

# **Foreign and Commonwealth Office**

## **Resource Accounts 2005-06**

**(For the year ended 31 March 2006)**

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## Annual Report

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

### 1. Scope

#### 1.1 Entities within the Departmental Accounting Boundary

The Foreign and Commonwealth Office (FCO) includes Wilton Park Executive Agency within its Departmental Accounting Boundary and the accounts of this agency are consolidated within these Resource Accounts.

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

FCO programmes include payments to:

- BBC World Service (Public Corporation).
- British Council (Charity established by Royal Charter, Public Corporation).
- The Westminster Foundation for Democracy (Executive NDPB).
- The Marshall Aid Commemoration Commission (Executive NDPB).
- Certain other small Non-Departmental Public Bodies (NDPBs).

Further details are included in the Notes to the Accounts.

### 2. Management Commentary

#### 2.1 The role of the FCO

The FCO is a network of people working in the UK and in over 250 diplomatic Posts abroad. Its purpose is to work for UK interests in a safe, just and prosperous world. To do that the FCO:

- develops and delivers the Government's international policies through its global network of posts and close co-operation with other government departments.
- identifies and influences developments overseas which affect the UK's international priorities and the Government's domestic policy objectives.
- provides consular, visa and commercial services to British nationals, business and others.

#### 2.2 FCO priorities

The FCO White Paper "Active Diplomacy for a Changing World: The UK's International Priorities" was published on 28 March 2006. The full document is available on [www.fco.gov.uk/international/priorities](http://www.fco.gov.uk/international/priorities). Building on the FCO's strategy of 2003, the Paper analysed the changes we are likely to see in the world over the next decade and the UK's role in the international system; and it identified the international priorities for the UK over that period. The Strategic International Priorities (SPs) were further updated in June 2006, with the addition of an SP on climate change. The FCO's settlement under the 2007 Comprehensive Spending Review will determine the resource levels that the FCO is able to bring to bear on the longer-term delivery of these priorities. Following wide consultation across Government (and beyond), the current Strategic Priorities were readdressed and the following were identified as being the highest international priorities for the UK over the next five to ten years:

- SP 1: Making the world safer from global terrorism and weapons of mass destruction.
- SP 2: Reducing the harm to the UK from international crime, including drug trafficking, people smuggling and money laundering.
- SP 3: Preventing and resolving conflict through a strong international system.
- SP 4: Building an effective and globally competitive EU in a secure neighbourhood.

- SP 5: Supporting the UK economy and business through open and expanding global economy, science and innovation and secure energy supplies.
- SP 6: Achieving climate security by promoting a faster transition to a sustainable, low carbon global economy.
- SP 7: Promoting sustainable development and poverty reduction underpinned by human rights, democracy, good governance and protection of the environment.
- SP 8: Managing migration and combating illegal immigration.
- SP 9: Delivering high-quality support for British nationals abroad, in normal times and in crises.
- SP 10: Ensuring the security and good governance of the UK's Overseas Territories.

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

The international events and foreign policy developments which affected the FCO's performance in 2005-2006 included the UK's Presidencies of the EU and G8, Iraq's reconstruction and political transition, negotiations with Iran over its nuclear programme, and our response to major terrorist and consular incidents, including the bombings in Egypt and Hurricane Katrina. More information can be found in the FCO's Departmental Report for 1 April 2005 to 31 March 2006 – see Chapter 1, Highlights of the Year, for an overview.

### 2.3 Key relationships

The key relationships of the FCO are with:

- foreign governments and international organisations, who we seek to influence and work in partnership with in order to promote UK interests.
- Parliament, and especially the Foreign Affairs Select Committee, which takes a close interest in our work.
- other UK government departments – the March 2006 White Paper represents a clear cross – government agenda.
- customers of services provided by the FCO – these include British nationals travelling or living overseas, UK companies seeking to do business abroad and foreign nationals seeking to enter the UK.
- partners in service delivery – key among these are UKvisas, UK Trade and Investment (UKTI), public diplomacy partners (e.g. BBC World Service, British Council) and consular partners (travel industry, insurance industry, certain Non-Governmental Organisations (NGO's)).
- broader stakeholders – including international NGOs, faith communities, the media and the wider public.

### 2.4 Public Service Agreements

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

- The Autumn Performance Report 2005 (Command Paper 6709) contained a summary of progress between April and September 2005 and was published in December 2005. The report is available at [www.fco.gov.uk](http://www.fco.gov.uk).
- The Departmental Report 2005-06 (Command Paper 6823) was published in May 2006 and contained progress assessments for all PSA targets the FCO was working towards between April 2005 and March 2006. The report is available at [www.fco.gov.uk](http://www.fco.gov.uk).
- Between March 2005 and April 2006, the FCO was working towards two different sets of PSA targets. These were the twelve targets set during the 2002 spending review (SR 2002) covering 2003-2006 which overlap with the nine targets set during the 2004 spending review (SR 2004) covering 2005-2008.

- Progress assessments were made using scorecards. These are developed from PSA technical notes which detail the full PSA text and contain background information and performance indicators for all PSA targets. There are separate technical notes for the 2002 and 2004 targets; unclassified versions can be viewed at [www.fco.gov.uk](http://www.fco.gov.uk).
- Progress assessments for the nine 2005-2008 PSA targets were all rated as On course – Amber.

## 2.5 Comparison of 2005-06 Outturn against Estimate

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

Net total resources expended was £1,900,852,000 against the Estimate of £2,019,224,000, resulting in an overall underspend of resources of £118,372,000. RfR 1 was underspent by £55,906,000 and RfR 2 was underspent by £62,466,000.

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

- Expenditure on RfR1 Line D: Accruals consequences of DEL programmes: administration was £42,306,000 below Estimate. This is due to the fact that there were £34,950,000 of impairment reversals, a figure which could not have been known at the time the Estimate was calculated. The Estimate assumed that all the expenditure on capital works in Iraq would be written off in 2005-06. However, it has since been agreed that it is more appropriate to write off this expenditure over three years.
- Non-budget expenditure RfR1 Line G: Re-imburement of certain duties, taxes and licence fees was £1,845,000 below Estimate due to the FCO receiving fewer claims than forecast.
- Expenditure on RfR2 Line C: Sub-Saharan Africa – Peacekeeping was £23,516,000 below Estimate. This was largely due to underspends on UN peacekeeping missions in the Sudan and the Democratic Republic of Congo.
- Expenditure on RfR2 Line D: Global – Peacekeeping was £34,756,000 below Estimate. This was due to underspends on peacekeeping missions in the Balkans.

Capital expenditure was £41,207,000 below Estimate. This was due to slippage on Estate and ICT projects, in particular the Future Firecrest project.

## 2.6 Resources available to the FCO

### Financial

- The FCO has the following agreed budgets for 2006-07 and 2007-08. The 2006-07 Conflict Prevention figure is likely to increase by around £100m in the Spring Supplementary Estimate. The 2007-08 figure does not include any of the transfers between Global Conflict Prevention Pool Partners (FCO, MOD & DfID) which will take place in 2007-08 or the peacekeeping funds which will be allocated by Treasury in-year.

|                                    | 2006-07        |               | 2007-08        |               |
|------------------------------------|----------------|---------------|----------------|---------------|
|                                    | Resource<br>£m | Capital<br>£m | Resource<br>£m | Capital<br>£m |
| <i>RfR1</i>                        |                |               |                |               |
| FCO Administration                 | 827            | 110           | 833            | 108           |
| FCO Programme                      | 300            | –             | 302            | –             |
| BBC World Service                  | 209            | 31            | 215            | 31            |
| British Council                    | 180            | 8             | 185            | 8             |
| Departmental Unallocated Provision | 54             | 1             | 72             | 1             |
| <i>RfR2</i>                        |                |               |                |               |
| Conflict Prevention                | 248            | –             | 74             | –             |
| Total Resource                     | <u>1,818</u>   | <u>150</u>    | <u>1,681</u>   | <u>148</u>    |

*Assets*

- The FCO's Departmental Investment Strategy was published in April 2005 (available at [www.fco.gov.uk](http://www.fco.gov.uk).) It gives details of the FCO's Asset base and our strategies for the Estate, Information & Communication Technology (ICT) and Security investment.
- The present home estate includes buildings in London (Main Building and Old Admiralty Building), Croydon (Apollo House) and Milton Keynes (Hanslope Park).
- The current overseas estate consists of some 4,600 properties, ranging from Embassy buildings to staff accommodation and other facilities. The overseas estate accommodates not only FCO staff, but also personnel from other government departments and public sector organisations.
- The FCO use Key Performance Indicators (KPIs) to inform our estate decisions including the balance between leased and owned properties. In terms of capital value, an estimated 60% of our overseas estate is owned and 40% leased.

*People*

- The FCO has a total staff of around 16,000, of whom 6,000 are recruited in the UK and 10,000 recruited overseas. We plan to make efficiency savings of 310 UK staff over the period from 2005 to 2008. Staff numbers are planned to increase overall because there is an expected increase of 500 over the same period in staff from consular and visa services. These services are expected to be self-funded across Government as a whole. Information on Human Resources policies can be found in Chapter 9 of the FCO Departmental Report.

**2.7 Risk**

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

**2.8 Key Contractual Arrangements**

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

| <b>Company</b>      | <b>Type of Contract</b>                                   |
|---------------------|---|
| 3M – Ait            | Biometric passports                                       |
| American Express    | Travel  |
| Atkins              | Programme management office (UKvisas)                     |
| Cap Gemini          | Prism (FCO's financial, HR, procurement & payroll system) |
| Computacenter/Sun   | Hardware and software support (UKvisas)                   |
| Control Risks Group | Security guarding services for certain overseas Posts     |
| DDAO (DHL)          | Airfreight and logistics contract                         |
| Fujitsu             | Software and hardware support (UKvisas)                   |
| Global Crossing UK  | Provision of FTN (telecommunications network)             |
| Hewlett Packard     | Future Firecrest (ICT infrastructure)                     |
| International SOS   | Healthcare management                                     |
| Pegasus             | Security guarding services in the UK                      |
| SPSL                | Vignettes for visas                                       |
| Steria Limited      | Hardware and software (UKvisas)                           |

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

**2.9 Contingent Liabilities**

Note 31.1 to the Resource Accounts states that the FCO has £21,708,000 of contingent liabilities which are disclosed under parliamentary reporting requirements but which are not disclosed under FRS12 as the likelihood of payment resulting is remote. These relate to the indemnity cover for British Council exhibitions overseas. The present arrangements for government indemnities for works of art loaned to British Council overseas were agreed with the Treasury and the British Council in 2003 with the aim of minimising risk to the government reserve and ensuring alignment of such activities with overall UK public diplomacy priorities. The key features of the arrangement are:

- The maximum total liability available to the Council at any one time is £50 million.
- The £50 million limit does not include “high value” exhibitions (i.e. single exhibitions valued at £30 million or over), which are treated separately. In the case of “high value” exhibitions the Council will submit proposals at least two years in advance.
- For all exhibitions the Council will have to show evidence of having approached the government of the host country for cover and of having sought sponsorship for commercial insurance.

## 2.10 Sustainable Development Strategy

The FCO Sustainable Development Strategy was published in March 2005. It set out how the FCO will help deliver UK’s international priorities on sustainable development through its network of diplomatic Posts overseas; through working with international organisations such as the EU, UN and G8; through international partnerships; through working with the governments of the UK’s Overseas Territories; and through the FCO’s own corporate activities and estate management. It set sustainable development targets for the FCO for 2005-06, and longer term objectives for 2005 to 2008.

In March 2006 the FCO carried out a review of progress towards meeting the targets and objectives in the Strategy. For many of the achievements listed the FCO is not the lead government department, but it plays a crucial role – through its network of Posts overseas – in building support for UK positions on sustainable development issues. The full text of the Sustainable Development Strategy and a paper summarising the key achievements so far is available at [www.fco.gov.uk/sustainabledevelopment](http://www.fco.gov.uk/sustainabledevelopment).

## 2.11 Post Balance Sheet Events

FCO Services, the arm of the FCO supplying goods and services to the FCO and other organisations, was established as an Executive Agency within the FCO Accounting Boundary with effect from 1 April 2006, with the intention of moving to Trading Fund status by 1 April 2008.

## 3. Corporate Governance

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

- Ensuring the organisation delivers the Strategic Priorities and service delivery targets set by Ministers.
- Ensuring effective allocation and management of resources, in line with the Strategic Priorities.
- Communicating the FCO’s purpose, Strategic Priorities and vision to staff and other stakeholders.
- Monitoring and improving performance and accountability.
- Protecting and enhancing the FCO’s reputation for professionalism, effectiveness, integrity and efficiency.

**3.2** The Board is made up of 12 members: the Permanent Under-Secretary of State (PUS), 5 Directors General, the Directors for Finance, Human Resources, and Strategy & Information, the Chief Executive of UKTI, and two independent Non-Executive Directors. Board members are appointed by the No 1 Board (senior appointments process). A Non-Executive director sits on the No 1 Board, whose decisions are ratified by the Secretary of State.

**3.3** The Board agrees opening budget allocations and, as financial management systems improve with Prism, has begun reviews of monthly Key Performance Reporting (including budgets, expenditure-to-date, resource accounting and position management), and financial performance at mid year and year end.

**3.4** We use external agencies to recruit independent non-executive Board members openly and transparently. They are appointed by the PUS, after the approval of the Secretary of State. Our Non-Executive Directors are involved in a range of FCO corporate activities: one chairs the Audit and Risk Committee and the other sits on the No1 Board. Both have also visited a range of Posts.



**3.5** Improved induction procedures are in place for new Board members, including non-executives, and for newly appointed members of FCO senior management.

**3.6** FCO Ministers' portfolios and responsibilities are set out in regular all-staff communications. The Foreign Secretary, joined by other Ministers as appropriate, holds quarterly meetings with the Board, to set strategic direction.

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

**3.8** The Board reports on how it operates through the Board Assessment, piloted in June 2005. It will now run annually, measuring performance against published objectives and business indicators. The Board regularly considers the FCO's corporate governance structures as a whole: these were reviewed and substantially changed in mid-2005, and then examined and endorsed by the Internal Audit Department (IAD) at the end of that year.

**3.9** The Audit and Risk Committee (ARC) was created in 2002 to provide support to the Board. It is chaired by an independent Non-Executive Director and maintains a balance of executive/non-executive members. The committee's remit is strategic as well as technical and accounts based. It has an important responsibility in reviewing the work of IAD and the National Audit Office (NAO) and providing advice on the adequacy of controls in place – both to the Board and personally to the PUS as the FCO's Accounting Officer. The ARC takes the lead on counter-fraud measures (e.g. whistleblowing) and the work of the FCO's dedicated counter-fraud teams, the Financial Compliance Unit (FCU) and UKvisas Operational Integrity Section (OIS). The ARC encourages an appropriate and proportionate approach to handling risks of all kinds, that balances the extent of the controls with the magnitude of the risk they are designed to address. Formal terms of reference for the ARC are available on FCO web site ([www.fco.gov.uk](http://www.fco.gov.uk)) together with the Committee's membership.

**3.10** A Senior Leadership Forum (SLF), made up of the Board, the most senior Heads of Mission, and a representative of small Posts, meets every six months to discuss strategic and corporate policy issues, and also comments on Board papers. The purpose of the SLF is to promote corporate leadership within the FCO network.

**3.11** The Board holds regular meetings with the Boards of key partner Government Departments. A Board member meets regularly with senior representatives of the British Council and BBC World Service to maintain strategic and financial oversight of the largest FCO Non-Departmental Public Bodies.

## **4. Senior Management**

### **4.1 Ministers**

The Secretary of State for Foreign and Commonwealth Affairs is supported by five Ministers of State. Ministerial portfolios and responsibilities during the year were as follows:

Foreign Secretary: The Rt Hon Jack Straw MP

*Overall responsibility for the work of the Foreign and Commonwealth Office; Communications; Parliamentary Relations; Strategy and Information; Legal Advisers; Information Management; Research Analysts; Honours; Whitehall Liaison Department.*

Minister of State: The Rt Hon Baroness Symons of Vernham Dean, Liz Symons (to May 2005).

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

Minister for Africa, Americas and Consular: Lord Triesman (from May 2005)

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

Minister of State: Rt Hon Douglas Alexander MP  
*Trade and Investment (UKTI); Trade policy (DTI); Export Credits Guarantee Department; Economic policy; South East Asia; South Asia; North America.*

Minister for the Middle East: Dr Kim Howells MP (from May 2005)  
*Middle East and North Africa; Gulf States, Iran, Afghanistan and South Asia; Iraq; Engaging with the Islamic World; UN; Drugs and International Crime; Counter-Terrorism; Counter-Proliferation.*

Minister for Trade, Investment and Foreign Affairs: Ian Pearson MP (from May 2005)  
*Trade and Trade Policy; UKTI; Economic Policy, including Science and Technology; Global Issues (including sustainable development, energy, climate change); Human Rights; North America; South East Asia, East Asia (China and Japan) and Oceania.*

Minister of State: Dr Denis MacShane MP (to May 2005)  
*European Union; EU neighbourhood: Balkans; Ukraine, Belarus, Moldova.*

Parliamentary Under-Secretary: Bill Rammell MP (to June 2005)  
*Afghanistan; International crime and drugs; UN issues and conflict prevention; Russia, Central Asia and South Caucasus; East Asia and the Pacific; Global issues; Latin America and the Caribbean; Overseas Territories; London 2012 Olympic bid.*

Parliamentary Under-Secretary: Chris Mullin MP (to May 2005)  
*Africa; Commonwealth; Migration policy (including immigration and asylum); UKvisas; Public diplomacy.*

#### **4.2 Senior Officers**

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

Sir Michael Jay

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

Andrew Cahn (from March 2006)

*Chief Executive, UK Trade and Investment*

Sir Stephen Brown (until December 2005)

*Chief Executive, UK Trade and Investment*

John Sawers

*Director General – Political*

Richard Stagg

*Director General – Corporate Affairs*

Martin Donnelly

*Director General – Economic*

David Richmond

*Director General – Defence and Intelligence*

Nicola Brewer

*Director General – Europe*

Anne Pringle

*Director – Strategy and Information*

David Warren

*Director – Human Resources*

Ric Todd

*Finance Director*

Alistair Johnston

*Non-Executive Director*

Alison Platt

*Non-Executive Director*

Lucy Neville-Rolfe (to April 2005)

*Non-Executive Director*

## 4.2 Senior Official Appointments

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

## 5. Remuneration report

### 5.1 Remuneration policy

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

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

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

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

### 5.2 Salary and pension entitlements of Ministers and senior management

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

#### Remuneration

##### Ministers

|  | 2005-06                              |                                    | 2004-05                              |                                    |
|--|--------------------------------------|------------------------------------|--------------------------------------|------------------------------------|
|  | Ministerial<br>Salary<br><i>£000</i> | Benefits<br>in kind<br><i>£000</i> | Ministerial<br>Salary<br><i>£000</i> | Benefits<br>in kind<br><i>£000</i> |
| The Rt Hon Jack Straw MP                   | 70-75                                | –                                  | 70-75                                | –                                  |
| The Rt Hon Baroness Symons of Vernham Dean |                                      |                                    |                                      |                                    |
| Liz Symons                                 | 10-15                                | –                                  | 105-110                              | –                                  |
| Lord Triesman                              | 55-60                                | –                                  | –                                    | –                                  |
| The Rt Hon Douglas Alexander MP            | 35-40                                | –                                  | 15-20                                | –                                  |
| Dr Kim Howells MP                          | 30-35                                | –                                  | –                                    | –                                  |
| Ian Pearson MP                             | 30-35                                | –                                  | –                                    | –                                  |
| Dr Denis MacShane MP                       | 0-5                                  | –                                  | 35-40                                | –                                  |
| Bill Rammell MP                            | 0-5                                  | –                                  | 25-30                                | –                                  |
| Chris Mullin MP                            | 0-5                                  | –                                  | 25-30                                | –                                  |

In addition to the above, severance payments were made to Liz Symons, Denis MacShane and Chris Mullin.

## Members of the Board of Management

|                                    | 2005-06 |                     | 2004-05 |                     |
|------------------------------------|---------|---------------------|---------|---------------------|
|                                    | Salary  | Benefits<br>in kind | Salary  | Benefits<br>in kind |
|                                    | £000    | £000                | £000    | £000                |
| Sir Michael Jay                    | 220-225 | –                   | 195-200 | –                   |
| Andrew Cahn*                       | –       | –                   | –       | –                   |
| Sir Stephen Brown                  | 100-105 | –                   | 130-135 | –                   |
| John Sawers                        | 140-145 | –                   | 135-140 | –                   |
| Richard Stagg                      | 165-170 | –                   | 140-145 | –                   |
| Martin Donnelly                    | 115-120 | –                   | 110-115 | –                   |
| David Richmond                     | 105-110 | –                   | 70-75   | –                   |
| Nicola Brewer                      | 100-105 | –                   | 60-65   | –                   |
| Anne Pringle                       | 90-95   | –                   | 45-50   | –                   |
| David Warren                       | 100-105 | –                   | 90-95   | –                   |
| Ric Todd                           | 120-125 | –                   | 110-115 | –                   |
| <i>Non-Executive:</i>              |         |                     |         |                     |
| Alistair Johnston                  | 10-15   | –                   | 0-5     | –                   |
| Alison Platt                       | 10-15   | –                   | 0-5     | –                   |
| Lucy Neville-Rolfe (to April 2005) | –       | –                   | –       | –                   |

\*Andrew Cahn is remunerated by the Department of Trade and Industry and relevant disclosures can be found in the Resource Accounts of that Department for 2005-06.

*Salary*

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

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

*Benefits in kind*

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

**Pension benefits****Ministers**

|  | Accrued pension at age 65 | Real increase in pension at age 65 | CETV at 31 March 2006 | CETV at 31 March 2005 | Real increase in CETV |
|--|---------------------------|------------------------------------|-----------------------|-----------------------|-----------------------|
|  | £000                      | £000                               | £000                  | £000                  | £000                  |
| The Rt Hon Jack Straw MP                   | 15-17.5                   | 0-2.5                              | 250                   | 211                   | 23                    |
| The Rt Hon Baroness Symons of Vernham Dean |                           |                                    |                       |                       |                       |
| Liz Symons                                 | 12.5-15                   | 0-2.5                              | 131                   | 126                   | 1                     |
| Lord Triesman                              | 2.5-5                     | 0-2.5                              | 41                    | 23                    | 11                    |
| The Rt Hon Douglas Alexander MP            | 2.5-5                     | 0-2.5                              | 31                    | 24                    | 3                     |
| Dr Kim Howells MP                          | 5-7.5                     | 0-2.5                              | 89                    | 70                    | 12                    |
| Ian Pearson MP                             | 2.5-5                     | 0-2.5                              | 33                    | 25                    | 4                     |
| Dr Denis MacShane MP                       | 2.5-5                     | 0-2.5                              | 38                    | 36                    | 1                     |
| Bill Rammell MP                            | 0-2.5                     | 0-2.5                              | 16                    | 15                    | 1                     |
| Chris Mullin MP                            | 2.5-5                     | 0-2.5                              | 29                    | 28                    | 1                     |

*Ministerial pensions*

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

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

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

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate. Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9% to 10% from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the ministerial salary.

*The Cash Equivalent Transfer Value (CETV)*

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

The factors used to calculate the CETV were revised with effect from 1 April 2005 on the advice of the scheme actuary. The CETV figure for 31 March 2005 has been recalculated and restated using the new factors on the same basis as the CETV figure for 31 March 2006.

*The real increase in the value of the CETV*

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the Minister (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.

**Members of the Board of Management**

|                                    | Accrued pension at age 60 at 31 March 2006 | Related lump sum at 31 March 2006 | Real increase in pension at age 60 | Related lump sum at age 60 | CETV at 31 March 2006 | CETV at 31 March 2005 | Real increase in CETV |
|------------------------------------|--|-----------------------------------|------------------------------------|----------------------------|-----------------------|-----------------------|-----------------------|
|                                    | £000                                       | £000                              | £000                               | £000                       | £000                  | £000                  | £000                  |
| Sir Michael Jay                    | 95-100                                     | 295-300                           | 5-7.5                              | 17.5-20                    | 2,414                 | 2,237                 | 142                   |
| Andrew Cahn*                       | –  | –                                 | –                                  | –                          | –                     | –                     | –                     |
| Sir Stephen Brown                  | 70-75                                      | –                                 | 2.5-5                              | –                          | 1,518                 | 1,413                 | 69                    |
| John Sawers                        | 45-50                                      | 135-140                           | 2.5-5                              | 7.5-10                     | 933                   | 818                   | 62                    |
| Richard Stagg                      | 35-40                                      | 110-115                           | 2.5-5                              | 7.5-10                     | 759                   | 664                   | 52                    |
| Martin Donnelly                    | 35-40                                      | 105-110                           | 0-2.5                              | 2.5-5                      | 653                   | 586                   | 28                    |
| David Richmond                     | 30-35                                      | 100-105                           | 0-2.5                              | 0-2.5                      | 742                   | 681                   | 16                    |
| Nicola Brewer                      | 25-30                                      | 80-85                             | 0-2.5                              | 2.5-5                      | 537                   | 478                   | 26                    |
| Anne Pringle                       | 30-35                                      | 90-95                             | 0-2.5                              | 5-7.5                      | 648                   | 566                   | 45                    |
| David Warren                       | 40-45                                      | –                                 | 0-2.5                              | –                          | 804                   | 771                   | 30                    |
| Ric Todd                           | 25-30                                      | 75-80                             | 0-2.5                              | 2.5-5                      | 457                   | 404                   | 26                    |
| <i>Non-Executive:</i>              |  |                                   |                                    |                            |                       |                       |                       |
| Alistair Johnston                  | –  | –                                 | –                                  | –                          | –                     | –                     | –                     |
| Alison Platt                       | –  | –                                 | –                                  | –                          | –                     | –                     | –                     |
| Lucy Neville-Rolfe (to April 2005) | –  | –                                 | –                                  | –                          | –                     | –                     | –                     |

\*Andrew Cahn is remunerated by the Department of Trade and Industry and relevant disclosures can be found in the Resource Accounts of that Department for 2005-06.

**5.3 Pensions**

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

*Civil Service Pension*

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

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

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

Further details about the CSP arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://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 CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Civil Service Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The factors used to calculate the CETV were revised with effect from 1 April 2005 on the advice of the scheme actuary. The CETV figure for 31 March 2005 has been recalculated and restated using the new factors on the same basis as the CETV figure for 31 March 2006.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Two individuals retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £1,769.

### *Real increase in CETV*

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

### *Other information*

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit scheme but the FCO is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)). For 2005-06, contributions of £38,296,497 were payable to the PCSPS (2004-05: £27,326,339) at one of four rates in the range of 16.2% to 24.6% of pensionable pay, based on salary bands. Rates will remain the same for the next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

## **6. Public interest and other matters**

### **6.1 Employment of People with a Disability**

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

### **6.2 Equal Opportunities**

The Foreign and Commonwealth Office is an equal opportunities employer. Policies are in place to guard against unfair discrimination or barriers to employment and advancement. The Foreign and Commonwealth Office Equal Opportunity policy states that no staff should be exposed to unfair discrimination, including harassment, bullying or victimisation on any grounds, particularly gender, marital status, race, disability, religion or sexual orientation. The FCO aims to provide all staff with equality of opportunity in all aspects of their work. Employment and promotion are on merit. Staff

whose working patterns are atypical are assessed on exactly the same basis as those working full time. Equal opportunity considerations are at the core of FCO personnel policies.

### **6.3 Payment of Suppliers**

The Foreign and Commonwealth Office follows the CBI Prompt Payment Code and aims to settle suppliers' accounts within 30 days. During 2005-06, this was achieved in 93% of cases (2004-05: 68%), which represents a return towards target (97%) after a temporary fall last year whilst a new IT system was being implemented. Figures are not available for overseas suppliers.

### **6.4 Disclosure of relevant audit information**

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

## **7. Auditors**

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

*Michael Jay*  
Accounting Officer  
13 July 2006



## Statement on Internal Control

### 1. Scope of responsibility

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

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

| Sponsored Body                                   | Accounting Officer        | Responsible FCO Director        |
|--|---------------------------|---------------------------------|
| Wilton Park                                      | Colin Jennings/Adam Noble | Anne Pringle                    |
| British Council                                  | Sir David Green           | Anne Pringle                    |
| BBC World Service                                | Nigel Chapman             | Anne Pringle                    |
| Westminster Foundation for Democracy             | David French              | Philippa Drew/Stephen Pattison  |
| Great Britain-China Centre                       | Calum MacLeod             | Sebastian Wood                  |
| British Association for Central & Eastern Europe | Nicholas Jarrold          | Dominick Chilcott/Anthony Smith |
| Marshall Aid Commemoration Commission            | Jonathan Taylor           | Steve Williams                  |

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

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

### 2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of FCO policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the FCO for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### 3. Capacity to handle risk

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

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

In the last year the FCO has continued to make good progress in establishing and embedding risk management throughout the office. There is explicit leadership from senior management and the FCO's framework for managing risks has further evolved and improved. Conscious risk management

is becoming an increasingly integral part of how FCO business is done, in both policy and operational areas, and staff expertise is growing. Significant examples of progress include further development of the FCO's Top Risks Register, particularly work to rationalise and re-focus the strategic and operational risks presented to the FCO Board, and the establishment of the Risk in the Network structure and reporting cycle to improve capture and consideration of operational risks across the FCO's global network.

#### 4. The risk and control framework

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

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

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

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

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

The FCO's exposure to foreign currency risk can be significant because of the nature of its business and geographical presence. Net expenditures denominated in foreign currency constitute a minor part of total expenditures. To manage exposure risks, the FCO has an Overseas Price Movements (OPM) mechanism that is designed to maintain its purchasing power at a level equivalent to that of Home Departments. Further details are provided in Note 29 to these accounts.

Building on the work begun with Africa Directorate's Posts "at risk" register Director General Corporate Affairs has developed a regular, coherent system of capturing and managing operational risks from all overseas posts. This Risk in the Network initiative requires posts to report top operational risks in specified categories to regional directors on a quarterly basis. Directors review,

adjust and submit consolidated returns to the centre. The first returns, from January and April 2006, indicate that the system is working well and has helped to highlight risks that may otherwise have received less attention.

## 5. Review of effectiveness

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

The FCO Internal Audit Department operates to Government Internal Audit Standards. The work of Internal Audit is informed by an analysis of the risk to which the FCO is exposed, and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the FCO's Audit and Risk Committee and approved by me. The FCO Audit and Risk Committee also regularly reviews the Board's Top Risks Register. The Committee is chaired by a Non-Executive Director and will achieve a majority non-executive membership in 2006-07. The committee discharges its responsibilities in accordance with approved terms of reference, which are available on the FCO web site at [www.fco.gov.uk](http://www.fco.gov.uk)

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

The FCO also has a Financial Compliance Unit and a UKvisas Operational Integrity Section. Their main role is to investigate actual or suspected irregularity or fraud. Various other functional departments perform a compliance-monitoring role with regard to their respective areas of responsibility.

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

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

My review of the effectiveness of the system of internal control this year identified that further work was required to ensure the FCO has adequate UK business continuity planning arrangements in place by 31 March 2007, as part of the FCO's contribution to Continuity of Government.

My review has also highlighted the need for some improvement in compliance with established procurement procedures, using the IT system (Prism) to enforce these controls wherever possible, and for further improvements in the management of capital expenditure budgets, including quarterly monitoring by the Board's Investment Committee.

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

*Michael Jay*  
Accounting Officer  
13 July 2006

## Statement of Accounting Officer Responsibilities

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

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

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

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

## 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 for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

### Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the Annual 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 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 part of the Financial Statements and 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 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 16 to 18 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

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

### Basis of audit opinion

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

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

the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

### Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, 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
- 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.

### Theft and Misuse of Satellite Phones in Iraq

My report on "Theft and Misuse of Satellite Phones in Iraq" is attached to these financial statements.

*John Bourn*  
Comptroller and Auditor General

18 July 2006

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

## Statement of Parliamentary Supply

### Summary of Resource Outturn 2005-06 (£000s)

| Request for resources     | Note | 2005-06 Estimate  |           |           | 2005-06 Outturn   |           |           | Net total outturn compared with Estimate: Saving/ (excess) | 2004-05 Outturn Net Total |
|---------------------------|------|-------------------|-----------|-----------|-------------------|-----------|-----------|--|---------------------------|
|                           |      | Gross expenditure | A-in-A    | Net Total | Gross expenditure | A-in-A    | Net Total |  |                           |
| RfR 1                     | 2    | 1,981,334         | (320,831) | 1,660,503 | 1,925,428         | (320,831) | 1,604,597 | 55,906   | 1,470,605                 |
| RfR 2                     | 2    | 358,721           | –         | 358,721   | 296,255           | –         | 296,255   | 62,466   | 291,418                   |
| Total resources           | 3    | 2,340,055         | (320,381) | 2,019,224 | 2,221,683         | (320,831) | 1,900,852 | 118,372  | 1,762,023                 |
| Non-operating cost A-in-A |      |                   |           | (18,015)  |                   |           | (18,015)  | –  | (11,674)                  |

### Net cash requirement 2005-06 (£000s)

|                      | Note | 2005-06 Estimate | 2005-06 Outturn | 2005-06 Net total outturn compared with Estimate: Saving/ (excess) | 2004-05 Outturn |
|----------------------|------|------------------|-----------------|--|-----------------|
| Net cash requirement | 4    | 1,966,510        | 1,859,283       | 107,227  | 1,668,083       |

### Summary of income payable to the Consolidated Fund (£000s)

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

|                                      | Note | Forecast 2005-06 |              | Outturn 2005-06 |               |
|--------------------------------------|------|------------------|--------------|-----------------|---------------|
|                                      |      | Income           | Receipts     | Income          | Receipts      |
| Non-supply income                    | 5    | 3,601            | <i>3,601</i> | 10,410          | <i>10,410</i> |
| Operating income – excess A-in-A     | 5    | –                | –            | 8,310           | –             |
| Non-operating income – excess A-in-A | 5    | –                | –            | 156             | –             |
|                                      |      | 3,601            | <i>3,601</i> | 18,876          | <i>10,410</i> |

Cash receipts are shown in italics.

Further details of variances between Estimates and outturn are given in Note 2 to the accounts and explanations are in the Management Commentary.

The notes on pages 28 to 56 form part of these accounts.

## Operating Cost Statement

for the year ended 31 March 2006 (£000s)

|   |       | 2005-06               |                         |                         | 2004-05                 |                         |
|---|-------|-----------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|   | Note  | Staff costs           | Other costs             | Income                  | Total                   | Total                   |
| <b>Administration costs</b>                 |       |                       |                         |                         |                         |                         |
| Staff costs                                 | 7.1   | 454,349               | –                       | –                       | 454,349                 | 417,090                 |
| Other administration costs                  | 8     | –                     | 733,237                 | –                       | 733,237                 | 631,262                 |
| Operating income                            | 10    | –                     | –                       | (132,608)               | (132,608)               | (92,586)                |
| Consular and UKvisas allocated to programme | 8, 10 | –                     | (299,774)               | 35,758                  | (264,016)               | (208,143)               |
|   |       | <u>454,349</u>        | <u>433,463</u>          | <u>(96,850)</u>         | <u>790,962</u>          | <u>747,623</u>          |
| <b>Programme costs</b>                      |       |                       |                         |                         |                         |                         |
| <b>Request for Resources 1</b>              |       |                       |                         |                         |                         |                         |
| Expenditure                                 | 9     | –                     | 1,037,616               | –                       | 1,037,616               | 888,566                 |
| Income                                      | 10    | –                     | –                       | (236,297)               | (236,297)               | (170,868)               |
| <b>Request for Resources 2</b>              |       |                       |                         |                         |                         |                         |
| Expenditure                                 | 9     | –                     | 296,255                 | –                       | 296,255                 | 291,419                 |
| Income                                      | 10    | –                     | –                       | (6,404)                 | (6,404)                 | (5,217)                 |
|   |       | –                     | <u>1,333,871</u>        | <u>(242,701)</u>        | <u>1,091,170</u>        | <u>1,003,900</u>        |
| <b>Totals</b>                               |       | <b><u>454,349</u></b> | <b><u>1,767,334</u></b> | <b><u>(339,551)</u></b> |                         |                         |
| <b>Net operating cost</b>                   | 3, 11 |                       |                         |                         | <b><u>1,882,132</u></b> | <b><u>1,751,523</u></b> |

The notes on pages 28 to 56 form part of these accounts.

All income and expenditure are derived from continuing operations.



**Statement of Recognised Gains and Losses***for the year ended 31 March 2006 (£000s)*

|  | Note | 2005-06        | 2004-05       |
|--|------|----------------|---------------|
| <b>Net change on revaluation of assets:</b>        |      |                |               |
| Net gain on revaluation of tangible fixed assets   | 21.1 | 206,731        | 27,375        |
| Net loss on revaluation of intangible fixed assets | 21.1 | (5)            | –             |
| Revaluation of donated fixed assets                | 21.2 | 9,886          | 38            |
| Change in valuation of current assets              | 20   | 1,675          | (371)         |
| Retirement benefits actuarial gain/(loss)          | 28   | 849            | (2,397)       |
|  |      | <b>219,136</b> | <b>24,645</b> |

*The notes on pages 28 to 56 form part of these accounts.*

**Balance Sheet***as at 31 March 2006 (£000s)*

|   | Note | <u>2006</u>      | <u>2005</u>      |
|---|------|------------------|------------------|
| <b>Fixed assets</b>   |      |                  |                  |
| Tangible Assets   | 12   | 1,479,302        | 1,254,059        |
| Intangible Assets   | 13   | 409              | 516              |
|   |      | <u>1,479,711</u> | <u>1,254,575</u> |
| <b>Current assets</b>   |      |                  |                  |
| Stocks  | 15   | 7,547            | 8,731            |
| Debtors   | 16.1 | 232,427          | 225,916          |
| Cash at bank and in hand  | 17   | 117,315          | 76,047           |
|   |      | <u>357,289</u>   | <u>310,694</u>   |
| <b>Creditors: amounts falling due within one year</b>             | 18.1 | <u>(299,052)</u> | <u>(250,012)</u> |
| <b>Net current assets</b>   |      | <u>58,237</u>    | <u>60,682</u>    |
| <b>Total assets less current liabilities</b>                      |      | <u>1,537,948</u> | <u>1,315,257</u> |
| <b>Creditors: amounts falling due after more than one year</b>    | 18.1 | <u>(32,629)</u>  | <u>(32,495)</u>  |
| <b>Provisions for liabilities and charges</b>                     | 19   | <u>(67,248)</u>  | <u>(66,018)</u>  |
| <b>Net assets before net retirement benefit schemes liability</b> |      | <u>1,438,071</u> | <u>1,216,744</u> |
| <b>Net retirement benefit schemes liability</b>                   |      |                  |                  |
| Retirement benefit schemes asset                                  | 28   | 352              | 299              |
| Retirement benefit schemes liability                              | 28   | (4,825)          | (4,279)          |
|   |      | <u>(4,473)</u>   | <u>(3,980)</u>   |
| <b>Net assets</b>   |      | <u>1,433,598</u> | <u>1,212,764</u> |
| <b>Taxpayers' equity</b>  |      |                  |                  |
| General fund  | 20   | 831,825          | 821,021          |
| Revaluation reserve   | 21.1 | 541,817          | 340,730          |
| Donated asset reserve   | 21.2 | 59,956           | 51,013           |
|   |      | <u>1,433,598</u> | <u>1,212,764</u> |

*Michael Jay*  
Accounting Officer

13 July 2006

*The notes on pages 28 to 56 form part of these accounts.*

**Cash Flow Statement***for the year ended 31 March 2006 (£000s)*

|   | <b>Note</b> | <b>2005-06</b>     | <b>2004-05</b>     |
|---|-------------|--------------------|--------------------|
| <b>Net cash outflow from operating activities</b>       | 22.1        | <b>(1,754,680)</b> | <b>(1,583,240)</b> |
| <b>Capital expenditure</b>                              | 22.2        | <b>(94,334)</b>    | <b>(73,667)</b>    |
| <b>Payments of amounts due to the Consolidated Fund</b> |             | <b>(9,469)</b>     | <b>(4,313)</b>     |
| <b>Financing</b>  | 22.4        | <b>1,898,258</b>   | <b>1,698,708</b>   |
| <b>Net change in cash balances</b>                      | 22.5        | <b>39,775</b>      | <b>37,488</b>      |

*The notes on pages 28 to 56 form part of these accounts.*

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

for the year ended 31 March 2006 (£000s)

|   |  | Gross            | 2005-06<br>Income | Net              |
|---|--|------------------|-------------------|------------------|
| <b>Aim: To work for the United Kingdom's interests in a safe, just and prosperous world</b> |  |                  |                   |                  |
| <b>Strategic Priorities (SP):</b>   |  |                  |                   |                  |
| SP1   | A world safer from global terrorism and weapons of mass destruction (WMD).   | 181,180          | (11,017)          | 170,163          |
| SP2   | Protection of the UK from illegal immigration, drug trafficking and other international crime.   | 86,840           | (3,550)           | 83,290           |
| SP3   | An international system based on the rule of law, which is better able to resolve disputes and prevent conflicts.  | 624,342          | (40,430)          | 583,912          |
| SP4   | An effective EU in a secure neighbourhood.   | 291,777          | (9,137)           | 282,640          |
| SP5   | Promotion of UK economic interests in an open and expanding global economy.  | 359,958          | (24,456)          | 335,502          |
| SP6   | Sustainable development, underpinned by democracy, good governance and human rights.   | 287,563          | (11,293)          | 276,270          |
| SP7   | Security of UK and global energy supplies.   | 28,603           | (1,929)           | 26,674           |
| SP8   | Security and good governance of the UK's Overseas Territories.   | 61,646           | (1,442)           | 60,204           |
| Consular  | High quality Consular services to British nationals abroad. Effective regulation of entry to, and settlement in, the UK in the interests of sustainable growth and social inclusion. | 112,521          | (46,796)          | 65,725           |
| UKvisas   | Entry clearance through UKvisas.   | 187,253          | (189,501)         | (2,248)          |
| <b>Net Operating Costs</b>  |  | <b>2,221,683</b> | <b>(339,551)</b>  | <b>1,882,132</b> |
| <b>Comparative figures</b>  |  |                  |                   |                  |
|   |  | Gross            | 2004-05<br>Income | Net              |
| <b>Aim: To work for the United Kingdom's interests in a safe, just and prosperous world</b> |  | <b>2,006,589</b> | <b>(255,066)</b>  | <b>1,751,523</b> |
| <b>Net Operating Costs</b>  |  | <b>2,006,589</b> | <b>(255,066)</b>  | <b>1,751,523</b> |

### Notes

1. Objectives were revised this year in order to more closely realign them with the FCO Strategic Priorities. It is not considered appropriate to restate prior year figures.

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

|                            |                |                 |                |
|----------------------------|----------------|-----------------|----------------|
| Staff costs                | 44,872         | -               | 44,872         |
| Other administration costs | 88,869         | (17,750)        | 71,119         |
| Depreciation               | 21,729         | -               | 21,729         |
| Capital costs              | 4,796          | -               | 4,796          |
|                            | <b>160,266</b> | <b>(17,750)</b> | <b>142,516</b> |

3. See Note 23 for an analysis of Programme costs by objective.

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

5. Gross costs include both direct costs (e.g. visa vignettes) and indirect costs (e.g. overheads). Direct costs are allocated to the appropriate SP. Indirect costs are allocated across all SPs based on a derivative of weighted headcount, including weighted space utilised by staff working to SPs.

The notes on pages 28 to 56 form part of these accounts.

## Notes to the accounts

### 1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2005–06 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

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

#### 1.1 Accounting convention

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

#### 1.2 Basis of consolidation

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

#### 1.3(a) Tangible fixed assets

Land and buildings are stated at the lower of replacement cost and recoverable amount using periodic professional valuations. The overseas estate is subject to a three-to-five-year rolling revaluation programme and interim annual review. Antiques and works of art are grouped and valued on a market value basis by professional valuers and are included where the valuations equate to or exceed £3,000. Other tangible fixed assets are stated at current value using appropriate indices. The minimum level for capitalisation of a single tangible asset is £3,000, subject to grouping conventions where appropriate. With effect from the current year, furniture and fittings are no longer 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.

#### 1.3(b) Intangible fixed assets

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

#### 1.4 Depreciation

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

|                                |   |                |
|--------------------------------|---|----------------|
| Freehold buildings             | – | up to 60 years |
| Leasehold land and buildings   | – | term of lease  |
| Vehicles                       | – | 2 to 8 years   |
| Office and technical equipment | – | 5 to 8 years   |
| Heavy machinery                | – | 20 years       |
| Information systems            | – | up to 5 years  |
| Communications systems         | – | 8 years        |

As noted above, furniture and fittings are no longer capitalised, and a charge for accelerated depreciation to bring the book value of these assets to nil is included in these accounts.

#### 1.5 Donated assets

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

#### 1.6 Private Finance Initiative (PFI) transactions

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

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

#### 1.7 Investments

The FCO does not currently hold any investments.

#### 1.8 Stocks

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

#### 1.9 Research and development

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

### 1.10 Operating income

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

### 1.11 Administration and programme expenditure

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

### 1.12 Capital charge

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

### 1.13 Foreign exchange

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

### 1.14 Pensions

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

### 1.15 Early departure costs

The FCO meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early retirement and normal retirement date. The FCO provides for this in full when the early retirement programme becomes binding on the Department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2% in real terms (2004-05: 3.5%). In past years the FCO paid some of its liability for early retirement in advance by making a payment to the Paymaster General's Account at the Bank of England for the credit of the Civil Service Superannuation Vote. The balance remaining is a prepayment.

### **1.16 Terminal benefits for locally engaged staff**

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

### **1.17 Leases**

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

### **1.18 Grants payable**

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

### **1.19 Provisions**

The FCO provides for legal and constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rate of 2.2% in real terms (2004-05: 3.5%).

### **1.20 Value Added Tax**

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

### **1.21 Third party assets**

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

### **1.22 Contingent liabilities**

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

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



## 2. Analysis of net resource outturn by section

|  | Admin          | Other current  | Grants           | Gross resource expenditure | A-in-A           | Outturn Net Total | Estimate Net Total | 2005-06 Outturn compared with Estimate | 2004-05 Outturn Net Total |
|--|----------------|----------------|------------------|----------------------------|------------------|-------------------|--------------------|--|---------------------------|
|  | £000           | £000           | £000             | £000                       | £000             | £000              | £000               | £000                                   | £000                      |
| <b>RfR 1: Promoting internationally the interests of the UK and contributing to a strong world community</b> |                |                |                  |                            |                  |                   |                    |  |                           |
| <b>Spending in Departmental Expenditure Limits (DEL)</b>   |                |                |                  |                            |                  |                   |                    |  |                           |
| <b>Central Government spending</b>   |                |                |                  |                            |                  |                   |                    |  |                           |
| A: Administration, international organisations programmes and BBC Monitoring subscriptions                   | 740,706        | 115,939        | 475,169          | 1,331,814                  | (320,831)        | 1,010,983         | 1,022,738          | 11,755                                 | 917,302                   |
| B: BBC World Service Broadcasting  | –              | –              | 208,143          | 208,143                    | –                | 208,143           | 208,143            | –                                      | 194,143                   |
| C: British Council   | –              | –              | 181,410          | 181,410                    | –                | 181,410           | 181,410            | –                                      | 172,065                   |
| D: Accruals consequences of DEL programmes: administration   | 147,106        | –              | –                | 147,106                    | –                | 147,106           | 189,412            | 42,306                                 | 140,813                   |
| E: BBC World Service – Capital grant   | –              | –              | 31,000           | 31,000                     | –                | 31,000            | 31,000             | –                                      | 31,000                    |
| F: British Council – Capital grant   | –              | –              | 7,800            | 7,800                      | –                | 7,800             | 7,800              | –                                      | –                         |
| <b>Non-budget</b>  |                |                |                  |                            |                  |                   |                    |  |                           |
| G: Reimbursement of certain duties, taxes and licence fees   | –              | –              | 18,155           | 18,155                     | –                | 18,155            | 20,000             | 1,845                                  | 15,282                    |
| <b>Total</b>   | <b>887,812</b> | <b>115,939</b> | <b>921,677</b>   | <b>1,925,428</b>           | <b>(320,831)</b> | <b>1,604,597</b>  | <b>1,660,503</b>   | <b>55,906</b>                          | <b>1,470,605</b>          |
| <b>RfR 2: Conflict prevention</b>  |                |                |                  |                            |                  |                   |                    |  |                           |
| <b>Spending in Departmental Expenditure Limits (DEL)</b>   |                |                |                  |                            |                  |                   |                    |  |                           |
| <b>Central Government spending</b>   |                |                |                  |                            |                  |                   |                    |  |                           |
| A: Sub-Saharan Africa – Programme expenditure  | –              | –              | 2,203            | 2,203                      | –                | 2,203             | 2,206              | 3                                      | 13,401                    |
| B: Global – Programme expenditure  | –              | –              | 42,167           | 42,167                     | –                | 42,167            | 46,358             | 4,191                                  | 52,358                    |
| C: Sub-Saharan Africa – Peacekeeping   | –              | –              | 164,517          | 164,517                    | –                | 164,517           | 188,033            | 23,516                                 | 140,952                   |
| D: Global – Peacekeeping   | –              | –              | 87,368           | 87,368                     | –                | 87,368            | 122,124            | 34,756                                 | 84,707                    |
| <b>Total</b>   | <b>–</b>       | <b>–</b>       | <b>296,255</b>   | <b>296,255</b>             | <b>–</b>         | <b>296,255</b>    | <b>358,721</b>     | <b>62,466</b>                          | <b>291,418</b>            |
| <b>Resource outturn</b>  | <b>887,812</b> | <b>115,939</b> | <b>1,217,932</b> | <b>2,221,683</b>           | <b>(320,831)</b> | <b>1,900,852</b>  | <b>2,019,224</b>   | <b>118,372</b>                         | <b>1,762,023</b>          |

Explanations are given in the Management Commentary in the Annual Report.

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

|  | Note | Outturn<br>£000         | Supply<br>Estimate<br>£000 | 2005-06<br>Outturn<br>compared<br>with<br>Estimate<br>£000 | 2004-05<br>Outturn<br>£000 |
|--|------|-------------------------|----------------------------|--|----------------------------|
| Net Resource Outturn   | 2    | 1,900,852               | 2,019,224                  | 118,372  | 1,762,023                  |
| Excess cash receipts surrenderable<br>to the Consolidated Fund | 5    | (8,310)                 | –                          | 8,310  | –                          |
| Non-supply income (CFERs)                                      | 5    | (10,410)                | –                          | 10,410   | (10,500)                   |
| <b>Net operating cost</b>                                      |      | <b><u>1,882,132</u></b> | <b><u>2,019,224</u></b>    | <b><u>137,092</u></b>                                      | <b><u>1,751,523</u></b>    |

**3.2 Outturn against final Administration Budget**

|  | Budget<br>£000        | 2005-06<br>Outturn<br>£000 | 2004-05<br>Outturn<br>£000 |
|--|-----------------------|----------------------------|----------------------------|
| Gross Administration Budget                            | 933,908               | 887,812                    | 826,604                    |
| Income allowable against the Administration Budget     | (108,231)             | (96,850)                   | (73,697)                   |
| <b>Net outturn against final Administration Budget</b> | <b><u>825,677</u></b> | <b><u>790,962</u></b>      | <b><u>752,907</u></b>      |

**4. Reconciliation of resources to cash requirement**

|   | Note | Estimate<br>£000        | Outturn<br>£000         | 2005-06<br>Saving/<br>(excess)<br>£000 | 2004-05<br>Outturn<br>£000 |
|---|------|-------------------------|-------------------------|--|----------------------------|
| <b>Resource Outturn</b>                                     | 2    | 2,019,224               | 1,900,852               | 118,372                                | 1,762,023                  |
| <b>Capital</b>  |      |                         |                         |  |                            |
| Acquisition of fixed assets                                 | 12   | 153,712                 | 112,505                 | 41,207                                 | 85,341                     |
| <b>Non-operating A in A</b>                                 |      |                         |                         |  |                            |
| Proceeds of fixed asset disposals                           | 6.2  | (18,015)                | (18,015)                | –                                      | (11,674)                   |
| <b>Accruals adjustments</b>                                 |      |                         |                         |  |                            |
| Non-cash items  | 8    | (188,411)               | (147,105)               | (41,306)                               | (140,812)                  |
| Changes in working capital other than cash                  | 22   | –                       | 3,637                   | (3,637)                                | (30,613)                   |
| Changes in creditors falling due after more than one year   | 18.1 | –                       | (134)                   | 134                                    | 676                        |
| Use of provisions   | 19   | –                       | 16,502                  | (16,502)                               | 4,955                      |
| Retirement benefit schemes                                  | 28   | –                       | (493)                   | 493                                    | (1,813)                    |
| Excess cash receipts surrenderable to the Consolidated Fund | 5    | –                       | (8,466)                 | 8,466                                  | –                          |
| <b>Net cash requirement</b>                                 |      | <b><u>1,966,510</u></b> | <b><u>1,859,283</u></b> | <b><u>107,227</u></b>                  | <b><u>1,668,083</u></b>    |

Explanations are given in the Management Commentary in the Annual Report.

**5. Analysis of income payable to the Consolidated Fund**

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

|  | <b>Forecast 2005-06</b> |                 | <b>Outturn 2005-06</b> |                 |
|--|-------------------------|-----------------|------------------------|-----------------|
|  | <i>Income</i>           | <i>Receipts</i> | <i>Income</i>          | <i>Receipts</i> |
|  | <i>£000</i>             | <i>£000</i>     | <i>£000</i>            | <i>£000</i>     |
| Other operating income and receipts – not classified as A-in-A | 3,601                   | 3,601           | 10,410                 | 10,410          |
| Operating income and receipts – excess A-in-A                  | –                       | –               | 8,310                  | –               |
| Non-operating income and receipts – excess A-in-A              | –                       | –               | 156                    | –               |
| <b>Total income payable to the Consolidated Fund</b>           | <b>3,601</b>            | <b>3,601</b>    | <b>18,876</b>          | <b>10,410</b>   |

**6. Analysis of total income****6.1 Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund**

|  | <b>2005-06</b> | <b>2004-05</b> |
|--|----------------|----------------|
|  | <i>£000</i>    | <i>£000</i>    |
| Gross operating income                                   | 339,551        | 255,066        |
| Income authorised to be appropriated-in-aid              | (320,831)      | (244,565)      |
| <b>Operating income payable to the Consolidated Fund</b> | <b>18,720</b>  | <b>10,501</b>  |

**6.2 Analysis of non-operating income – excess Appropriations in Aid**

|   |            |          |
|---|------------|----------|
| Proceeds of fixed asset disposals           | 18,171     | 11,674   |
| Income authorised to be appropriated-in-aid | (18,015)   | (11,674) |
| <b>Non-operating income – excess A in A</b> | <b>156</b> | <b>–</b> |

**7. Staff numbers and related costs****7.1 Staff costs comprise:**

|  | <b>Permanent staff</b> |                  |                         |              | <b>2005-06</b> |                | <b>2004-05</b> |  |
|--|------------------------|------------------|-------------------------|--------------|----------------|----------------|----------------|--|
|  | <b>Others</b>          | <b>Ministers</b> | <b>Special advisers</b> | <b>Total</b> | <b>Total</b>   |                |                |  |
|  | <i>£000</i>            | <i>£000</i>      | <i>£000</i>             | <i>£000</i>  | <i>£000</i>    | <i>£000</i>    | <i>£000</i>    |  |
| Salaries   | 372,773                | 12,239           | 299                     | 127          | 385,438        | 358,224        |                |  |
| Social Security costs                              | 13,724                 | –                | 16                      | 7            | 13,747         | 13,477         |                |  |
| Other pension costs                                | 56,540                 | –                | –                       | 10           | 56,550         | 46,898         |                |  |
| <b>Sub total</b>                                   | <b>443,037</b>         | <b>12,239</b>    | <b>315</b>              | <b>144</b>   | <b>455,735</b> | <b>418,599</b> |                |  |
| Less: recoveries in respect of outward secondments | (1,386)                | –                | –                       | –            | (1,386)        | (1,509)        |                |  |
| <b>Total net costs</b>                             | <b>441,651</b>         | <b>12,239</b>    | <b>315</b>              | <b>144</b>   | <b>454,349</b> | <b>417,090</b> |                |  |

**7.2 The average number of whole-time equivalent persons employed:**

(Including senior management, Ministers, special advisers and staff on secondment)

|              | <b>Permanent staff</b> |                 |               | <b>Others</b> | <b>Ministers</b> | <b>Special advisers</b> | <b>2005-06</b> |  |
|--------------|------------------------|-----------------|---------------|---------------|------------------|-------------------------|----------------|--|
|              | <b>Local staff</b>     | <b>UK staff</b> | <b>Total</b>  |               |                  |                         | <b>Total</b>   |  |
| SP 1         | 52                     | 500             | 552           | 30            | 1                | 1                       | 584            |  |
| SP 2         | 71                     | 202             | 273           | 12            | –                | –                       | 285            |  |
| SP 3         | 125                    | 953             | 1,078         | 57            | 1                | 1                       | 1,137          |  |
| SP 4         | 278                    | 796             | 1,074         | 47            | 1                | 1                       | 1,123          |  |
| SP 5         | 3,264                  | 985             | 4,249         | 58            | 1                | –                       | 4,308          |  |
| SP 6         | 288                    | 493             | 781           | 29            | –                | –                       | 810            |  |
| SP 7         | 54                     | 59              | 113           | 4             | –                | –                       | 117            |  |
| SP 8         | 27                     | 189             | 216           | 11            | –                | –                       | 227            |  |
| Consular     | 1,840                  | 571             | 2,411         | 34            | 1                | –                       | 2,446          |  |
| UKvisas      | 3,619                  | 1,302           | 4,921         | 77            | 1                | –                       | 4,999          |  |
| <b>Total</b> | <b>9,618</b>           | <b>6,050</b>    | <b>15,668</b> | <b>359</b>    | <b>6</b>         | <b>3</b>                | <b>16,036</b>  |  |

Local staff numbers shown represent snapshots of numbers per in-year returns of staff employed at the date requested from Posts.

The comparable whole-time equivalent totals for 2004-05 were 9,826 local staff and 6,197 UK staff.

As noted on the Statement of Operating Costs by Aim and Objectives, the FCO Strategic Priorities (Objectives) were revised in the year and consequently it is not considered appropriate to restate prior year figures.

**8. Other administration costs**

|  | 2005-06               | 2004-05               |
|--|-----------------------|-----------------------|
|  | £000                  | £000                  |
| <b>Rentals under operating leases</b>  |                       |                       |
| Hire of plant and machinery  | 11,007                | 12,631                |
| Property rentals   | 65,237                | 62,171                |
|  | <u>76,244</u>         | <u>74,802</u>         |
| <b>Interest charges</b>  |                       |                       |
| Finance leases   | 20                    | 25                    |
| On-balance sheet PFI contracts   | 2,634                 | 2,587                 |
|  | <u>2,654</u>          | <u>2,612</u>          |
| <b>PFI service charges</b>   |                       |                       |
| Off-balance sheet contracts  | 26,924                | 27,634                |
| Service element of on-balance sheet contracts  | 3,077                 | 4,647                 |
|  | <u>30,001</u>         | <u>32,281</u>         |
| <b>Non-cash items</b>  |                       |                       |
| Depreciation:  |                       |                       |
| Tangible fixed assets  | 66,834                | 66,590                |
| Accelerated on furniture no longer capitalised   | 41,738                | –                     |
| Amortisation:  |                       |                       |
| Intangible fixed assets  | 103                   | 516                   |
| (Gain)/loss on disposal of fixed assets  | (1,498)               | 4,159                 |
| Impairment losses arising on fixed asset revaluation   | 12,721                | 23,358                |
| Impairment reversals arising on fixed asset revaluation  | (34,950)              | (20,421)              |
| Cost of capital charge at 3.5%   | 44,155                | 42,225                |
| Auditors' remuneration and expenses (no non-audit work)  | 270                   | 270                   |
| Provisions:  |                       |                       |
| Provided in year   | 16,372                | 175                   |
| Unwinding of discount on provisions  | 1,360                 | (536)                 |
|  | <u>147,105</u>        | <u>116,336</u>        |
| <b>Other expenditure</b>   |                       |                       |
| Training, medical, travel and other allowances   | 117,126               | 107,846               |
| Estate and capital related costs   | 131,469               | 100,868               |
| IT and communications  | 109,797               | 72,471                |
| (Gain)/loss on exchange  | (2,121)               | 1,110                 |
| Other  | 120,962               | 122,936               |
|  | <u>477,233</u>        | <u>405,231</u>        |
|  | <b><u>733,237</u></b> | <b><u>631,262</u></b> |
| Administration cost of Consular and UKvisas operations worldwide allocated to programme as frontline service | <u>299,774</u>        | <u>221,748</u>        |

**9. Programme costs****Current grants and other current expenditure :**

|  | <b>2005-06</b>   | <b>2004-05</b>   |
|--|------------------|------------------|
|  | <i>£000</i>      | <i>£000</i>      |
| Subscriptions to International Organisations         | 115,939          | 106,392          |
| FCO programmes (including non-cash)                  | 170,323          | 140,864          |
| Consular and UKvisas operations                      | 299,774          | 221,748          |
| Re-imbursments                                       | 18,155           | 15,282           |
| BBC Monitoring Service                               | 5,072            | 7,072            |
|  | <u>609,263</u>   | <u>491,358</u>   |
| BBC World Service                                    | 239,143          | 225,143          |
| British Council                                      | 189,210          | 172,065          |
| Conflict Prevention/Peacekeeping                     | 296,255          | 291,419          |
|  | <u>1,333,871</u> | <u>1,179,985</u> |
| Less: Programme income (Note 10)                     | (242,701)        | (176,085)        |
| Net programme costs                                  | <u>1,091,170</u> | <u>1,003,900</u> |
| Subscriptions include the following over £1 million: |                  |                  |
| UN Regular Budget                                    | 57,610           | 53,104           |
| Council of Europe                                    | 18,660           | 18,091           |
| NATO   | 18,611           | 17,154           |
| OECD   | 12,249           | 8,751            |
| Commonwealth Secretariat                             | 4,504            | 3,606            |
| OSCE   | 2,312            | -                |
| Western European Union                               | 1,858            | 2,077            |
| Other (in total)                                     | 135              | 3,609            |
|  | <u>115,939</u>   | <u>106,392</u>   |

**10. Income**

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

|  | 2005-06               | 2004-05               |
|--|-----------------------|-----------------------|
|  | £000                  | £000                  |
| <b>RfR 1</b>   |                       |                       |
| <i>Administration income</i>                             |                       |                       |
| General  | 51,101                | 28,893                |
| Fees and charges to external customers                   | 279                   | 3,177                 |
| Fees and charges to other departments                    | 80,782                | 60,180                |
| External interest  | 446                   | 336                   |
|  | <u>132,608</u>        | <u>92,586</u>         |
| Allocated to Consular and Ukvisas programme income below | <u>(35,758)</u>       | <u>(13,605)</u>       |
|  | <u>96,850</u>         | <u>78,981</u>         |
| <i>Programme income</i>                                  |                       |                       |
| Consular and Ukvisas                                     | <u>236,297</u>        | <u>170,868</u>        |
| RfR 1  | <u>333,147</u>        | <u>249,849</u>        |
| <b>RfR 2</b>   |                       |                       |
| <i>Programme income</i>                                  | <u>6,404</u>          | <u>5,217</u>          |
| <b>Total</b>   | <u><b>339,551</b></u> | <u><b>255,066</b></u> |

An analysis of income and fee-bearing costs from services provided to external customers, provided for fees and charges purposes only, not for SSAP25 purposes, is as follows :

|                            | 2005-06        |                  |                       | 2004-05        |                  |                       |
|----------------------------|----------------|------------------|-----------------------|----------------|------------------|-----------------------|
|                            | Income         | Full cost        | Surplus/<br>(deficit) | Income         | Full cost        | Surplus/<br>(deficit) |
|                            | £000           | £000             | £000                  | £000           | £000             | £000                  |
| Passport and consular fees | 46,796         | (47,030)         | (234)                 | 40,220         | (40,422)         | (202)                 |
| Visa fees                  | 189,501        | (187,253)        | 2,248                 | 130,648        | (122,410)        | 8,238                 |
|                            | <u>236,297</u> | <u>(234,283)</u> | <u>2,014</u>          | <u>170,868</u> | <u>(162,832)</u> | <u>8,036</u>          |

**11. Analysis of net operating cost by spending body**

|  | 2005-06                 |                         | 2004-05                 |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
|  | Budget                  | Outturn                 | Budget                  | Outturn                 |
|  | £000                    | £000                    | £000                    | £000                    |
| Foreign and Commonwealth Office  | 1,203,087               | 1,137,303               | 1,056,450               | 1,045,007               |
| Wilton Park  | 699                     | 713                     | 699                     | 586                     |
| Government Hospitality Fund  | 3,290                   | 2,685                   | 3,290                   | 166                     |
| BBC World Service  | 239,143                 | 239,143                 | 225,143                 | 225,143                 |
| BBC Monitoring Service   | 5,074                   | 5,072                   | 7,074                   | 7,072                   |
| British Council  | 189,210                 | 189,210                 | 172,065                 | 172,065                 |
| Others (including international organisations in respect of conflict prevention) | <u>378,721</u>          | <u>308,006</u>          | <u>332,536</u>          | <u>301,484</u>          |
|  | <u><b>2,019,224</b></u> | <u><b>1,882,132</b></u> | <u><b>1,797,257</b></u> | <u><b>1,751,523</b></u> |

**12. Tangible fixed assets**

|                                      | Non-residential<br>land and<br>buildings<br>£000 | Residential<br>land and<br>buildings<br>£000 | Information<br>technology<br>£000 | Transport<br>equipment<br>£000 | Plant and<br>machinery<br>£000 | Antiques<br>and works<br>of art<br>£000 |
|--------------------------------------|--|--|-----------------------------------|--------------------------------|--------------------------------|---|
| <b>Cost or valuation</b>             |  |  |                                   |                                |                                |   |
| At 1 April 2005                      | 502,522  | 555,175                                      | 84,437                            | 40,990                         | 23,498                         | 19,221                                  |
| Additions                            | 361  | –  | 52                                | 1,138                          | 190                            | –                                       |
| Disposals                            | (9,459)  | (7,180)                                      | (92)                              | (2,868)                        | (10)                           | (210)                                   |
| Impairments                          | 7,035  | 16,795                                       | (3,592)                           | 137                            | 177                            | –                                       |
| Revaluation                          | 67,355   | 133,077                                      | (6,910)                           | 204                            | 83                             | 833                                     |
| Reclassification                     | 50,256   | 198  | 25,640                            | 3,442                          | 4,696                          | 3                                       |
| <b>At 31 March 2006</b>              | <b>618,070</b>                                   | <b>698,065</b>                               | <b>99,535</b>                     | <b>43,043</b>                  | <b>28,634</b>                  | <b>19,847</b>                           |
| <b>Depreciation</b>                  |  |  |                                   |                                |                                |   |
| At 1 April 2005                      | 10,037   | 1,670  | 44,639                            | 19,748                         | 9,375                          | –                                       |
| Charge for the year                  | 26,179   | 13,187                                       | 16,368                            | 7,541                          | 2,749                          | –                                       |
| Charge for the year – donated assets | 79   | 685  | –                                 | –                              | –                              | –                                       |
| Impairments                          | (8)  | –  | (1,672)                           | 77                             | 19                             | –                                       |
| Disposals                            | (920)  | (131)  | (78)                              | (2,022)                        | (7)                            | –                                       |
| Revaluation                          | (9,080)  | (12,937)                                     | (86)                              | 110                            | 29                             | –                                       |
| Reclassification                     | –  | 2  | (2)                               | –                              | –                              | –                                       |
| <b>At 31 March 2006</b>              | <b>26,287</b>                                    | <b>2,476</b>                                 | <b>59,169</b>                     | <b>25,454</b>                  | <b>12,165</b>                  | <b>–</b>                                |
| <b>Net book value</b>                |  |  |                                   |                                |                                |   |
| <b>At 31 March 2006</b>              | <b>591,783</b>                                   | <b>695,589</b>                               | <b>40,366</b>                     | <b>17,589</b>                  | <b>16,469</b>                  | <b>19,847</b>                           |
| At 31 March 2005                     | 492,485  | 553,505                                      | 39,798                            | 21,242                         | 14,123                         | 19,221                                  |
| <b>Asset financing:</b>              |  |  |                                   |                                |                                |   |
| Owned                                | 375,711  | 526,010                                      | 40,366                            | 17,589                         | 16,193                         | 19,847                                  |
| Leased                               | 204,987  | 169,579                                      | –                                 | –                              | 276                            | –                                       |
| On-balance-sheet PFI contracts       | 11,085   | –  | –                                 | –                              | –                              | –                                       |
| <b>Net book value</b>                |  |  |                                   |                                |                                |   |
| <b>At 31 March 2006</b>              | <b>591,783</b>                                   | <b>695,589</b>                               | <b>40,366</b>                     | <b>17,589</b>                  | <b>16,469</b>                  | <b>19,847</b>                           |



## 12. Tangible fixed assets (continued)

|                                      | Furniture<br>and<br>fittings<br>£000 | Assets<br>under<br>construction<br>£000 | Subtotal<br>tangible<br>assets<br>£000 | Wilton Park<br>tangible<br>assets<br>£000 | Total<br>tangible<br>assets<br>£000 |
|--------------------------------------|--------------------------------------|---|--|---|-------------------------------------|
| <b>Cost or valuation</b>             |                                      |   |  |   |                                     |
| At 1 April 2005                      | 128,581                              | 70,534                                  | 1,424,958                              | 3,659                                     | 1,428,617                           |
| Additions                            | –                                    | 110,470                                 | 112,211                                | 294                                       | 112,505                             |
| Disposals                            | (128,581)                            | –                                       | (148,400)                              | (153)                                     | (148,553)                           |
| Impairments                          | –                                    | –                                       | 20,552                                 | (3)                                       | 20,549                              |
| Revaluation                          | –                                    | –                                       | 194,642                                | 39  | 194,681                             |
| Reclassification                     | –                                    | (84,235)                                | –                                      | –   | –                                   |
| <b>At 31 March 2006</b>              | <b>–</b>                             | <b>96,769</b>                           | <b>1,603,963</b>                       | <b>3,836</b>                              | <b>1,607,799</b>                    |
| <b>Depreciation</b>                  |                                      |   |  |   |                                     |
| At 1 April 2005                      | 86,598                               | –                                       | 172,067                                | 2,491                                     | 174,558                             |
| Charge for the year                  | 41,983                               | –                                       | 108,007                                | 565                                       | 108,572                             |
| Charge for the year – donated assets | –                                    | –                                       | 764                                    | –   | 764                                 |
| Impairments                          | –                                    | –                                       | (1,584)                                | –   | (1,584)                             |
| Disposals                            | (128,581)                            | –                                       | (131,739)                              | (138)                                     | (131,877)                           |
| Revaluation                          | –                                    | –                                       | (21,964)                               | 28  | (21,936)                            |
| Reclassification                     | –                                    | –                                       | –                                      | –   | –                                   |
| <b>At 31 March 2006</b>              | <b>–</b>                             | <b>–</b>                                | <b>125,551</b>                         | <b>2,946</b>                              | <b>128,497</b>                      |
| <b>Net book value</b>                |                                      |   |  |   |                                     |
| <b>At 31 March 2006</b>              | <b>–</b>                             | <b>96,769</b>                           | <b>1,478,412</b>                       | <b>890</b>                                | <b>1,479,302</b>                    |
| At 31 March 2005                     | 41,983                               | 70,534                                  | 1,252,891                              | 1,168                                     | 1,254,059                           |
| <b>Asset financing:</b>              |                                      |   |  |   |                                     |
| Owned                                | –                                    | 96,769                                  | 1,092,485                              | 505                                       | 1,092,990                           |
| Leased                               | –                                    | –                                       | 374,842                                | 385                                       | 375,227                             |
| On-balance-sheet PFI contracts       | –                                    | –                                       | 11,085                                 | –   | 11,085                              |
| <b>Net book value</b>                |                                      |   |  |   |                                     |
| <b>At 31 March 2006</b>              | <b>–</b>                             | <b>96,769</b>                           | <b>1,478,412</b>                       | <b>890</b>                                | <b>1,479,302</b>                    |

**12. Tangible fixed assets (continued)****Wilton Park tangible assets comprise:**

|                         | Building<br>enhancements | Equipment<br>and<br>furniture | Transport<br>equipment | Plant and<br>machinery | Assets<br>under<br>construction | Total<br>tangible<br>assets |
|-------------------------|--------------------------|-------------------------------|------------------------|------------------------|---------------------------------|-----------------------------|
|                         | £000                     | £000                          | £000                   | £000                   | £000                            | £000                        |
| <b>Cost</b>             |                          |                               |                        |                        |                                 |                             |
| At 1 April 2005         | 2,427                    | 1,043                         | 18                     | 163                    | 8                               | 3,659                       |
| Additions               | 53                       | 122                           | 5                      | 110                    | 4                               | 294                         |
| Disposals               | (51)                     | (94)                          | –                      | (8)                    | –                               | (153)                       |
| Impairments             | –                        | (3)                           | –                      | –                      | –                               | (3)                         |
| Revaluation             | 31                       | 4                             | –                      | 4                      | –                               | 39                          |
| <b>At 31 March 2006</b> | <b>2,460</b>             | <b>1,072</b>                  | <b>23</b>              | <b>269</b>             | <b>12</b>                       | <b>3,836</b>                |
| <b>Depreciation</b>     |                          |                               |                        |                        |                                 |                             |
| At 1 April 2005         | 1,724                    | 689                           | 10                     | 69                     | –                               | 2,492                       |
| Charge for the year     | 366                      | 164                           | 5                      | 30                     | –                               | 565                         |
| Disposals               | (40)                     | (92)                          | –                      | (7)                    | –                               | (139)                       |
| Revaluation             | 25                       | 2                             | –                      | 1                      | –                               | 28                          |
| <b>At 31 March 2006</b> | <b>2,075</b>             | <b>763</b>                    | <b>15</b>              | <b>93</b>              | <b>–</b>                        | <b>2,946</b>                |
| <b>Net book value</b>   |                          |                               |                        |                        |                                 |                             |
| <b>At 31 March 2006</b> | <b>385</b>               | <b>309</b>                    | <b>8</b>               | <b>176</b>             | <b>12</b>                       | <b>890</b>                  |
| At 31 March 2005        | 704                      | 354                           | 8                      | 94                     | 8                               | 1,168                       |

**Notes to tangible fixed assets**

The valuations of the home estate and properties in the European Union and Wider Europe were carried out by Colliers CRE. The effective valuation date was 30 June 2005. Desk reviews for revaluation purposes were carried out by in-house valuers on 31 March 2006. The valuations of properties in the Americas were carried out by CB Richard Ellis. The effective valuation date was 30 June 2005. Desk reviews for revaluation purposes were carried out by in-house valuers on 31 March 2006.

The valuations of properties in Sub-Saharan Africa were carried out by Knight Frank. The effective valuation date was 30 September 2002, with an in-house desk review on 31 March 2006. The valuations of properties in Asia were carried out by Cluttons. The effective valuation date was 30 September 2002 with an in-house desk review on 31 March 2006. The valuations of properties in the Middle East and North Africa were carried out by Cluttons. The effective valuation date was 30 June 2005. Desk reviews for revaluation purposes were carried out by in-house valuers on 31 March 2006. Replacement cost of FCO properties is deemed to be at existing use value subject to the following special assumption: The estate has been valued to provide "value to the business" assessments in accordance with HM Treasury guidelines, on the assumption that all buildings are treated as "non specialised" assets. All properties have been valued on this basis by independent professional firms of valuers in accordance with RICS "Appraisal and Valuation Manual" standards for non specialised properties and have been subject to indexation by FCO chartered surveyors.

Other assets, except for antiques and works of art, have been valued at the lower of existing use and market value.

**13. Intangible fixed assets**

|                             |              |
|-----------------------------|--------------|
| Purchased software licences | <i>£000</i>  |
| <b>Cost or valuation</b>    |              |
| At 1 April 2005             | 1,612        |
| Disposals                   | (343)        |
| Revaluation                 | (3)          |
| <b>At 31 March 2006</b>     | <b>1,266</b> |
| <b>Amortisation</b>         |              |
| At 1 April 2005             | 1,096        |
| Charge for the year         | 103          |
| Disposals                   | (343)        |
| Revaluation                 | 1            |
| <b>At 31 March 2006</b>     | <b>857</b>   |
| <b>Net book value</b>       |              |
| <b>At 31 March 2006</b>     | <b>409</b>   |
| <i>At 31 March 2005</i>     | <i>516</i>   |

**14. Investments**

The FCO held no investments between 1 April 2005 and 31 March 2006.

**15. Stocks and work in progress**

|        | 2005-06      | 2004-05      |
|--------|--------------|--------------|
|        | <i>£000</i>  | <i>£000</i>  |
| Stocks | 7,547        | 8,731        |
|        | <b>7,547</b> | <b>8,731</b> |

**16. Debtors****16.1 Analysis by type**

|   | 2005-06        | 2004-05        |
|---|----------------|----------------|
|   | <i>£000</i>    | <i>£000</i>    |
| <b>Amounts falling due within one year</b>          |                |                |
| Trade debtors                                       | 64,623         | 66,590         |
| Other debtors                                       | 19,121         | 16,183         |
| Deposits and advances                               | 4,142          | 3,960          |
| Prepayments and accrued income                      | 140,845        | 134,915        |
|   | <b>228,731</b> | <b>221,648</b> |
| <b>Amounts falling due after more than one year</b> |                |                |
| Other debtors                                       | 3,696          | 4,268          |
| <b>Total</b>  | <b>232,427</b> | <b>225,916</b> |

Included above is £8,465,987.06 that will be due to the Consolidated Fund once the debts are collected.

**16.2 Intra-Government Balances**

|   | Amounts<br>falling<br>due within<br>one year<br>2005-06 | 2004-05        | Amounts<br>falling<br>due after<br>one year<br>2005-06 | 2004-05      |
|---|---|----------------|--|--------------|
|   | <i>£000</i>   | <i>£000</i>    | <i>£000</i>  | <i>£000</i>  |
| Balances with other central government bodies       | 48,869  | 72,090         | –  | –            |
| Balances with public corporations and trading funds | 12,567  | 424            | –  | –            |
| <b>Total intra-government balances</b>              | <b>61,436</b>   | <b>72,514</b>  | <b>–</b>   | <b>–</b>     |
| Balances with bodies external to government         | 167,295   | 149,134        | 3,696  | 4,268        |
| <b>Total debtors at 31 March</b>                    | <b>228,731</b>  | <b>221,648</b> | <b>3,696</b>   | <b>4,268</b> |

**17. Cash at bank and in hand**

|  | 2005-06        | 2004-05       |
|--|----------------|---------------|
|  | <i>£000</i>    | <i>£000</i>   |
| Balance at 1 April 2005  | 75,410         | 37,922        |
| Net change in cash balances                                    | 39,775         | 37,488        |
| Balance at 31 March 2006                                       | <b>115,185</b> | <b>75,410</b> |
| The following balances and overdrafts at 31 March are held at: |                |               |
| <i>Balances</i>  |                |               |
| Office of HM Paymaster General                                 | 76,181         | 33,185        |
| Commercial banks and cash in hand UK and overseas              | 41,134         | 42,862        |
|  | <b>117,315</b> | <b>76,047</b> |
| <i>Overdrafts</i>  |                |               |
| Commercial banks overseas (Note 18)                            | (2,130)        | (637)         |
|  | <b>115,185</b> | <b>75,410</b> |

**18. Creditors****18.1 Analysis by type**

|   | 2005-06        | 2004-05        |
|---|----------------|----------------|
|   | <i>£000</i>    | <i>£000</i>    |
| <b>Amounts falling due within one year</b>  |                |                |
| Bank overdrafts (note 17)   | 2,130          | 637            |
| Other taxation and social security  | 1,109          | 4,284          |
| Trade creditors   | 27,138         | 34,474         |
| Other creditors   | 19,207         | 25,201         |
| Accruals and deferred income  | 125,254        | 109,451        |
| Current part of finance leases (note 25.2)  | 83             | 88             |
| Current part of imputed finance lease element of on-balance sheet PFI contracts (note 26) | 480            | 467            |
| Total excluding amounts due to the Consolidated Fund                                      | 175,400        | 174,602        |
| Amounts issued from the Consolidated Fund for supply but not spent at year end            | 107,228        | 68,395         |
| Excess cash receipts surrenderable to the Consolidated Fund                               | 8,466          | –              |
| Consolidated Fund extra receipts due to be paid to the Consolidated Fund                  | 7,958          | 7,015          |
|   | <b>299,052</b> | <b>250,012</b> |
| <b>Amounts falling due after more than one year</b>                                       |                |                |
| Finance leases (note 25.2)  | 88             | 171            |
| Imputed finance lease element of on-balance sheet PFI contracts (note 26)                 | 32,541         | 32,324         |
|   | <b>32,629</b>  | <b>32,495</b>  |
| <b>Total</b>  | <b>331,681</b> | <b>282,507</b> |

## 18.2 Intra-Government Balances

|   | Amounts<br>falling<br>due within<br>one year<br>2005-06<br>£000 | 2004-05<br>£000 | Amounts<br>falling<br>due after<br>one year<br>2005-06<br>£000 | 2004-05<br>£000 |
|---|---|-----------------|--|-----------------|
| Balances with other central government bodies       | 23,662  | 13,779          | –  | –               |
| Balances with public corporations and trading funds | –   | –               | –  | –               |
| <b>Total intra-government balances</b>              | <b>23,662</b>   | <b>13,779</b>   | <b>–</b>   | <b>–</b>        |
| Balances with bodies external to government         | 275,390   | 236,233         | 32,629   | 32,495          |
| <b>Total creditors at 31 March</b>                  | <b>299,052</b>  | <b>250,012</b>  | <b>32,629</b>  | <b>32,495</b>   |

## 19. Provisions for liabilities and charges

| Consolidated                    | Early<br>departure<br>costs<br>£000 | LE staff<br>terminal<br>gratuities<br>£000 | Other<br>staff<br>provisions<br>£000 | Estate<br>related<br>provisions<br>£000 | Total<br>£000 |
|---------------------------------|-------------------------------------|--|--------------------------------------|---|---------------|
| Balance at 1 April 2005         | 27,866                              | 27,395                                     | 5,557                                | 5,200                                   | 66,018        |
| Provided in year                | 9,289                               | 2,183                                      | –                                    | 4,900                                   | 16,372        |
| Provisions utilised in the year | (14,801)                            | –  | (1,701)                              | –                                       | (16,502)      |
| Unwinding of discount           | 1,360                               | –  | –                                    | –                                       | 1,360         |
| <b>Balance at 31 March 2006</b> | <b>23,714</b>                       | <b>29,578</b>                              | <b>3,856</b>                         | <b>10,100</b>                           | <b>67,248</b> |

## 20. General Fund

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

|  | 2005-06<br>£000 | 2004-05<br>£000 |
|--|-----------------|-----------------|
| General Fund at 1 April                                  | 821,021         | 871,218         |
| Net Parliamentary funding – drawn down                   | 1,898,116       | 1,699,384       |
| Year end adjustment:                                     |                 |                 |
| Supply (creditor)/debtor – current year                  | (115,694)       | (68,394)        |
| Prior year Consolidated Fund creditor                    | 68,394          | 37,093          |
| Net transfer from Operating Activities:                  |                 |                 |
| Net Operating Cost                                       | (1,882,132)     | (1,751,523)     |
| Consolidated Fund Extra Receipts                         | (7,958)         | (7,015)         |
| Income not appropriated in aid paid to Consolidated Fund | (2,453)         | (3,485)         |
| Non-cash charges:  |                 |                 |
| Cost of capital  | 44,155          | 42,225          |
| Auditors remuneration                                    | 270             | 270             |
| Current asset revaluation adjustments                    | 1,675           | 234             |
| Wilton Park consolidation and other adjustments          | 613             | (606)           |
| Transfer from revaluation reserve (note 21.1)            | 5,639           | 1,620           |
| Transfer from donated asset reserve (note 21.2)          | 179             | –               |
|  | <b>10,804</b>   | <b>(50,197)</b> |
| General Fund at 31 March                                 | <b>831,825</b>  | <b>821,021</b>  |

**21. Reserves****21.1 Revaluation reserve**

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

|   | 2005-06               | 2004-05               |
|---|-----------------------|-----------------------|
|   | <i>£000</i>           | <i>£000</i>           |
| Balance at 1 April  | 340,730               | 314,975               |
| Unrealised gain on revaluation of fixed assets                      | 206,726               | 27,375                |
| Transfer to general fund of realised element of revaluation reserve | (5,639)               | (1,620)               |
| <b>Balance at 31 March</b>  | <b><u>541,817</u></b> | <b><u>340,730</u></b> |

**21.2 Donated assets reserve**

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

|  | 2005-06              | 2004-05              |
|--|----------------------|----------------------|
|  | <i>£000</i>          | <i>£000</i>          |
| Balance at 1 April   | 51,013               | 51,671               |
| Unrealised gain on revaluation of fixed assets                                   | 9,886                | 38                   |
| Transfer to general fund of realised element of donated assets reserve (Note 20) | (179)                | –                    |
| Release to the Operating Cost Statement  | (764)                | (696)                |
| <b>Balance at 31 March</b>   | <b><u>59,956</u></b> | <b><u>51,013</u></b> |

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

|  | 2005-06                 | 2004-05                 |
|--|-------------------------|-------------------------|
|  | <i>£000</i>             | <i>£000</i>             |
| <b>Net Operating Cost</b>  | <b>1,882,132</b>        | <b>1,751,523</b>        |
| Adjustments for non-cash transactions  | (147,106)               | (140,812)               |
| Increase/(decrease) in stock   | (1,184)                 | 691                     |
| Increase/(decrease) in debtors   | 6,510                   | 85,610                  |
| <i>Less movements in debtors relating to items not passing through the OCS</i>   | (2,383)                 | –                       |
| (Increase)/decrease in creditors   | (49,174)                | (117,284)               |
| <i>Less movements in creditors relating to items not passing through the OCS</i> | 49,876                  | 370                     |
| Use of provisions  | 16,502                  | 4,955                   |
| Retirement benefit schemes   | (493)                   | (1,813)                 |
| <b>Net cash outflow from operating activities</b>                                | <b><u>1,754,680</u></b> | <b><u>1,583,240</u></b> |

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

|   | 2005-06              | 2004-05              |
|---|----------------------|----------------------|
|   | <i>£000</i>          | <i>£000</i>          |
| Tangible fixed asset additions                    | 79,360               | 36,717               |
| Additions to assets in the course of construction | 33,145               | 48,624               |
| Proceeds from disposal of fixed assets            | (18,171)             | (11,674)             |
| <b>Net cash outflow from investing activities</b> | <b><u>94,334</u></b> | <b><u>73,667</u></b> |

**22.3 Analysis of capital expenditure and financial investment****Request for resources 1**

|                      | Capital expenditure   | A in A                 | Net total            |
|----------------------|-----------------------|------------------------|----------------------|
|                      | <i>£000</i>           | <i>£000</i>            | <i>£000</i>          |
| <b>Total 2005-06</b> | <b><u>112,505</u></b> | <b><u>(18,171)</u></b> | <b><u>94,334</u></b> |
| <b>Total 2004-05</b> | <b><u>85,341</u></b>  | <b><u>(11,674)</u></b> | <b><u>73,667</u></b> |

**22.4 Analysis of financing**

|  | 2005-06                 | 2004-05                 |
|--|-------------------------|-------------------------|
|  | <i>£000</i>             | <i>£000</i>             |
| From the Consolidated Fund (Supply) – current year                       | 1,966,510               | 1,699,384               |
| Payment to the Consolidated Fund in respect of unspent prior year Supply | (68,394)                | –                       |
| Advances from the Contingency Fund                                       | 130,000                 | –                       |
| Repayments to the Contingency Fund                                       | (130,000)               | –                       |
| Capital element of payments in respect of on-balance sheet PFI contracts | 142                     | (676)                   |
| <b>Net financing</b>   | <b><u>1,898,258</u></b> | <b><u>1,698,708</u></b> |

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

|   | 2005-06              | 2004-05              |
|---|----------------------|----------------------|
|   | <i>£000</i>          | <i>£000</i>          |
| <b>Net financing</b>  |                      |                      |
| Net cash requirement  | (1,859,283)          | (1,668,083)          |
| From the Consolidated Fund (Supply) – current year                          | 1,966,510            | 1,699,384            |
| Payment to the Consolidated Fund in respect of unspent prior year Supply    | (68,394)             | –                    |
| Amounts due to the Consolidated Fund received in a prior year and paid over | (7,016)              | (829)                |
| Amounts due to the Consolidated Fund received and not paid over             | 7,958                | 7,016                |
| <b>Net change in cash balances</b>  | <b><u>39,775</u></b> | <b><u>37,488</u></b> |

**23. Notes to the Statement of Operating Costs by Aim and Objectives (Strategic Priorities)****23.1 Programme grants and other current expenditures have been allocated as follows:**

|                                   | 2005-06                 |
|-----------------------------------|-------------------------|
|                                   | <i>£000</i>             |
| <b>Strategic Priorities (SP):</b> |                         |
| SP1                               | 12,296                  |
| SP2                               | 13,444                  |
| SP3                               | 320,122                 |
| SP4                               | 17,089                  |
| SP5                               | 25,530                  |
| SP6                               | 92,083                  |
| SP7                               | 158                     |
| SP8                               | 1,922                   |
| BBC World Service                 | 239,143                 |
| British Council                   | 189,210                 |
| Consular and UKvisas              | 63,477                  |
| Unspecified                       | 116,696                 |
|                                   | <b><u>1,091,170</u></b> |

Objectives were revised this year in order to more closely realign them with the FCO Strategic Priorities. It is not considered appropriate to restate prior year figures. The total allocated in 2004-05 amounted to £1,003,900,000.

**23.2 Capital employed by aim and objectives**

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

**24. Capital commitments**

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

|                   | <b>2006</b>    | <b>2005</b>    |
|-------------------|----------------|----------------|
|                   | <i>£000</i>    | <i>£000</i>    |
| Estates projects  | 95,170         | 59,261         |
| IT infrastructure | 77,000         | 83,000         |
| Other             | 568            | 250            |
|                   | <u>172,738</u> | <u>142,511</u> |

The FCO awarded a contract to Hewlett Packard in February 2005 to become the FCO's strategic partner for the provision of its global IT infrastructure. The capital commitment as shown above is estimated at £77 million over the remaining six years of the total value of the contract of £186 million, the balance to be expensed when incurred.

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

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

|  | <b>2006</b>   | <b>2005</b>   |
|--|---------------|---------------|
|  | <i>£000</i>   | <i>£000</i>   |
| <b>Obligations under operating leases comprise</b> |               |               |
| Land and buildings:                                |               |               |
| Expiry within 1 year                               | 13,976        | 12,379        |
| Expiry after 1 year but not more than 5 years      | 27,640        | 27,929        |
| Expiry thereafter                                  | 9,076         | 11,269        |
|  | <u>50,692</u> | <u>51,577</u> |
| Other:   |               |               |
| Expiry within 1 year                               | 486           | 618           |
| Expiry after 1 year but not more than 5 years      | 489           | 932           |
| Expiry thereafter                                  | –             | 129           |
|  | <u>975</u>    | <u>1,679</u>  |

**25.2 Finance leases**

|   | <b>2006</b> | <b>2005</b> |
|---|-------------|-------------|
|   | <i>£000</i> | <i>£000</i> |
| Obligations under finance leases comprise   |             |             |
| Other:                                      |             |             |
| Rentals due within 1 year                   | 93          | 93          |
| Rentals due after 1 year but within 5 years | 98          | 191         |
| Rentals due thereafter                      | –           | –           |
|   | <u>191</u>  | <u>284</u>  |
| Less: interest element                      | (20)        | (25)        |
|   | <u>171</u>  | <u>259</u>  |



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

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

**26.2 On-balance sheet***Arteos*

The contract is in respect of the building, operation and maintenance of the British Embassy in Berlin for a term of 30 years from 23 June 1998 with an option to extend for a further 30 years. Overall, the balance of the risks and rewards of ownership of the property are borne by the Department, and, therefore, the embassy is included in these accounts as a tangible fixed asset. The initial capitalisation of the contract was reflected in the 2002-03 accounts.

The unitary charge which covers the occupation of the building has been discounted over the remaining life of the contract and capitalised. The service element of the contract remains an operating cost. In 2005-06 this amounted to £3,077,000 (2004-05: £4,647,000).

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

|  | <b>2006</b>          | <b>2005</b>          |
|--|----------------------|----------------------|
|  | <i>£000</i>          | <i>£000</i>          |
| Imputed finance lease obligations under on-balance sheet |                      |                      |
| PFI contracts comprises:                                 |                      |                      |
| Rentals due within 1 year                                | 3,077                | 3,522                |
| Rentals due within 2 to 5 years                          | 12,310               | 12,220               |
| Rentals due thereafter                                   | 58,609               | 54,989               |
|  | <u>73,996</u>        | <u>70,731</u>        |
| Less: interest element                                   | (40,975)             | (37,940)             |
|  | <u><b>33,021</b></u> | <u><b>32,791</b></u> |

**26.3 Charge to the Operating Cost Statement and future commitments**

The total amount charged in the Operating Cost Statement in respect of off-balance sheet PFI transactions and the service element of on-balance sheet PFI transactions was £30,001,000 (2004-05: £32,281,000).

The payments to which the department is committed during 2005-06, analysed by the period during which the commitment expires, are as follows:

|                              | <b>2006</b>          | <b>2005</b>          |
|------------------------------|----------------------|----------------------|
|                              | <i>£000</i>          | <i>£000</i>          |
| Expiry within 1 year         | -                    | -                    |
| Expiry within 2 to 5 years   | -                    | -                    |
| Expiry within 6 to 10 years  | 22,193               | 22,515               |
| Expiry within 11 to 15 years | -                    | -                    |
| Expiry within 16 to 20 years | -                    | -                    |
| Expiry within 21 to 25 years | 1,220                | 1,238                |
| Expiry within 26 to 30 years | -                    | -                    |
|                              | <u><b>23,413</b></u> | <u><b>23,753</b></u> |

**27. Other financial commitments**

The Department has entered into non-cancellable contracts (which are not leases or PFI contracts) for facility management, logistics and computer services. The payments to which the FCO is committed during 2006-07, analysed by the period during which the commitment expires, are as follows:

|                            | 2006<br>£000  | 2005<br>£000  |
|----------------------------|---------------|---------------|
| Expiry within 1 year       | 2,237         | 1,847         |
| Expiry within 2 to 5 years | 8,197         | 38,710        |
| Expiry thereafter          | 3,000         | –             |
|                            | <u>13,434</u> | <u>40,557</u> |

**28. Retirement benefit schemes**

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

**Defined contribution schemes**

The FCO operates defined contribution schemes in: Barbados, Denmark, New Zealand and Zambia. The schemes operated in Belgium and Holland are defined benefit but multi-user, where the individual insurers' assets cannot be identified; these are treated as direct contribution schemes. The value of contributions in 2005/06 was £492,921.

| Defined benefit schemes                        | 2006                            |   | 2005                            |   |
|--|---------------------------------|---|---------------------------------|---|
|  | Fair value<br>of assets<br>£000 | Present value<br>of future<br>liabilities<br>£000 | Fair value<br>of assets<br>£000 | Present value<br>of future<br>liabilities<br>£000 |
| <b>Retirement benefits schemes – asset</b>     |                                 |   |                                 |   |
| Jamaica  | 499                             | (329)   | 346                             | (217)   |
| Trinidad and Tobago                            | 327                             | (145)   | 306                             | (136)   |
|  | <u>826</u>                      | <u>(474)</u>                                      | <u>652</u>                      | <u>(353)</u>                                      |
| <b>Surplus</b>                                 | <u>352</u>                      |   | <u>299</u>                      |   |
| <b>Retirement benefits schemes – liability</b> |                                 |   |                                 |   |
| Canada   | 4,918                           | (5,432)   | 4,015                           | (4,231)   |
| Irish Republic                                 | 1,297                           | (1,451)   | 776                             | (932)   |
| Portugal                                       | 142                             | (245)   | 255                             | (290)   |
| South Africa                                   | 4,244                           | (4,531)   | 4,946                           | (4,946)   |
| USA  | 26,656                          | (30,423)  | 24,276                          | (28,148)  |
|  | <u>37,257</u>                   | <u>(42,082)</u>                                   | <u>34,268</u>                   | <u>(38,547)</u>                                   |
| <b>Deficit</b>                                 |                                 | <u>(4,825)</u>                                    |                                 | <u>(4,279)</u>                                    |
| <b>Net deficit</b>                             |                                 | <u>(4,473)</u>                                    |                                 | <u>(3,980)</u>                                    |

All of the FCO's known defined benefit schemes have been subject to actuarial valuation or review as at 31 March 2005. The schemes in USA, Canada, South Africa, Ireland, Jamaica and Portugal have been reviewed and updated as at 31 March 2006; other posts have been estimated. The scheme in Zimbabwe has been wound up and the staff transferred to a terminal gratuity arrangement. The net pension liabilities in Colombia have been crystallised and an annuity contract agreed with a major insurance company; the full liability against this contract was discharged in March 2006. The scheme in Trinidad and Tobago is now shown in this note. It has also been established that the FCO operates a defined benefits scheme in Mauritius; a complete set of figures is not yet available for this but any surplus or deficit is not thought to be material.

**28. Retirement benefit schemes (continued)**

Valuations were carried out as at 31 March 2006 by qualified independent actuaries. The major assumptions used by the actuaries were:

|                     | Rate of increase in salaries | Rate of increase in pensions in payment | Discount rate | Inflation assumption |
|---------------------|------------------------------|---|---------------|----------------------|
| Canada              | 3.75%                        | 2.75%                                   | 5.50%         | 2.75%                |
| Irish Republic      | 4.00%                        | 2.50%                                   | 4.50%         | 2.25%                |
| Jamaica             | 9.00%                        | 3.50%                                   | 12.50%        | 7.00%                |
| Portugal            | 3.00%                        | 0.00%                                   | 4.50%         | 2.25%                |
| South Africa        | 5.84%                        | 3.87%                                   | 8.30%         | 4.84%                |
| Trinidad and Tobago | 5.50%                        | 0.00%                                   | 6.50%         | 5.50%                |
| USA                 | 4.5%-6%                      | 3.00%                                   | 6.00%         | 2.50%                |

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

**Long-term rate of return expected at 31 March 2006**

|                     | Equities   | Bonds | Other  |
|---------------------|------------|-------|--------|
| Canada              | 6.90%      | 3.30% | –      |
| Irish Republic      | 7.00%      | 4.00% | 5.00%  |
| Jamaica             | 12.50%     | –     | 12.50% |
| Portugal            | –          | –     | 3.50%  |
| South Africa        | –          | –     | 9.65%  |
| Trinidad and Tobago | –          | –     | 7.50%  |
| USA                 | 8.16–8.40% | 5.03% | –      |

|                                     | Value as at 31 March 2006 |               |              | 2005          |               |
|-------------------------------------|---------------------------|---------------|--------------|---------------|---------------|
|                                     | Equities                  | Bonds         | Other        | Total         | Total         |
|                                     | £000                      | £000          | £000         | £000          | £000          |
| Canada                              | 2,727                     | 2,191         | –            | 4,918         | 4,014         |
| Irish Republic                      | 946                       | 133           | 218          | 1,297         | 777           |
| Jamaica                             | 75                        | –             | 424          | 499           | 346           |
| Portugal                            | –                         | –             | 142          | 142           | 255           |
| South Africa                        | –                         | –             | 4,244        | 4,244         | 4,946         |
| Trinidad and Tobago                 | –                         | –             | 327          | 327           | 306           |
| USA                                 | 18,502                    | 8,154         | –            | 26,656        | 24,276        |
| <b>Total market value of assets</b> | <b>22,250</b>             | <b>10,478</b> | <b>5,355</b> | <b>38,083</b> | <b>34,920</b> |

**Present value of scheme liabilities**

|  | 2006            | 2005            |
|--|-----------------|-----------------|
|  | £000            | £000            |
| Canada   | (5,432)         | (4,231)         |
| Irish Republic                                   | (1,451)         | (932)           |
| Jamaica  | (329)           | (217)           |
| Portugal   | (245)           | (290)           |
| South Africa                                     | (4,531)         | (4,946)         |
| Trinidad and Tobago                              | (145)           | (136)           |
| USA  | (30,423)        | (28,149)        |
| <b>Total present value of scheme liabilities</b> | <b>(42,556)</b> | <b>(38,900)</b> |
| <b>Net pension liability</b>                     | <b>(4,473)</b>  | <b>(3,980)</b>  |

## 28. Retirement benefit schemes (continued)

## Analysis of the amount charged to the operating cost statement in 2005-06

|                     | Current<br>service<br>cost<br>£000 | Past<br>service<br>cost<br>£000 | Total<br>operating<br>charge<br>£000 | 2004-05<br>Total<br>operating<br>charge<br>£000 |
|---------------------|------------------------------------|---------------------------------|--------------------------------------|---|
| Canada              | 148                                | –                               | 148                                  | 162   |
| Irish Republic      | 421                                | –                               | 421                                  | 69  |
| Jamaica             | 26                                 | –                               | 26                                   | 13  |
| Portugal            | 26                                 | –                               | 26                                   | 27  |
| South Africa        | 204                                | –                               | 204                                  | 315   |
| Trinidad and Tobago | 9                                  | –                               | 9                                    | 8   |
| USA                 | 1,169                              | –                               | 1,169                                | 850   |
|                     | <b>2,003</b>                       | <b>–</b>                        | <b>2,003</b>                         | <b>1,444</b>                                    |

## Analysis of the amount credited to other finance income in 2005-06

|                     | Expected<br>return on<br>pension<br>scheme<br>assets<br>£000 | Interest on<br>pension<br>scheme<br>liabilities<br>£000 | Net return<br>£000 | 2004-05<br>Net return<br>£000 |
|---------------------|--|---|--------------------|-------------------------------|
| Canada              | 238  | (279)   | (41)               | (65)                          |
| Irish Republic      | 55   | (62)  | (7)                | 5                             |
| Jamaica             | 52   | (28)  | 24                 | 6                             |
| Portugal            | 7  | (9)   | (2)                | (1)                           |
| South Africa        | 360  | (234)   | 126                | 74                            |
| Trinidad and Tobago | 16   | (8)   | 8                  | 8                             |
| USA                 | 1,802  | (1,638)   | 164                | 263                           |
|                     | <b>2,530</b>   | <b>(2,258)</b>  | <b>272</b>         | <b>290</b>                    |

## Analysis of amount recognisable in statement of recognised gains and losses

|                     | Actual<br>return less<br>expected<br>return<br>on pension<br>scheme assets<br>£000 | Experience<br>gains and<br>losses<br>arising on the<br>scheme<br>liabilities<br>£000 | Changes in<br>assumptions<br>underlying<br>the present<br>value of<br>the scheme<br>liabilities<br>£000 | Actuarial<br>gain/(loss)<br>recognised<br>£000 | 2004-05<br>Actuarial<br>gain/(loss)<br>recognised<br>£000 |
|---------------------|--|--|---|--|---|
| Canada              | 322  | –  | (704)   | (382)  | 553   |
| Irish Republic      | 163  | 36   | 148   | 347  | (32)  |
| Jamaica             | (17)   | 53   | (19)  | 17   | 18  |
| Portugal            | 4  | (36)   | (10)  | (42)   | 35  |
| South Africa        | 233  | (294)  | (146)   | (207)  | (967)   |
| Trinidad and Tobago | 9  | (4)  | –   | 5  | 5   |
| USA                 | 1,595  | (1,408)  | 924   | 1,111  | (2,009)   |
|                     | <b>2,309</b>   | <b>(1,653)</b>   | <b>193</b>  | <b>849</b>                                     | <b>(2,397)</b>  |

**28. Retirement benefit schemes (continued)****Movement in surplus/(deficit) during the year**

|                     | Surplus/(Deficit)<br>in scheme<br>at beginning<br>of the year | Movement<br>in year | Surplus/(Deficit)<br>in scheme<br>at end<br>of the year |
|---------------------|---|---------------------|---|
|                     | £000  | £000                | £000  |
| Canada              | (216)   | (298)               | (514)   |
| Irish Republic      | (156)   | 2                   | (154)   |
| Jamaica             | 128   | 42                  | 170   |
| Portugal            | (33)  | (70)                | (103)   |
| South Africa        | –   | (287)               | (287)   |
| Trinidad and Tobago | 170   | 12                  | 182   |
| USA                 | (3,873)   | 106                 | (3,767)   |
|                     | <b>(3,980)</b>  | <b>(493)</b>        | <b>(4,473)</b>  |

**Movement in year**

|                     | Current<br>service<br>cost | Contri-<br>butions | Other<br>finance<br>income | Actuarial<br>gain/(loss)<br>recognised | Movement<br>in year |
|---------------------|----------------------------|--------------------|----------------------------|--|---------------------|
|                     | £000                       | £000               | £000                       | £000                                   | £000                |
| Canada              | (148)                      | 273                | (41)                       | (382)                                  | (298)               |
| Irish Republic      | (421)                      | 82                 | (7)                        | 347                                    | 1                   |
| Jamaica             | (26)                       | 28                 | 24                         | 17                                     | 43                  |
| Portugal            | (26)                       | –                  | (3)                        | (42)                                   | (71)                |
| South Africa        | (204)                      | –                  | 126                        | (207)                                  | (285)               |
| Trinidad and Tobago | (9)                        | 7                  | 8                          | 5                                      | 11                  |
| USA                 | (1,169)                    | –                  | 164                        | 1,111                                  | 106                 |
|                     | <b>(2,003)</b>             | <b>390</b>         | <b>271</b>                 | <b>849</b>                             | <b>(493)</b>        |

**History of experience gains and losses**

Difference between the expected and actual return on scheme assets

|                     | 2005–06      |                                | 2004–05    |                                |
|---------------------|--------------|--------------------------------|------------|--------------------------------|
|                     | Amount       | Percentage of<br>scheme assets | Amount     | Percentage of<br>scheme assets |
|                     | £000         |                                | £000       |                                |
| Canada              | 322          | 6.55%                          | –          | 0.00%                          |
| Irish Republic      | 163          | 12.57%                         | 16         | 2.04%                          |
| Jamaica             | (17)         | –3.41%                         | 23         | 6.54%                          |
| Portugal            | 4            | 2.82%                          | 14         | 5.41%                          |
| South Africa        | 233          | 5.49%                          | 709        | 14.34%                         |
| Trinidad and Tobago | 9            | 2.75%                          | 8          | 2.78%                          |
| USA                 | 1,595        | 5.98%                          | (342)      | –1.41%                         |
|                     | <b>2,309</b> |                                | <b>428</b> |                                |

**28. Retirement benefit schemes** *(continued)*

## Experience gains and losses on scheme liabilities

|                     | 2005-06        |   | 2004-05     |   |
|---------------------|----------------|---|-------------|---|
|                     | Amount         | Percentage<br>of the present<br>value of<br>scheme<br>liabilities | Amount      | Percentage<br>of the present<br>value of<br>scheme<br>liabilities |
|                     | £000           |   | £000        |   |
| Canada              | –              | 0.00%   | (22)        | –0.52%  |
| Irish Republic      | 36             | 2.48%   | 21          | 2.22%   |
| Jamaica             | 53             | 16.11%  | (5)         | –2.08%  |
| Portugal            | (36)           | –14.69%   | 16          | 5.48%   |
| South Africa        | (294)          | –6.93%  | –           | 0.00%   |
| Trinidad and Tobago | (4)            | –2.76%  | (3)         | –2.50%  |
| USA                 | (1,408)        | –4.63%  | (104)       | –0.37%  |
|                     | <u>(1,653)</u> |   | <u>(97)</u> |   |

## Total amount recognised in statement of recognised gains and losses

|                     | 2005-06    |   | 2004-05        |   |
|---------------------|------------|---|----------------|---|
|                     | Amount     | Percentage<br>of the present<br>value of<br>scheme<br>liabilities | Amount         | Percentage<br>of the present<br>value of<br>scheme<br>liabilities |
|                     | £000       |   | £000           |   |
| Canada              | (382)      | –7.03%  | 553            | 13.07%  |
| Irish Republic      | 347        | 23.91%  | (32)           | –3.48%  |
| Jamaica             | 17         | 5.17%   | 18             | 8.33%   |
| Portugal            | (42)       | –17.14%   | 35             | 11.90%  |
| South Africa        | (207)      | –4.88%  | (967)          | –19.54%   |
| Trinidad and Tobago | 5          | 3.45%   | 5              | 3.75%   |
| USA                 | 1,111      | 3.65%   | (2,009)        | –7.14%  |
|                     | <u>849</u> |   | <u>(2,397)</u> |   |

**29. Financial instruments**

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

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

An analysis of non-interest bearing financial assets held overseas by currency is shown where the total held exceeds £1 million. An analysis is not available for the prior year where the total amount of sterling balances held in the UK is included under Sterling and all balances held overseas both in sterling and other currencies are included under Other.

*Liquidity risk*

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

**29. Financial instruments (continued)***Interest-rate risk*

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

|   | 2006                                  |  | 2005                                  |  |
|---|---------------------------------------|--|---------------------------------------|--|
|   | Non-interest bearing financial assets | Non-interest bearing financial liabilities | Non-interest bearing financial assets | Non-interest bearing financial liabilities |
| Currency                                    | £000                                  | £000                                       | £000                                  | £000                                       |
| Sterling                                    | 95,283                                | (27,815)                                   | 35,305                                | (31,967)                                   |
| US Dollar                                   | 3,498                                 | –  | –                                     | –  |
| Euro  | 3,327                                 | –  | –                                     | –  |
| Naira                                       | 9,515                                 | –  | –                                     | –  |
| Baht  | 4,477                                 | –  | –                                     | –  |
| Australian Dollar                           | 1,233                                 | –  | –                                     | –  |
| Other                                       | (18)                                  | (41,563)                                   | 40,742                                | (34,688)                                   |
| <b>Gross financial assets/(liabilities)</b> | <b>117,315</b>                        | <b>(69,378)</b>                            | <b>76,047</b>                         | <b>(66,655)</b>                            |

*Foreign currency risk*

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

*Fair values*

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

|                                | 2006            |                 | 2005            |                 |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                | Book value      | Fair value      | Book value      | Fair value      |
|                                | £000            | £000            | £000            | £000            |
| Primary financial instruments: |                 |                 |                 |                 |
| <i>Financial assets</i>        |                 |                 |                 |                 |
| Cash at bank and in hand       | 117,315         | 117,315         | 76,047          | 76,047          |
| <i>Financial liabilities</i>   |                 |                 |                 |                 |
| Bank overdrafts                | (2,130)         | (2,130)         | (637)           | (637)           |
| Provisions                     | (67,248)        | (67,248)        | (66,018)        | (66,018)        |
|                                | <b>(69,378)</b> | <b>(69,378)</b> | <b>(66,655)</b> | <b>(66,655)</b> |

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

**30. Contingent liabilities disclosed under FRS 12**

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

|  | 2006         | 2005         |
|--|--------------|--------------|
|  | £000         | £000         |
| Disputed claims for rents payable on overseas properties                   | 851          | 1,735        |
| Potential overseas national insurance liabilities and other related claims | 2,416        | 555          |
|  | <b>3,267</b> | <b>2,290</b> |

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

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

|             | 1 April<br>2005 | Increase<br>in year | 31 March<br>2006 | Amount<br>reportable to<br>Parliament by<br>Departmental<br>minute |
|-------------|-----------------|---------------------|------------------|--|
|             | £000            | £000                | £000             | £000   |
| Indemnities | 11,734          | 9,974               | 21,708           | 21,708   |
|             | <u>11,734</u>   | <u>9,974</u>        | <u>21,708</u>    | <u>21,708</u>  |

**31.2 Unquantifiable**

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

**32. Losses and special payments**

|   | 2005-06    |              | 2004-05    |              |
|---|------------|--------------|------------|--------------|
|   | Number     | £000         | Number     | £000         |
| <b>Losses total</b>                           | <u>225</u> | <u>1,132</u> | <u>167</u> | <u>5,272</u> |
| Cash losses                                   | 44         | 104          | 26         | 42           |
| Claims abandoned                              | 17         | 6            | 35         | 237          |
| Administrative write-offs                     | 128        | 30           | -          | -            |
| Fruitless payments and constructive losses    | 8          | 17           | 2          | 1,538        |
| Stores losses                                 | 13         | 6            | 16         | 376          |
|   | <u>210</u> | <u>163</u>   | <u>79</u>  | <u>2,193</u> |
| <b>Special payments total</b>                 | <u>14</u>  | <u>375</u>   | <u>13</u>  | <u>1,596</u> |
| <b>Losses arising from other causes total</b> | <u>1</u>   | <u>594</u>   | <u>75</u>  | <u>1,483</u> |

Details of cases over £250,000:

Included in Special payments are ex gratia payments totalling £360,104 in respect of locally engaged staff early retirement and redundancy costs in Madrid.

Included in Losses arising from other causes total is £594,370 in connection with unauthorised charges for the use of a number of satellite phones in Iraq in 2005. This was reported in the 2004-05 accounts and is subject to the Comptroller and Auditor General report attached to these accounts.



**33. Related party transactions**

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

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

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

**34. Third-party assets**

|  | <b>2006</b> | <b>2005</b>  |
|--|-------------|--------------|
|  | <i>£000</i> | <i>£000</i>  |
| Funds held by the FCO in designated bank accounts for disbursement to individual beneficiaries on behalf of the United Nations Compensation Commission | 273         | 1,280        |
| Funds held within FCO Office of HM Paymaster General balance   | –           | –            |
| Overall UNCC liability   | <u>273</u>  | <u>1,280</u> |

**35. Entities within the departmental boundary**

The entities within the boundary during 2005–06 were:

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

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

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

### Theft and Misuse of Satellite Phones in Iraq

#### Introduction

1. Note 29 to the 2004-05 Resource Accounts for the Foreign and Commonwealth Office (the Department) provided early notification to Parliament of losses estimated at £590,000 caused by apparently unauthorised charges for the use of a number of satellite telephones in Iraq. When the accounts were published, the Department's investigation into the causes of the losses was continuing. The Committee of Public Accounts took evidence from the Department on the 2004-05 Resource Accounts on 15 February 2006. Although the Committee's enquiries focused mainly upon the Report I had appended to the Accounts on the fraud at the British Embassy, Tel Aviv, the Committee also enquired about the losses incurred in Iraq. My staff undertook to report to Parliament on the outcome of the Department's investigation with the 2005-06 Resource Accounts.
2. The investigation was led by the Department's Financial Compliance Unit (FCU), and was completed in May 2006. The FCU reported that the Department's Iraq Policy Unit, based in London, had ordered ten satellite phones in September 2003 for use in Iraq. The phones had been made ready for use before being dispatched. Weaknesses in the controls over the physical location, storage, billing and payment for the phones had led to the loss of two of the phones (together with another that had been rented previously) remaining undetected until June 2005. At that stage, the phone service provider raised concerns about the high charges being incurred on one of the phones and the Department then took action to prevent further charges being incurred. Despite extensive enquiries the FCU have not established who was responsible for the theft and subsequent misuse of the phones, but they have calculated the full extent of the loss at £594,370.

#### Events leading to the discovery of the losses

3. In more detail, the FCU's investigation showed that:
  - a. Ten Thuraya satellite phones were purchased by the Department, and sent to Iraq in September 2003 by diplomatic bag.
  - b. When the phones were ordered, the Department's Iraq Policy Unit provided FCO Services (the support services arm of the Department) with instructions on how the phone charges were to be accounted for. No bills were received from the telephone service provider until July 2004; subsequently, FCO Services received monthly itemised invoices for each of the phones. These bills were authorised by FCO Services without reference to the Iraq Policy Unit (which held the budget for usage of the phones), or to staff in Baghdad or Basra.
  - c. The Iraq Policy Unit took an inventory of satellite phones during the summer of 2004, and found that a rented phone that had been used officially in September and October 2003 could not be traced: along with other phones that had been rented by the Department, it was barred from service in August 2004.
  - d. In September 2004, a junior member of staff in FCO Services Telephony Section raised concerns about the high cost and usage of satellite phones in Iraq. From the documentary evidence available, neither his superior, nor Iraq Policy Unit staff appear to have acted upon these concerns and FCO Services continued to authorise and pay the monthly bills for the phones.
  - e. One of the remaining phones appears to have stopped working in March 2005.
  - f. On 29 June 2005 the phone service provider contacted FCO Services, and reported that they had concerns over the level of activity logged against one of the satellite phones sent to Iraq. The user had attempted to activate a conference call feature on the handset, in lieu of the normal satellite path. As a precaution, the service provider told FCO Services they had

barred the phone on 24 June, and sought reassurance from the Department that the handset had not been lost or stolen.

- g. On 15 July 2005, following discussions between FCO Services, the Iraq Policy Unit and the FCU, all the Department's active satellite telephones in Iraq were switched off, and the associated line rental agreements terminated.

### Results of the FCU Investigation

4. The FCU investigation quickly confirmed that of the ten phones sent to Iraq in September 2003, five were positively accounted for. The call patterns of a further three phones indicated that they also remained within the Department's control. The investigation therefore focused on the remaining two phones that had been purchased, and one of the rented phones that had been barred from service in 2004.
5. Table 1 below details the charges associated with the three phones that were central to the investigation.

**Table 1: Costs associated with the three misappropriated phones**

| Detail, or monthly charge   | Notes | Phone 1          | Phone 2           | Phone 3           |
|-----------------------------|-------|------------------|-------------------|-------------------|
|                             |       | (rented)         |                   |                   |
|                             |       | £                | £                 | £                 |
| Rental, and other charges   | 1     | 212.68           | 910.46            | 910.46            |
| September 2003 to July 2004 | 2     | –                | 25,254.81         | 54,877.79         |
| August 2004                 | 3     | 10,152.59        | 17,615.54         | 4,834.27          |
| September 2004              |       | –                | 14,937.18         | 9,121.45          |
| October 2004                |       | –                | 3,165.45          | 8,291.05          |
| November 2004               |       | –                | 10,580.38         | 9,211.10          |
| December 2004               |       | –                | 7,980.07          | 9,531.35          |
| January 2005                |       | –                | 4,672.87          | 7,653.81          |
| February 2005               |       | –                | 6,880.07          | 5,368.38          |
| March 2005                  |       | –                | 33,220.38         | 6,163.35          |
| April 2005                  |       | –                | 52,833.10         | –                 |
| May 2005                    |       | –                | 77,803.82         | –                 |
| June 2005                   |       | –                | 212,188.09        | –                 |
| Total                       |       | <u>10,365.27</u> | <u>468,042.22</u> | <u>115,963.01</u> |
| Grand Total                 |       |                  | <u>594,370.50</u> |                   |

#### Notes

1. Includes, as appropriate, rental costs, handset, battery and carry case costs, connection fee and insurance.
  2. No bills were received for Phones 2 and 3 until July 2004. The July bills covered the period from September 2003 to July 2004.
  3. Phone 1 for the period between 31 July and 9 August 2004 only.
- Source: FCU Investigation Report, May 2006.

6. The FCU concluded that:
- a. Phone 1, which was rented, and had been barred in August 2004 had probably been stolen in late July 2004. Between 31 July and 9 August, this phone had incurred call charges of £10,153.
  - b. Phones 2 and 3 appeared never to have been issued officially, and it was likely that they had been stolen early in 2004 from the stock of phones held in Baghdad or Basra. This assumption was supported by the fact that, as the two phones were used unofficially for more than a year, it was likely that the handsets and chargers had been stolen at the same time.
  - c. Analysis of the call patterns for Phones 2 and 3 suggested that the phones were used by more than one person. The itemised bills for May and June 2005, when the usage was extraordinarily high, revealed that the phones had been used to call premium rate numbers in the Wallis and Futuna Islands (a French Overseas Territory in the South Pacific) at a cost of £5.94 per minute.

7. The FCU's report also highlighted numerous failures in the Department's internal control system, which had allowed the theft of the phones and their subsequent misuse to continue undetected for a period of some 18 months. These included:
- a. The Department's staff in Baghdad and Basra were not always told that items were being sent to them, so had no way of knowing or confirming that all items that had been sent had arrived safely.
  - b. There was no Management Officer in post in Baghdad or Basra when the phones were dispatched, and there were no records of what equipment had been received or issued to staff. This lack of documentation meant that FCU were unable to determine the location(s) from which the phones had been taken, or precisely when.
  - c. There was a lack of secure storage available in the Iraq posts to store valuable and attractive equipment. This, coupled with rapid turnover of staff and the fact that staff from several countries shared facilities and equipment made for difficulties in the control of assets. It also meant that it proved impossible for the FCU to determine who had had access to the stores and therefore who might have been responsible for the theft of the phones.
  - d. The phones had been activated in the UK, prior to being sent to Iraq in 2003. This meant they could be used by anyone who gained possession of them. Had the phones been sent unactivated, and their SIM cards stored separately, the extent of the losses might have been limited to the cost of the handsets.
  - e. The monthly invoices for call usage had been authorised and paid by FCO Services without reference to the Iraq Policy Unit, or staff in Baghdad or Basra. No credit limits had been established for the phones, and no formal thresholds set on the maximum monthly amounts that might be paid.
  - f. No budget for satellite phone usage in Iraq had been entered on the Department's new accounting system (known as Prism) for 2004-05. The system was introduced in April 2004, and the Department experienced difficulties in obtaining reliable expenditure reports from the system for much of 2004-05 and the early months of 2005-06. Although a manual comparison of the budget with actual expenditure could have been undertaken, there was, in effect, no budgetary control exercised over the costs of the phones throughout the period from September 2003 to June 2005.
  - g. The standard procedure for purchasing goods and services using the Prism system had not been followed. This meant that the key controls within the system which required the receipt of a service to be confirmed ('receipted'), and for the monetary amount detailed in the purchase order, receipt and invoice to be matched before payment, had been circumvented. Had they been in operation, these controls should have given early warning of the escalating call charges.
8. The FCU report also considered whether there was scope for recovery of the losses that had been incurred. As it had proved impossible to identify those who had stolen and subsequently used the phones, there was clearly no scope for pursuing restitution from those directly responsible. They considered whether there might be a case for seeking repayment from the phone service provider of some of the amounts lost. But the Department received legal advice that suggested that they had no redress in law, and that a claim would be unlikely to be successful: the Department had continued to pay the bills when they were received, they had not known the phones had been misappropriated and therefore had not reported their loss, and it had been the service provider that had cut off the phones in June 2005, and raised the alarm. In addition, as the service provider's share of the £5.94 charged per minute for calling premium rate lines was less than £1, the extent to which the service provider had benefited was a relatively small proportion of the total amount lost.

#### **Lessons to be learned, and remedial action**

9. The FCU investigation concluded, and the National Audit Office agree, that a number of weaknesses acting together allowed this loss to occur and to remain undetected for so long. The key lessons and, where appropriate, remedial action taken by the Department, were:

- a. When dispatching valuable assets to overseas posts, the sender should alert the intended recipients that such assets have been sent, particularly when the recipients have not asked for such assets to be sent.
- b. Satellite/mobile phones should be sent unactivated to overseas posts, and only activated once receipt has been confirmed by the end user. This recommendation has been acted upon for satellite phones: it is not usually applicable for conventional mobile phones, which are purchased locally by overseas posts.
- c. The Resource Management Unit within each directorate of the Department should be charged with checking that invoices are correct before they are paid. Action was taken quickly on this recommendation, and an appropriate procedure is now in place to ensure that all invoices are automatically referred to the appropriate Resource Management Unit for consideration prior to payment.
- d. Resource Management Units should monitor the expenditure recorded against their budgets using the PRISM system, and investigate unusual or excessive expenditure items.
- e. FCO Services Telephony Section should use a threshold limit above which phones are automatically barred while confirmation is sought that the phone remains in authorised hands. The Department have now negotiated a £1,000 credit limit for all satellite phones.
- f. At overseas posts, a designated officer should maintain a record of the location of assets. This is standard practice, but the process fell into abeyance in Iraq due to the absence of a Management Officer, and the stress under which other staff were working.
- g. On the use of Prism, consideration should be given to adapting the system control framework so that users cannot opt out of using some of the control features within the system. Standard Purchase Orders should be raised at the time services are to be procured rather than when the invoice has been received. Then Purchase Order amounts could be matched both to the notification of the receipt of goods or services, and to the invoice. The Department are aiming to make such 'three-way matching' their standard practice from October 2006.

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