues in 2007/08 grew from £107.3m to £117.7m, representing some 9.7% growth against the previous year and demonstrating the value of the services provided. 90.4% of revenues were generated from FCO sources (2006/07: 89.0%).

During the same period, wider market revenues fell from £13.3m to £12.5m, representing a 6.02% reduction against the previous year. Although this result is disappointing, it occurred in the context of considerable strategic, operational and process change in readiness for Trading Fund and with this in mind, the result is acceptable.

FCO Services has a remit agreed with the Minister to grow revenues from wider markets sources by 10% per annum with a reduced dependency upon the FCO as the principal source of revenue. Its long-term plans reflect this move towards a more diverse customer base providing a greater proportion of revenues.

The provision for restructure established in 2006/07 (£3.45m) was utilised in meeting the costs of redundancies incurred in moving towards the new strategic model during the financial year 2007/08, the cessation of certain activities and the transfer back to the FCO of others. Part of the provision (£0.9m) was transferred to the FCO and an additional provision of £0.3m was necessary in 2007/08 to meet the actual costs incurred.

Total net assets of £13.1m at 31 March 2008 comprises restated total net assets for 31 March 2007 of £2.3m. The figure is represented by tangible fixed assets of £2.3m (2006/07 restated: £2.8m), stock of £1.0m (2006/07 restated: £1.1m), work in progress of £5.7m (2006/07 restated: £5.9m), cash of £3.1m (2006/07 restated: £12.4m) and other net assets of £1.0m (2006/07 restated: (£19.9m Cr.)).

Performance against formal Ministerial targets

Long Term Goal	Short Term Objective	Key Performance Indicator	Target for 2007/08	Result
We will be a financially successful sustainable business	To be a financially successful and sustainable business delivering value through maximising opportunities with FCO and an expanding wider markets customer base	Return on Capital Employed	Weighted average Return on Capital Employed of at least 3.8%	90.9%
		Growth in wider market income	An increase of 5% on that achieved in 2006/07 assessed on a normalised baseline	1.4%
We will be an efficient & effective business delivering for customers	To be an efficient organisation with an ethos of continuously improving business operations	Utilisation rate (Staff utilisation rate based on billable hours as a percentage of total expected hours)	An increase of 5% over the rate achieved in 2006/07	7.8%
	To constantly improve customer satisfaction in all aspects of our products, services and service delivery	Customer satisfaction rating in customer survey	85% satisfied or very satisfied	84%

Financial performance targets

FCO Services is measured against two key financial performance measures: Return on Capital Employed (ROCE) and growth in wider market revenues.

The Return on Capital Employed (ROCE) calculation, based on simple average net assets (excluding restructure provision) of £9.43m, was 90.9%(2006/07: 43.0%) against a weighted average target of 3.8% which, when combined with a 6.6% operating margin, shows a financially healthy position for the year. Although this figure may appear high, the ROCE achieved is a reflection of the fact that FCO Services is a people-based organisation with a disproportionately small asset base relative to its turnover.

Against a 2006/07 normalised baseline of £12.35m, target growth in wider market revenues of 5% for the year led to a new cash target for 2007/08 of £12.96m. The actual wider market revenue of £12.52m represented an increase over the baseline of 1.4% falling some £0.44m (3.4%) short of the agreed target.

Non-financial performance targets

In terms of customer satisfaction, 84% of customers included in our customer survey described themselves as 'Satisfied' or 'Very Satisfied'. Although this figure is marginally below our stated target of 85%, it still represents an impressive result, particularly given the significant amount of internal change we have undertaken during the year.

Our other formal target was to improve our staff utilisation rate by 5%. We exceeded this by achieving an increase of 7.8%, which provides encouraging evidence that our recent efforts to increase our focus on billable work and reduce low value-add activities are starting to have an impact.

Payments from customers

Over the course of the year, we improved significantly our billing processes (time to initiate invoices and quality of billing information) and our debt recovery functions. Indeed, we were able to reduce our overdue total debt from 22.8% to 14.3% through these actions.

Our aim is to continue this improvement in 2007/08 with an average target time from job completion to invoice initiation of 15 days – a challenging target but necessary to improve our cash management as FCO Services becomes a Trading Fund.

As a result of this improvement, the year end provision for bad and doubtful debts has reduced from £2.7m in March 2006 to £0.5m in March 2007 and £0.3m in March 2008, which is a cumulative improvement of £2.4m.

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

Payments to suppliers

FCO Services is committed to the prompt payment of bills for goods and services received. Payments are normally made in accordance with specified contract conditions or, where this is not specified, within 30 days. The Agency met this target in 88.5% of cases (2006/07: 93.9%).

Pensions

Information regarding pensions is given in the Remuneration Report and described in note 3(c). The accounting policy note in the accounts also refers to our treatment of pensions.

Post Balance Sheet events

On 31 March 2008, the FCO Services Executive Agency was wound up and the FCO Services Trading Fund was created by the FCO Services Trading Fund Order 2008. At this time we were required to return our cash balances of £3.1m to the FCO to reduce our net assets to £10.0m as detailed in note 25 to the financial statements.

Immediately upon the creation of the new Trading Fund on 1 April 2008, these net assets were appropriated to the new organisation and two new and equal liabilities of Public Dividend Capital and a long term loan were created, also as detailed in note 25.

On 1st April 2008, Home Estates Services transferred from FCO Services to the FCO.

Auditors

These accounts have been audited by the Comptroller and Auditor General, whose certificate and report appears on pages 66 to 67. The total audit fee for 2007/08 is £75,000 (2006/07 £75,000). There were no fees in respect of non-audit work.

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

Christopher Moxey

Chief Executive
20 June 2008

Remuneration Report

This report provides details of the remuneration, compensation payments, service contracts and pensions of FCO Services Board members for the year ended 31 March 2008. The Board is comprised of both Non-Executive and Executive Directors and the relevant disclosures of each are set out below.

Remuneration policy for senior civil servants

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

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

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

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

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

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

Service contracts for Executive Directors who are civil servants

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

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

Christopher Moxey (Chief Executive and Accounting Officer) was appointed on a four year contract commencing on 6 February 2006.

Clive Heaphy (Finance Director) was appointed on a three-year contract commencing on 4 July 2006.

Nigel Morris (Group Director, Estates and Security Group and Services and Logistics) was appointed on 1 September 2007 on an open-ended appointment until retirement.

Sarah Phelan (Human Resources Director) was appointed on 30 April 2007 and her appointment is open-ended until retirement.

Steven Rymell (Group Director, ICT and Chief Information Officer) was appointed on a four year contract commencing on 5 February 2007.

Kerry Simmonds (Corporate Services Director), until 29 February 2008.

Graham Smith (Group Director Client Services), until 30 August 2007.

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

Service contracts for Executive Directors who are not civil servants

Veredus Interim Management provide the services of Phil Colley who was appointed as Interim Business Development Director from 1 September 2007.

Nesco Agency provided the services of Lynn Hugo (Interim Human Resources Director), until 29 April 2007.

Executive members' remuneration

	2007-08		2006-07	
	Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
Phil Colley, Interim Business Development Director (from 01/09/07) (note 1)	-	-	-	-
Clive Heaphy	100-105	Nil	65-70	Nil
Lynn Hugo, Interim Human Resources Director (until 29 April 2007) (note 2)	-	-	-	-
Nigel Morris (from 01/09/07)	40-45	Nil	N/A	N/A
Christopher Moxey	130-135	Nil	105-110	Nil
Sarah Phelan (from 30/04/07)	75-80	Nil	N/A	N/A
Steven Rymell	100-105	Nil	15-20	Nil
Kerry Simmonds (until 29/02/08)	80-85	Nil	75-80	Nil
Graham Smith (until 30/08/07)	25-30	Nil	70-75	Nil

The above table and notes has been subject to audit.

Note 1. Veredus Interim Management provided the services of Phil Colley and the total fees paid to the Agency amounted to £140k-£145k (2006/07 £ Nil). This equates to £200k - £205k for a full year.

Note 2. Nesco Agency provided the Interim Human Resources Director and the total fees paid to the Agency amounted to £15k-£20k (2006/07 £90k - £95k). This equates to £205k - £210k for a full year.

Salary

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

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

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument.

Executive members' pension benefits

	Accrued pension at age 60 as at 31/03/08	Related lump sum as at 31/03/08	Real increase in pension at age 60	Real increase in lump sum at age 60	CETV at 31/03/08	CETV at 31/03/07	Real increase in CETV
	£000	£000	£000	£000	£000	£000	£000
Phil Colley (note1)	–	–	–	–	–	–	–
Clive Heaphy	5-10	–	5.0-7.5	–	90	15	27
Lynn Hugo (note 1)	–	–	–	–	–	–	–
Nigel Morris (from 01/09/07)	25-30	75-80	0-2.5	0-2.5	597	530	4
Christopher Moxey	0-5	–	0-2.5	–	65	31	26
Sarah Phelan (from 30/04/07))	0-5	–	0-2.5	–	36	14	17
Steven Rymell	0-5	–	0-2.5	–	23	3	17
Kerry Simmonds (until 29/02/08)	15-20	20-25	0-2.5	0-2.5	250	204	18
Graham Smith (until 30/08/07)	25-30	85-90	0 to -2.5	0 to -2.5	557	490	-2.5.0 to -5.0

The above table and note has been subject to audit.

Note 1. The above noted Board members are fixed term contract appointees to whom Civil Service pensions are not available.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; 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 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 panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

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

Cash Equivalent Transfer Values

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.

Compensation for loss of office

Graham Smith left under Flexible Early Retirement terms on 31 March 2008. He received immediate payment of his pension and an associated lump sum.

Non-Executive Directors

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

The Non-Executive Directors are appointed by the FCO Services Chief Executive in his capacity as Accounting Officer and confirmed by the Director General Finance for the Foreign and Commonwealth Office, on fixed appointments. Their remuneration and terms are agreed at the time of their appointment, which is normally for three years with the option to be extended under mutually agreed terms. No compensation is payable for early termination.

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

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

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

Michael Hayle, appointed on a three year contract as a Non-Executive Director on 1 January 2008.

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

Neil Masom, was renewed on 1 April 2007 on a twelve month contract as a Non-Executive Director. He was re-appointed on 1 April 2008 for a further sixteen months.

Sir Richard Stagg (Non-Executive Chair) was appointed on a three year contract commencing on 1 June 2007.

Remuneration payments to Non-Executive Directors

	2007-08 £000	2006-07 £000
Sir Richard Stagg (from 01/06/07) (note 1)	-	N/A
Michael Hayle (from 01/01/08)	0-5	N/A
David Kogan (from 01/03/08)	0-5	N/A
Neil Masom	10-15	5-10

The above table and note has been subject to audit.

Note 1. No pay or pension costs are included in FCO Services' accounts in respect of Sir Richard, who is a civil servant within the Foreign and Commonwealth Office. Expenses are payable by FCO Services for his attendance at Board meetings.

Christopher Moxey
Chief Executive
and Accounting Officer
20 June 2008

Statement on Internal Control

1. Scope of responsibility

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

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

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure, in order to achieve policies, aims and objectives. It can therefore provide only reasonable and not absolute assurance of effectiveness.

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

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

The system of internal control has been in place in FCO Services for the year ended 31 March 2008 and up to the date of the approval of the Annual Report and Accounts. The system is in accordance with HM Treasury guidance.

3. Capacity to handle risk

As Accounting Officer I am personally responsible for ensuring that FCO Services has an effective risk management process, including the regular review and updating of risk registers. We have a documented risk policy that follows HM Treasury's guidance on risk management and processes, defines what is meant by risk and risk management and outlines the key principles underpinning our approach to the management of risk.

All identified strategic and significant operational risks are managed by the Executive Committee and are allocated to an appropriate Director to manage as primary risk owners.

We have adopted intranet-based policies which our staff have access to through FCONet. These include detailed guidance on standards of behaviour and conduct, equal opportunities, fraud, whistleblowing and health and safety matters.

During the last year, we have made good progress in implementing a common risk framework across FCO Services and embedding it throughout our organisation via a series of training and workshop sessions. The top risks register is reviewed regularly by the Executive Committee, the FCO Services Board and Audit Committee in order to ensure that it remains up-to-date and relevant and that controls are strengthened in areas of greatest exposure.

4. The risk and control framework

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

- i. an Executive Committee that meets regularly to consider the strategic direction and key monitoring information for FCO Services and which considers the Risk Register, usually monthly;
- ii. an Audit Committee that considers all aspects of internal control including the consideration of reports from the internal and external auditors;
- iii. regular reports from Directors and senior managers on operational and financial aspects of their activities;
- iv. an annual process of budget setting through the Corporate Plan;
- v. monthly monitoring of key performance measures and indicators including a comprehensive pack of trading accounts;
- vi. a quarterly business review of operational and financial performance;
- vii. a system of cascaded delegations supported by a clear mandate letter and enforced through system controls;
- viii. project management controls designed to ensure the effective management of key programmes and projects using project management methodologies and Internet based tools.

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

During 2007/08, we continued to adopt a “top down and bottom up” approach to ensure our risk identification is comprehensive. My Executive Committee and I identified, assessed and recorded in a risk register; the key risks that we consider threaten the achievement of FCO Services’ main objectives and its ability to prosper as a business. Each identified risk was allocated to an appropriate Director to own and manage.

Our operational staff identified and assessed the risks and opportunities relevant to their work. Details of operational risks identified were recorded in a separate register with the top risks reported to the Executive Committee. In turn, the Executive Committee agreed these key risks with the FCO Services Board at each meeting.

During the middle part of the year, we were subjected to high levels of external scrutiny firstly by the National Audit Office through its ‘Fitness to Trade’ review and secondly by the Office of Government Commerce through its strategic review of the state of the business. Both reviews were intended to provide assurance to FCO Management and to Parliament that the Agency was sufficiently robust to be able to progress to a Trading Fund structure from April 2008. Both reviews concluded that significant progress had been made but that risks still existed and further work

was needed between the review date and the financial year end. However, it was felt that the work should be achievable and was not a barrier to achieving Trading Fund status.

In addition to the internal control issues identified in Section 6 of this report, the other most significant potential risks that were identified and monitored during 2007/08 were:

(i) **the ability to comply with government accounting regulations and ensure integrity in our accounting systems.**

During this period the organisation has built up its general ledger capabilities and balance sheet controls and developed independent accounting processes and a framework of financial reporting in order to ensure that it is able to operate as an independent Agency. This work has continued throughout the year, focussing on reporting results as well as recording events.

(ii) **the control of cash resources.**

The organisation has needed to adapt to a cash based culture involving the strengthening of its billing, debtor control and cash management processes. Although work is not yet fully complete, significant progress has been made to ensure that the organisation is able to operate effectively.

(iii) **the skills and cultural ethos needed in a commercial organisation.**

The change from an internal department to a trading organisation reliant upon commercial skills and competencies is one that has required considerable cultural change and constant reinforcement through education, training and process change.

(iv) **workforce planning.** Having the appropriate level of human resource in place, appropriately skilled and with sound reward and performance

monitoring processes is critical to our future success and we have been working towards putting these in place throughout the year.

(v) **our service to customers and customer satisfaction.**

As we seek to develop our customer base, providing services both to the FCO and a range of wider market customers, it is imperative that we closely monitor customer satisfaction in order to defend against deteriorating revenue. Accordingly, we have been active in developing and promoting mechanisms to ensure that our customers are satisfied with our services and we have been improving the means by which we monitor and act upon customer feedback.

(vi) **health and safety.** Raising health and safety awareness and ensuring an appropriate health and safety control framework have been a high priority for the Board. Significant improvements have been made in ensuring that this objective has been met.

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

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

- The availability to staff of comprehensive, intranet-based risk management policies within the context of a ‘no blame culture’ so that risks can be openly discussed and dealt with;

- A rigorous system of checks and controls, such as automated 3-way invoice matching together with detailed staff guidance to help prevent and detect fraud;
- The requirement for all colleagues and Board members to adhere to the highest standard of propriety as set out in Nolan's 'seven principles in public life';
- The utilisation of the Office of Government Commerce (OGC) processes and tools and of the Overseas Journal of the European Union (OJEU) to ensure value for money;
- The development of project management processes, including the establishment of programme and project boards, to oversee the delivery of key projects and deliverables;
- Effective financial control processes that are subject to regular review and improvement where necessary;
- Identification, through the performance appraisal mechanism, of staff development and training needs; and
- The development of an effective internal audit function and an appropriate corporate governance framework.

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

- It is important that we remain an active partner of our key customer the FCO and we have developed a strategy designed to meet their needs more closely. This is based on a deep understanding of the FCO's key objectives in the areas of Information Technology, Security and Logistics

and our organisational structure is in the process of being realigned to be more responsive in these key strategic areas.

- We already work with a wide range of customers outside the FCO and enjoy good relations and high levels of customer satisfaction. In order to ensure continuity and growth, we continue to improve our relationships by providing high-quality services that meet their needs at competitive prices.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of our system of internal control. My review is informed by the work of the internal auditors and the Directors within our organisation who have responsibility for the development and maintenance of the internal control framework. It is also informed by comments from the external auditors in their management letter and other reports.

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

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

- Executive Committee members – I usually meet weekly with the other members of my executive team to consider and discuss the Agency's operational plans and objectives and to discuss day-to-day management issues;
- The FCO Services Board – which comprises a Non-Executive Chair, a further three Non-Executive Directors and Executive Committee colleagues.

We meet usually 6 times a year to discuss the Agency's strategy and performance, risks and progress on major projects;

- The Audit Committee – which is chaired by an independent Non-Executive member. The Audit Committee meets at least 4 times a year, usually with both Internal and External Auditors present, to receive and respond to reports, to consider and advise me on the appropriateness of our corporate governance and internal control arrangements and to review the financial statements;
- Annual Assurance Statements – members of my Executive Team conduct self-audits and are required to give me documented assurances regarding compliance with their operational risk management and internal control responsibilities;
- Financial Control Framework – this is in place to ensure the integrity of the financial information received and the adequacy of the financial process;
- Internal Auditors – The FCO Internal Audit Department (IAD), supported by PricewaterhouseCoopers (PwC), undertake internal audits to Government Internal Audit Standards and provide regular reports and an overall annual opinion on risk management, control and governance within FCO Services;
- External auditors – The National Audit Office (NAO) who provide internal control comments in their management letters and other reports; and
- Other specific risk reviews – these include health and safety reviews, OGC Gateway reviews of certain projects and commissioned third party reviews of certain policies and processes.

6. Significant internal control issues

2007/08 was our second year of operation as an Executive Agency and we focussed on embedding the change in strategy, ethos and outlook agreed in the previous year. At an operational level, our work during the year involved developing and embedding systems, processes and controls that support this change and through this, a number of issues have been identified:

- i. **The adequacy of management information including project costing data.** Although strong progress has been made on the development of systems and processes to support our operations (including financial systems and processes), work continues to ensure that appropriate, accurate and timely management information is produced across FCO Services. This in turn will support the achievement of our strategic objectives and help us control our business effectively.
- ii. **Cultural change and compliance with key processes.** Operating as an Executive Agency has brought with it a major cultural shift and has emphasised the need to ensure compliance with key processes such as those relating to billing and debt collection, time recording, creditor payments and corporate credit cards. During the year, it was evident that certain processes were not always being applied as stringently as needed and as a result, significant work was undertaken to review and update process and to enforce compliance.

This effort will continue to be backed by an extensive training programme and an improvement in management information to ensure that core processes are applied as intended.

iii. **Robustness of business continuity plans and their capability to deliver objectives.**

The complexities of operating at three UK sites and globally as well as complementing the business continuity planning framework has proved challenging. Further work is needed to ensure that we would be able to deal adequately with any situation that may arise.

We identified the need for further work in developing a procurement strategy, maximising OGC and other procurement opportunities, improving contract management skills and increasing staff awareness of procurement procedures. Our work continues in each of these areas.

We became a Trading Fund on 1st April 2008. Our strategy focuses on the secure elements on our work and builds on our strengths and competencies as well as aligning more closely to our customers' requirements. This will necessitate further changes in organisational structure, processes and systems and hence a review and amendment of control systems during 2008/09.

We have commenced work on addressing key strategic HR issues to enable FCO Services to ensure that it can be sufficiently flexible in the way it utilises its people and attractive enough to be able to recruit and retain staff.

Christopher Moxey

Chief Executive and Accounting
Officer of FCO Services
20 June 2008

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

Under the Government Resources and Accounts Act 2000, Her Majesty's Treasury has directed the FCO Services Agency to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.

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

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

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

The Principal Accounting Officer of the Foreign and Commonwealth Office has designated the Chief Executive as Accounting Officer of the Agency. 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 Agency's assets, are set out in Managing Public Money issued by Her Majesty's Treasury.

Christopher Moxey

Chief Executive
and Accounting Officer
20 June 2008

The Certificate 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 Services for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000.

These comprise the Income and Expenditure account and Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, the Chief Executive and auditor

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

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

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

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

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

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

Basis of audit opinion

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

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

Opinions

Audit opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2008 and of the surplus, total recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- the information given within the Annual Report, which comprises the sections headed 'Managing Our Business' and 'Financial Report and Accounts', 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.

T J Burr

Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS
27 June 2008

Income and Expenditure Account

for the year ended 31 March 2008

	Note	2007-08 £000	Restated 2006-07 £000
Turnover	2	130,234	120,612
Cost of sales	4(a)	(86,631)	(83,725)
Gross surplus		43,603	36,887
Operating expenses	4(a)	(35,033)	(31,605)
Operating surplus before restructure		8,570	5,282
Restructure costs	4(b)	(254)	(3,447)
Operating surplus after restructure		8,316	1,835
Cost of capital credit / (charge)	5	1	(198)
Surplus for the financial year	13	8,317	1,637

All income and expenditure are derived from continuing operations, except for non-material discontinued activities (see note 17).

Comparative figures are restated to exclude activities transferred to the Foreign and Commonwealth Office (see note 16).

The notes on pages 72 to 89 form part of these accounts.

Statement of Total Recognised Gains and Losses

for the year ended 31 March 2008

	Note	2007-08 £000	Restated 2006-07 £000
Surplus for the financial year		8,317	1,637
Unrealised net surplus on revaluation of tangible fixed assets	14	19	19
Realised net surplus on tangible fixed assets not carried forward transferred to Income and Expenditure	14	(7)	(11)
Realised gain on disposal of tangible fixed assets transferred to Income and Expenditure	14	(1)	(2)
Total recognised gains and losses relating to the year		8,328	1,643

All income and expenditure are derived from continuing operations, except for non-material discontinued activities (see note 17).

Comparative figures are restated to exclude activities transferred to the Foreign and Commonwealth Office (see note 16).

The notes on pages 72 to 89 form part of these accounts.

Balance Sheet

as at 31 March 2008

	Note	31/03/08 £000	Restated 31/03/07 £000
Fixed assets			
Tangible assets	6	2,332	2,754
Current assets			
Stocks and work in progress	7	6,634	7,004
Debtors	8(a)	31,763	18,207
Cash at bank and in hand	9	3,087	12,382
		41,484	37,593
Creditors (amounts falling due within one year)	10(a)	(30,717)	(34,589)
Net current assets		10,767	3,004
Total assets less current liabilities		13,099	5,758
Provisions for liabilities and charges	11	–	(3,447)
Net assets		13,099	2,311
Taxpayers' equity			
General fund	12	3,094	634
Income and expenditure account	13	9,954	1,637
Revaluation reserve	14	51	40
		13,099	2,311

Note: Comparative figures have been restated to exclude those activities transferred to the Foreign and Commonwealth Office (see note 16).

On 1st April 2008, in accordance with the FCO Services Trading Fund Order 2008 (SI 2008 No.590), the assets and liabilities (excluding cash) were appropriated to the fund (see note 25).

Christopher Moxey
Accounting Officer
20 June 2008

The notes on pages 72 to 89 form part of these accounts.

Cash Flow Statement

for the year ended 31 March 2008

	Note	2007-08 £000	Restated 2006-07 £000
Net cash (outflow) / inflow from operating activities	15(a)	(11,380)	23,263
Capital expenditure	15(c)	(301)	(912)
Financing inflow / (outflow)	12	2,386	(11,128)
(Decrease) / increase in cash in the period		(9,295)	11,223

Comparative figures are restated to exclude activities transferred to the Foreign and Commonwealth Office (note 16).

The notes on pages 72 to 89 form part of these accounts.

Notes to the Accounts

2007-08

1. Accounting policies

1.1 Basis of accounting

These financial statements have been prepared in accordance with the accounts direction issued by HM Treasury on 11/12/2007 pursuant to section 7(2) of the Government Resources and Accounts Act 2000, which requires the Agency to comply with the accounting principles and disclosure requirements of the 2007-08 Government Financial Reporting Manual (FReM). 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.

1.2 Accounting convention

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

1.3 Turnover

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

1.4 Capital charge

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

1.5 Value added tax

Output tax is applied where applicable but some of the activities of FCO Services are outside the scope of VAT. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT. FCO Services is part of the FCO group VAT registration.

1.6 Operating leases

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

1.7 Stock, work in progress and long term contracts

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

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

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

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

Long-term contract balances do not include attributable surpluses and foreseeable contract losses are accrued or provided for.

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

1.8 Transfer of assets and liabilities and restated figures

In the current year a number of business activities have been transferred by FCO Services to the Foreign and Commonwealth Office. All current year transactions and prior year transactions relevant to those activities have been excluded from these Accounts. This follows the accounting treatment set out in FReM chapter 5.4 and Dear Accounting Officer 16/07 "Machinery of Government Changes".

Notes to the Accounts

2007-08

1.9 Fixed assets and depreciation

Tangible fixed assets are stated at current value using appropriate indices or at valuation. The minimum level for capitalisation of a single tangible asset is £3,000, subject to grouping conventions where appropriate. Furniture and fittings are not capitalised.

On initial recognition tangible fixed assets are measured at cost including any costs such as installation directly attributable to bringing them into working condition. Assets are included in the accounts at the cost or valuation applicable as at the balance sheet date; any movements in valuation during the year are taken to the revaluation reserve or treated as impairments where appropriate.

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

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

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

1.10 Bad debts provision

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

1.11 Provisions

FCO Services 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.

1.12 Pension costs

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. FCO Services recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, FCO Services recognises the contributions payable for the year.

1.13 Foreign exchange gains and losses

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

Notes to the Accounts

2007-08

2. Turnover

	2007-08 £000	Restated 2006-07 £000
Internal market (Foreign and Commonwealth Office)	117,717	107,303
Wider market (other UK Government bodies and other organisations)	12,517	13,309
	130,234	120,612

3. Staff numbers and costs

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

Staff numbers	Permanent	Other	2007-08 Total	Restated 2006-07 Total
Operations	799	243	1,042	963
Sales & Marketing	24	3	27	26
Corporate Services	74	16	90	70
	897	262	1,159	1,059

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

	Permanent £000	Other £000	2007-08 Total £000	Restated 2006-07 Total £000
Salaries	35,952	9,408	45,360	41,336
Social security costs	2,539	–	2,539	2,488
Other pension costs	5,474	–	5,474	5,290
	43,965	9,408	53,373	49,114

Notes to the Accounts

2007-08

3(c) Pensions

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit scheme but FCO Services is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2007-08, employers' contributions of £ 5,469,000 (2006-07 £5,303,000) were payable to the PCSPS at one of four rates in the range of 17.1% to 25.5% (2006-07 16.2% to 24.6%) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2008-09, the salary bands will be revised but the rates will remain the same. (The rates will be changing with effect from April 2009). The contribution rates are set to meet the cost of the benefits accruing during 2007-08 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £13,000 (2006-07 £ Nil) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. In addition employer contributions of £ 700 (2006-07 £ Nil), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £ Nil (2006-07 £ Nil). Contributions prepaid at that date were £ Nil (2006-07 £ Nil).

In 2007-08 one (2006-07 three) individual(s) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £ 600 (2006-07 £ 5,000).

Notes to the Accounts

2007-08

4. Cost of sales, operating expenses and restructure costs

4(a) Cost of sales and operating expenses

	Cost of sales £000	Operating expenses £000	2007-08 Total £000	Cost of sales £000	Operating expenses £000	Restated 2006-07 Total £000
Staff costs	26,379	17,586	43,965	26,063	15,349	41,412
Agency staff and Fee Paid Officers *	7,422	1,986	9,408	6,046	1,656	7,702
Training and recruitment	68	1,293	1,361	138	2,539	2,677
Travel	6,867	1,937	8,804	10,229	2,340	12,569
Contractors *	17,259	–	17,259	13,259	–	13,259
Consultants	–	3,046	3,046	–	2,051	2,051
Communications	3,820	783	4,603	5,686	1,041	6,727
Supplies, services & facilities management **	9,424	5,301	14,725	4,808	3,158	7,966
Work in progress (increase)/decrease	(54)	–	(54)	810	–	810
Freight	7,463	152	7,615	8,317	219	8,536
Maintenance	6,685	2,472	9,157	5,449	1,802	7,251
Operating leases	–	17	17	–	43	43
Accommodation charges***	564	318	882	2,015	866	2,881
Loss on exchange	–	15	15	–	22	22
Other	–	52	52	–	413	413
Depreciation	718	5	723	772	3	775
(Profit)/loss on disposal of fixed assets	–	(5)	(5)	–	28	28
Impairment losses on fixed assets	16	–	16	133	–	133
Auditors' remuneration and expenses (no non-audit work)	–	75	75	–	75	75
Total costs	86,631	35,033	121,664	83,725	31,605	115,330

During 2007-08 significant improvements were made in the way costs were collected and analysed by category which has led to some significant apparent anomalies in the comparative figures.

* Agency staff and contractors charged to cost of sales are fee earning.

** Includes £ 2,723,000 in respect of management charges from the FCO (2006-07 £ 3,368,000).

*** Accommodation charges are payable to the FCO.

Notes to the Accounts

2007-08

4(b) Restructure costs

	2007-08 £000	Restated 2006-07 £000
Restructure costs	254	3,447

The restructure cost relates to the cessation of certain activities and the transfer back to the FCO of others (see notes 16 and 17).

5. Cost of capital

	2007-08 £000	Restated 2006-07 £000
Cost of capital (credit) / charge at 3.5%	(1)	198

The year on year decrease in the cost of capital charge is a result of the reduction in the average net assets used in the calculations.

Notes to the Accounts

2007-08

6. Tangible fixed assets

	Assets under construction £000	Information technology £000	Transport equipment £000	Plant and machinery £000	31/03/08 Total £000
Cost or valuation					
At 1 April 2007 (restated)	168	1,462	886	2,561	5,077
Additions	261	6	41	40	348
Assets under construction movements	(168)	10	158	–	–
Transfers to the Foreign and Commonwealth Office	–	(10)	–	–	(10)
Disposals	–	(151)	(204)	(155)	(510)
Impairments	–	–	–	–	–
Revaluation	–	(53)	5	28	(20)
As at 31 March 2008	261	1,264	886	2,474	4,885
Depreciation					
At 1 April 2007 (restated)	–	767	621	935	2,323
Provided during the year	–	214	95	414	723
Transfers to the Foreign and Commonwealth Office	–	–	–	–	–
Disposals	–	(151)	(180)	(146)	(477)
Impairments	–	–	–	–	–
Revaluation	–	(30)	2	12	(16)
As at 31 March 2008	–	800	538	1,215	2,553
Net book value					
As at 31 March 2008	261	464	348	1,259	2,332
At 1 April 2007 (restated)	168	695	265	1,626	2,754
Asset Financing Owned as at 31 March 2008	261	464	348	1,259	2,332

All assets have been revalued at 31 March 2008 using appropriate indices.

Notes to the Accounts

2007-08

7. Stocks and work in progress

	31/03/08 £000	Restated 31/03/07 £000
Raw materials and consumables	965	1,114
Work in progress*	5,669	5,890
	6,634	7,004

* Included within work in progress is £5,562,000 in respect of the FCO (31/03/07 £ 5,640,000).

8. Debtors

8(a) Analysis by type

	31/03/08 £000	Restated 31/03/07 £000
Amounts falling due within one year		
Trade debtors	26,610	15,705
Amounts recoverable on long term contracts	165	–
Other debtors	233	1,076
Prepayments and accrued income	4,755	1,426
	31,763	18,207

8(b) Intra-government balances

	31/03/08 £000	Restated 31/03/07 £000
Foreign and Commonwealth Office	24,230	13,747
Other central government bodies	5,993	3,168
NHS Trusts	–	6
Subtotal: intra-government bodies	30,223	16,921
Balances with bodies external to government	1,540	1,286
Total debtors at 31 March	31,763	18,207

Notes to the Accounts

2007-08

9. Cash at bank and in hand

	31/03/08 £000	Restated 31/03/07 £000
Balance at Office of HM Paymaster General at 31 March	3,087	12,382

10. Creditors

10(a) Analysis by type

Amounts falling due within one year	31/03/08 £000	Restated 31/03/07 £000
Trade creditors	7,582	10,612
Accruals	4,732	6,317
Payments on account *	12,326	7,812
Other creditors**	5,800	9,751
VAT***	277	97
	30,717	34,589

* Included within payments on account is £ 9,050,000 from the FCO (31/03/07 £ 7,308,000).

** Included in other creditors is £ 1,715,000 (31/03/07 £ Nil) due to FCO in respect of management charges and accommodation.

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

10(b) Intra-government balances

	31/03/08 £000	Restated 31/03/07 £000
Foreign and Commonwealth Office	16,953	19,928
Other central government bodies	3,025	2,525
Local authorities	–	3
Subtotal: intra-government bodies	19,978	22,456
Balances with bodies external to government	10,739	12,133
Total creditors at 31 March	30,717	34,589

Notes to the Accounts

2007-08

11. Provisions for restructure

	31/03/08 £000	Restructure Provision Restated 31/03/07 £000
Balance at 1 April	3,447	–
Provided in the year	254	3,447
Unutilised provision transferred to the FCO	(913)	–
Provision utilised in the year	(2,788)	–
Balance at 31 March	–	3,447

The restructure costs were provided at 31/03/07 and related to the cessation of certain activities and the transfer back to the FCO of others (notes 16 and 17). Following the completion of the restructure the unutilised provision has been transferred to the FCO and no further payments are to be borne by FCO Services in respect of the restructure.

12. Reconciliation of movements in general fund

	31/03/08 £000	£000	Restated 31/03/07 £000	£000
Balance at 1 April		634		25,239
Transferred Activities		–		1,429
Non cash charges:				
Notional cost of capital (credit) / charge	(1)		198	
Audit fee	75		75	
		74		273
Intercompany transfers				
Transfer to clear FCO trade debtors	–		(26,998)	
Transfer to clear FCO Services trade creditors	–		11,819	
		–		(15,179)
Intercompany cash financing				
FCO invoices paid by FCO Services	–		(14,628)	
Funding to the FCO	(464)		(22,000)	
Funding from the FCO	2,850		25,500	
		2,386		(11,128)
Balance at 31 March		3,094		634

Notes to the Accounts

2007-08

13. Reconciliation of movements in income and expenditure account

	31/03/08 £000	Restated 31/03/07 £000
Balance at 1 April	1,637	–
Surplus for the year	8,317	1,637
Balance at 31 March	9,954	1,637

14. Revaluation reserve

	31/03/08 £000	Restated 31/03/07 £000
Balance at 1 April	40	34
Unrealised net surplus on revaluation arising on tangible fixed assets during the year (see note 6)	19	19
Realised net surplus on fixed assets not carried forward in the reserve credited to impairment.	(7)	(11)
Realised gain on disposal of tangible fixed assets credited to profit on disposal	(1)	(2)
Balance at 31 March	51	40

15. Notes to the Cash Flow Statement

15(a) Reconciliation of surplus to operating cash flows

	Note	2007-08 £000	Restated 2006-07 £000
Net surplus		8,317	1,637
Adjustments for non-cash items	15(b)	149	(2,607)
Decrease in stock		370	673
(Increase)/decrease in debtors		(13,556)	8,757
(Decrease)/Increase in creditors		(3,872)	14,803
Use of provision	11	(2,788)	–
Net cash (outflow) / inflow from operating activities		(11,380)	23,263

Notes to the Accounts

2007-08

15(b) Adjustments for non-cash items

	Note	2007-08 £000	Restated 2006-07 £000
Depreciation		723	775
(Profit) / loss on disposal of fixed assets		(5)	28
Impairment		16	133
Cost of capital (credit) / charge		(1)	198
Transfer to clear FCO trade debtors	12	–	(26,998)
Transfer to clear FCO Services trade creditors	12	–	11,819
Unutilised provision transferred to the FCO	11	(913)	–
Auditors' remuneration		75	75
Provision provided in year	11	254	3,447
Transferred activities		–	7,916
		149	(2,607)

15(c) Analysis of capital expenditure

	2007-08 £000	Restated 2006-07 £000
Tangible fixed asset additions	348	922
Proceeds from disposal of fixed assets	(47)	(10)
Net cash outflow from capital expenditure	301	912

Notes to the Accounts

2007-08

16. Transfer of assets and liabilities

In the current year a number of business activities have been transferred by FCO Services to the Foreign and Commonwealth Office. All current year transactions and prior year transactions relevant to those

activities have been excluded from these Accounts. This follows the accounting treatment set out in FReM chapter 5.4 and as Dear Accounting Officer 16/07 "Machinery of Government Changes.

Transferred activities	Transfer Date
Estates Management Group: Lancaster House	01/07/07
Estates Management Group: Government Hospitality	01/07/07
Estates Management Group: VIP Visits	01/07/07
Estates Management Group: Presidencies	01/07/07
Estates Management Group: Sponsored Visits	01/07/07
Estates Management Group: Conferences & Events	01/07/07
Supply Chain Group: Supply Solutions Overseas	01/07/07
Supply Chain Group: Travel and Movements (part)	01/07/07
Supply Chain Group: Supply Solutions Purchasing (part)	01/07/07
ICT Group: Comcen (Communication Centre)	01/07/07

Turnover for transferred activities in 2006-07 was £20,827,000. The surplus for transferred activities in 2006-07 was £2,836,000.

	Transferable £000	Transferred £000	Movement in year £000
Transferred Activities Assets and Liabilities:			
Fixed assets	2	2	—
Stocks	388	388	—
Debtors	4,781	64	4,717
Cash at bank and in hand	713	713	—
Creditors	(4,403)	(350)	(4,053)
Net Assets attributable to transferred activities	1,481	817	664
Current Year transferred activity financed by FCO Services			(797)
Net cash outflow for transferred activities in the current year			(133)

The net cash outflow in the current year is included in these accounts as a debtor, payable by FCO UK to FCO Services.

Notes to the Accounts

2007-08

17. Discontinuation of activities

During the current year FCO Services discontinued various non-core activities and functions.

Discontinued activities	Cessation Date
People and Best Practice: Language Training	31/12/07
Estates Management Group: Publishing	30/09/07
Estates Management Group: Films	30/09/07
Discontinued turnover and contribution	2007 £000
Turnover	1,945
Loss	(567)

18. Commitments under leases

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

	31/03/08 £000	Restated 31/03/07 £000
Obligations under operating leases comprise		
Operating leases:		
Expiry within one year	15	–
Expiry after 1 year but not more than 5 years	3	43
Expiry thereafter	–	–
	18	43

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

Notes to the Accounts

2007-08

19. Capital commitments

There are contracted capital commitments of £ 40,000 (2006-07 £ Nil) for IT Software at 31 March 2008 for which no provision has been made.

20. Other financial commitments

The Agency has not entered into any non-cancellable contracts (which are not leases).

21. Contingent liabilities

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

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

22. Financial instruments

Financial Reporting Standard 13: "Derivatives and Other Financial Instruments" requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Financial instruments play a more limited role in creating or changing risk than would be typical of the listed companies and financial institutions to which FRS 13 mainly applies.

FCO Services has very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated only by day-to-day operational activities and are not held to change the risks facing FCO Services in undertaking its activities.

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

Liquidity risk

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

Interest rate risk

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

	Non-interest bearing financial assets 31/03/08 £000	Non-interest bearing financial liabilities 31/03/08 £000	Non-interest bearing financial assets 31/03/07 £000	Non-interest bearing financial liabilities 31/03/07 £000
Currency				
Sterling	3,087	–	12,382	(3,447)
Gross financial assets/(liabilities)	3,087	–	12,382	(3,447)

Notes to the Accounts

2007-08

22. Financial instruments (continued)

Foreign currency risk

The majority of the assets and liabilities are denominated in sterling and there is no associated currency risk. There are, however, some non-material transactions that are subject to currency fluctuations. Any gains or losses are taken to the income and expenditure account in the year.

Fair values

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

	Book value 31/03/08 £000	Fair value 31/03/08 £000	Book value 31/03/07 £000	Fair value 31/03/07 £000
Primary financial instruments				
Financial assets				
Cash at bank and in hand	3,087	3,087	12,382	12,382
Financial liabilities				
Provisions	–	–	(3,447)	(3,447)

23. Losses and special payments

During the year, costs falling into the category of losses and special payments were below the level, of £250,000, at which they needed to be reported separately (2006-07 £ Nil).

24. Related party transactions

FCO Services is an Executive Agency of the FCO. The FCO (The Department) is regarded as a related party. During the year FCO Services had various material transactions with the Department. In addition, FCO Services has had numerous material transactions with other Government Departments and other Central Government bodies.

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

25. Statement of net assets appropriated from the Agency to the Trading Fund at 1 April 2008

On 1st April 2008 a Trading Fund was established in accordance with the FCO Services Trading Fund Order 2008 (SI 2008 No.590), for the operations of the Foreign and Commonwealth Office undertaken by FCO Services from that date.

The adjustments to the closing balance sheet of FCO Services as an On-Vote Agency to reflect its restructuring as a Trading Fund, were as follows:

Notes to the Accounts

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25. Statement of net assets appropriated from the Agency to the Trading Fund at 1 April 2008 (continued)

		Agency	Adjustment	Trading Fund
	Note	31/03/08 £000	01/04/08 £000	01/04/08 £000
Fixed assets				
Tangible fixed assets		2,332	–	2,332
Current assets				
Stocks and work in progress		6,634	–	6,634
Debtors		31,763	–	31,763
Cash at bank and in hand	(a)	3,087	(3,087)	–
		41,484	(3,087)	38,397
Creditors (amounts falling due within one year)		(30,717)	–	(30,717)
Net current assets		10,767	(3,087)	7,680
Total assets less current liabilities		13,099	(3,087)	10,012
Financed by:				
Capital and Reserves				
Public dividend capital	(b)	–	4,981	4,981
Vesting day long-term loan from the FCO	(b)	–	4,980	4,980
General fund		3,094	(3,094)	–
Income and expenditure account		9,954	(9,954)	–
Revaluation reserve		51	–	51
		13,099	(3,087)	10,012
Movement in net cash	(a)			
At 31 March 2008				3,087
Surrendered to the Foreign & Commonwealth Office				(3,087)
At 1 April 2008				–

Notes to the Accounts

2007-08

25. Statement of net assets appropriated from the Agency to the Trading Fund at 1 April 2008 (continued)

Notes:

- (a) The balance at the bank on 31 March 2008, totalled £3,087,000. This was surrendered to the Foreign & Commonwealth Office on 2 April 2008.
- (b) In accordance with the FCO Services Trading Fund Order 2008 (SI 2008 No 590) the balance of assets and liabilities transferred was funded by a 50% vesting day long-term loan from the Secretary of State for Foreign and Commonwealth Affairs and 50% public dividend capital.
- The vesting day loan is repayable from 1 October 2011 to 1 October 2015 and interest is fixed at 4.03% on the outstanding principal.
- (c) A working capital loan of £10,000,000 was received from the Secretary of State for Foreign and Commonwealth Affairs on 1 April 2008. The loan is repayable from 1 April 2009 to 1 October 2012 and interest is fixed at 4.01% on the outstanding principal.

26. Post Balance Sheet events

On 1st April 2008 certain assets were appropriated from the FCO Services On-Vote Agency to FCO Services Trading Fund in accordance with the FCO Services Trading Fund Order 2008 (SI 2008 No.590), for the operations of the Foreign and Commonwealth Office undertaken by FCO Services (note 25).

On 1st April 2008, Home Estates Services transferred from FCO Services to the FCO. For 2007-08, turnover was £1,457,000 with a contribution of £226,000.

There are no other post balance sheet events to be reported.

These financial statements were authorised for issue on 27 June 2008 by the Chief Executive and Accounting Officer.



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