

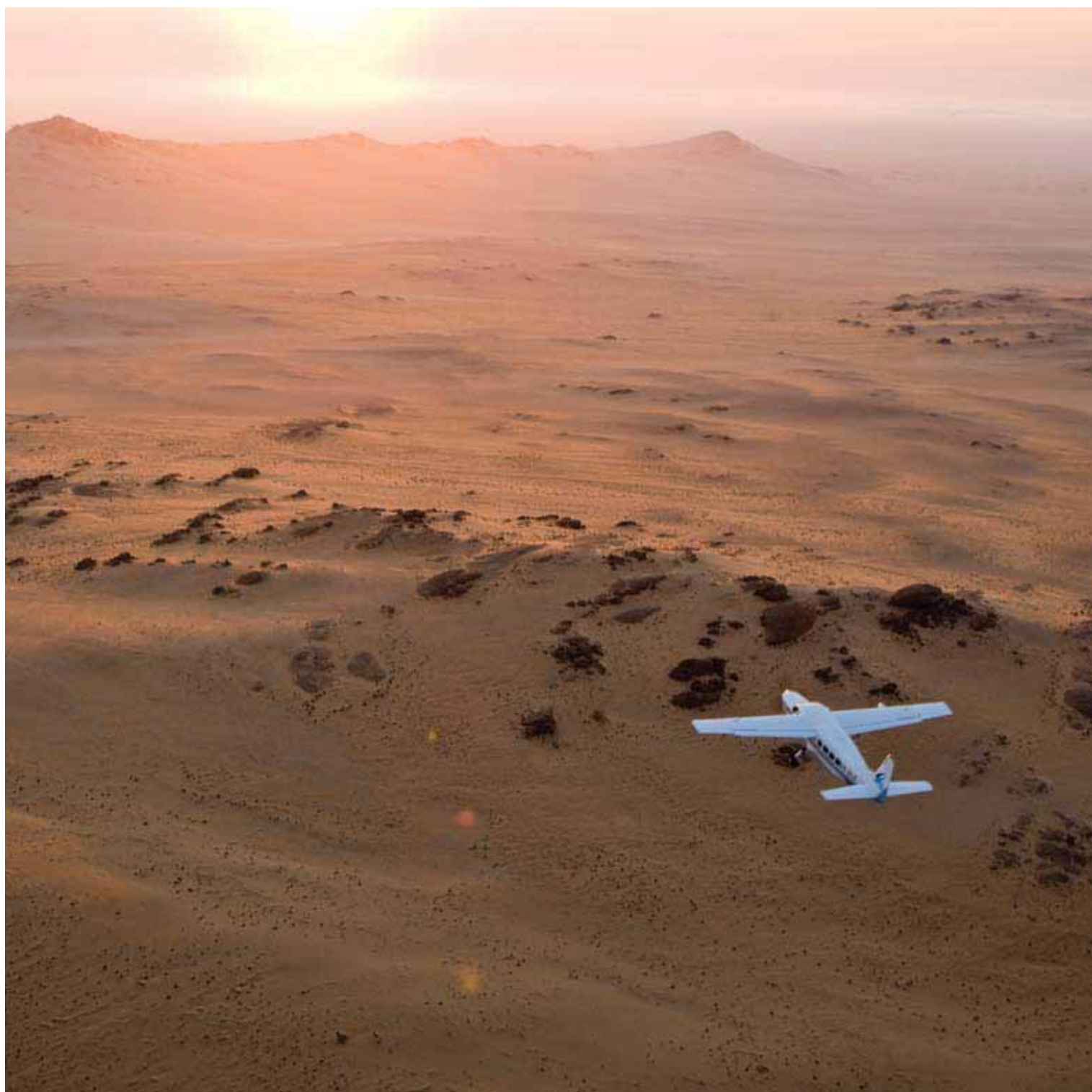


FCO SERVICES

Part of the Foreign and Commonwealth Office

Global connections, local response

FCO Services Annual Report & Accounts 2008/2009



FCO Services
Annual Report & Accounts 2008/2009

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FCO Services

Annual Report & Accounts 2008/2009

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Our challenges are global, but our responses are delivered on the ground in over 200 unique locations.

Section 1 Overview

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“FCO Services is absolutely vital to keeping our global network running and running securely.”

Lord Malloch-Brown, Minister of State, Foreign & Commonwealth Office

As Minister responsible to the Foreign Secretary for overseeing FCO Services, monitoring its achievements and setting its strategic targets, I am pleased to introduce the organisation's first Annual Report & Accounts as a Trading Fund of the FCO.

FCO Services has begun its operations as an independent trading entity in the worst economic climate we have seen for decades. The recession is global in scale and will have consequences that are both wide reaching and long-term. It is therefore more vital than ever that we make the most efficient and effective use of public resources to manage the impact of the downturn and obtain best value for the public purse.

FCO Services is already playing an important role in enabling us to do this. The positive financial results detailed in this Report and Accounts demonstrate that FCO Services can operate as a viable and sustainable business, even in this very difficult economic environment.

In its first year of trading, FCO Services has increased the effectiveness of its operations and as a result has delivered substantial efficiency savings which are ahead of plan and which will, in turn, help the FCO deliver its own commitments for reducing expenditure.

As a government, we are all too aware that the current recession brings with it not only economic issues but also potential security issues as financial disruption creates an environment in which political

instability can grow. We need to collaborate both across government and with other governments and international bodies to identify such problems early on and work together to tackle them.

Security is at the heart of FCO Services' business and the secure IT, estates and logistical services they provide are absolutely vital to keeping our global network running and running securely. The fact that they have been effective in growing their business this year with customers outside the FCO is an encouraging sign of their ability to succeed and continue providing vital support to the FCO.

2009/10 will be another challenging year for FCO Services and I have set them challenging performance targets to achieve. Their results for 2008/09 give me every confidence that, under the stewardship of their Chief Executive and his management team, they will achieve their goals for the next financial year and I wish them every success in doing so.



Mark Malloch-Brown

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

“By exceeding expectations and building strong relationships, we can deliver long-term public value.”

Chris Moxey, Chief Executive, FCO Services

The economic downturn that has prevailed since the second half of the last financial year has presented some very tough challenges to businesses in the UK and worldwide. FCO Services is not shielded from the consequences of market pressures and we too have needed to exercise diligence in the use of our resources, paying close attention to the take-on of cost as well as focusing on improvements in our operational practices.

Against this background, I am pleased to be able to report headline results of an operating surplus of £11.5m on a turnover of £137.2m. After adjusting for non-recurring items, our underlying outturn for 2008/09 is £10m, or 7.8% on recurring revenue of £127.9m. This still reflects a strong performance, carrying only marginal movement in both revenue and net margin from that achieved last year.

This, together with the in-year strengthening of our balance sheet and cash reserves, provides us with a more resilient financial platform for the future. Notwithstanding the caution that we must continue to apply in the year ahead, we will also continue to focus on building our long-term sustainability and we remain committed to delivering a valued range of services for both the FCO and Government as a whole.

Key to our performance has been the depth of our relationship with the FCO, our largest customer and partner, for whom we have delivered some important initiatives this year. We have, for example, installed the necessary infrastructure

in around 220 embassies worldwide to support the FCO's new global IT system; we have carried out construction and installation projects in some of the world's most challenging locations and we have provided valued assistance in times of crisis.

Within our organisation, we have focused on improving further the efficiency of our operations and embedding the changes necessary to build our capability as a service business. We have taken forward our organisation redesign so that our structure is more appropriately aligned with our interactions with our customers. We have embedded robust new processes to give us greater visibility and control of our business as well as improving our delivery to our customers. And we have increased our overall operational productivity, achieving a utilisation rate of 75% for revenue-generating staff.

We have also been successful in generating agreed efficiency savings to the FCO, both through maintaining stable prices and through passing on efficiencies in our provision of services. Economic pressures will call for us to achieve stretching efficiency contributions in the remaining Comprehensive Spending Review period.


As we look ahead, we must always bear in mind that the reason we exist as a business is to provide exceptional service to both the FCO and our other customers. Our aim is to exceed customer expectations and in so doing, build enduring relationships that produce effective public value.



Delivering for our customers has been at the heart of our change ambitions for the past two years and in 2008/09 our staff certainly rose to the challenge of delivering more for less. Our business performance would not have been possible without the ongoing commitment and hard work of all our people throughout the organisation.

Included in this Report are just some examples of the many individual and team contributions that have enabled us to deliver this strong trading performance. I take this opportunity to thank all of our colleagues for their dedication and their support.

Chris Moxey
Chief Executive, FCO Services

A man in a red polo shirt and dark trousers is kneeling on a blue carpeted floor in a server room. He is pointing his right hand towards a server rack. A laptop is open on the floor next to him. The server racks are tall, black, and filled with equipment. The room has a blue carpet and a white ceiling with recessed lighting.

Our unique combination of secure services means that our customers can operate safely and securely wherever they are in the world, whatever the challenges they face.

We provide essential secure support services to the Foreign and Commonwealth Office and other government departments. Our customers also include governments and international institutions with whom the UK has close links.

We keep people safe and their environment secure

Our customers rely on us to provide their teams around the world with a safe and secure working environment.

From the management of secure construction projects, to the installation and ongoing support of protective systems, our global network of technical specialists is on hand wherever it is needed to ensure our customers' working environment is safeguarded with the highest standards in security.

We help establish that people are who they say they are

In an increasingly uncertain world, where it is increasingly important to be able to verify the identity of individuals, we play a vital role in keeping our customers secure.

We provide our customers with cutting-edge solutions in biometric technology and, as one of the authorised providers of specialist vetting services to government, we are at the forefront of national security vetting, providing a bespoke service to our customers for all levels of security clearance.

We safeguard data and communications

Whether it is ensuring the integrity of IT networks, the secure transportation of official mail or the accurate exchange of information between countries, our specialist teams play an essential role in keeping our customers communicating securely.

Our technical networking specialists can design, build, maintain and protect resilient secure IT networks on a global scale. Our worldwide secure logistics network offers a service tailored to meet the local needs of our customers and ensures that official mail and freight is transported securely, even across the most challenging environments.

Our Translation & Interpreting team of in-house specialists and external experts means that we can translate between a broad range of languages; whether at the G20 Summit or the EU, we play a vital role in facilitating a global exchange of information.

Some of our highlights this year



1. We have paved the way for the global roll-out of the FCO's next generation secure IT system, with a programme of complex preparation work spanning 220 embassies and consulates across the globe in just nine months.

Our technical experts from the UK and from our network around the world have upgraded the cabling infrastructure across the FCO's overseas estate ahead of the global roll-out, playing a vital role in enabling the FCO to keep even the most remote Posts in touch swiftly and securely.

2. Our network is global and when natural disasters struck last year, we were amongst the first on the ground to help with the recovery.

Following the earthquake in China and Cyclone Nargis in Burma, our technical specialists battled to reach the affected regions to assess the damage, advise on recovery operations and restore essential services as quickly as possible so that vital help could reach the people who needed it most.

3. We have enhanced building security and improved the working environment of FCO staff and their visitors across the world with the delivery of complex construction projects worldwide.

From the construction of secure facilities in Baghdad, to the FCO's new award-winning ICT Building in the UK, from the refurbishment of Ibiza, one of the busiest British Consulates in Europe to the redevelopment of Bogota, one of the largest British Embassies in the Americas, we have made a real difference to the working environment of staff, making it easier for them to carry out their vital roles.

4. We aim not only to meet the needs of our customers, but also to anticipate them.

We have successfully introduced a new secure disposal service, giving our customers the peace of mind that their confidential waste is securely transported and disposed of, in a process that is in line with the most stringent legal and environmental regulations.

5. With our extensive expertise in translating and interpreting between a broad range of languages, we have kept people communicating securely at the highest levels of government.

We provided expert interpreting services at this year's G20 Summit in London, the outstanding quality of our work winning the praise of both the FCO and representatives from other countries. Our impressive track record and our excellent reputation have seen us successfully bid this year for important translation contracts with the European Commission and the European Translation Centre.

6. As one of the few organisations authorised by the Cabinet Office to deliver national security vetting services across government, we have harnessed the latest technology and transformed the way we work to deliver an even more flexible and responsive service, tailored to our customers' needs.

With our depth of specialist expertise and experience and the advanced investigative systems that we apply, our customers know that our investigations are comprehensive and our recommendations are sound and, in our latest survey, 89% of our customers told us they were satisfied with the service we provide.

7. As the UK National Authority for Counter-Eavesdropping, our expertise in technical security is acknowledged and our skills are in demand.

We have provided expert countermeasures support for this year's G20 Summit and the regional meetings of the Government's Cabinet. We have delivered bespoke technical security training to other government departments and governments with whom the UK has close links, to help them safeguard their buildings and communications against even the most sophisticated technical security threats.

8. With our growing commercial expertise and our leading-edge technology in secure IT solutions, one of the competed tenders we have won is to deliver vital technical support to the FCO's emergency travel document project (BRIDGE).

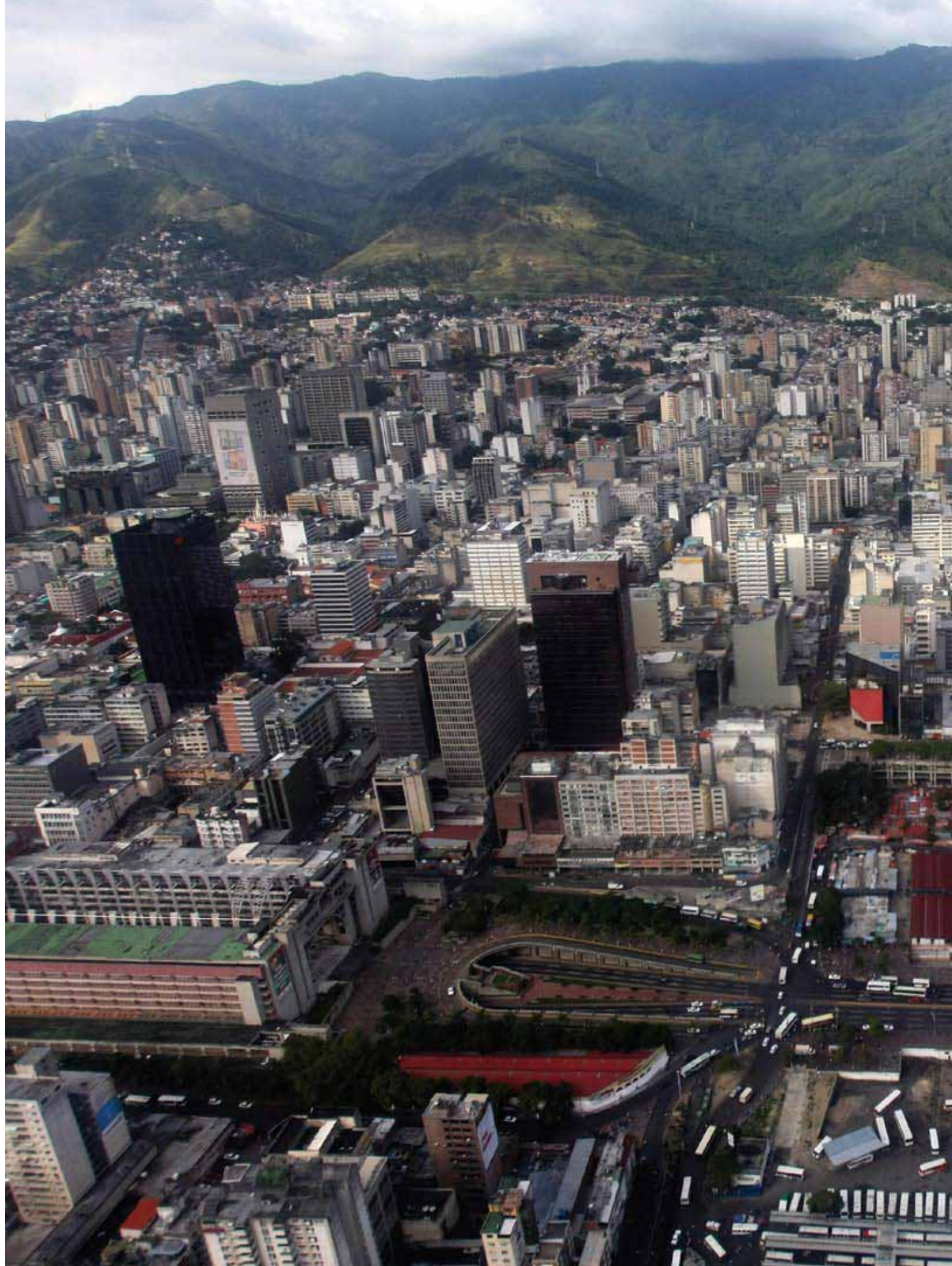
The secure hosting and support facilities that we can provide will mean that staff at embassies and consulates worldwide can electronically issue emergency travel documents to UK Citizens needing to return to the UK from almost anywhere in the world, enabling the FCO to enhance further the consular service it provides overseas.

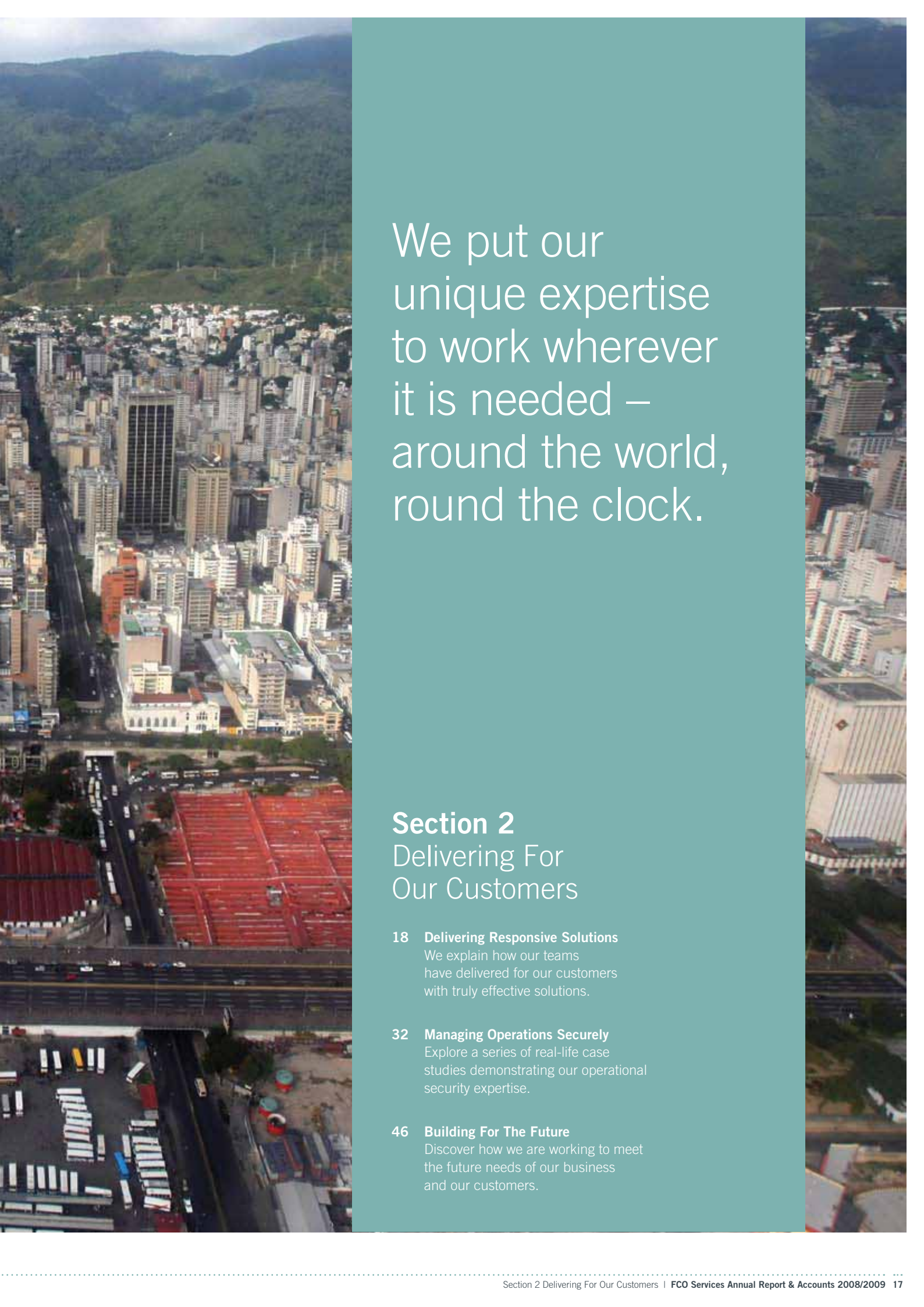
9. We have further developed our people and our business capabilities to ensure that we can continue to meet our customers' security needs for the long-term.

We have invested in the professional skills and knowledge of our staff, in attracting new specialists to our business, using award-winning recruitment technology and in growing our in-house talent for the future through our advanced apprenticeship scheme and other initiatives. We have tailored our health and safety provision to meet our needs as a technical business, receiving an award for best practice for our efforts. We have further enhanced our business systems and processes and are investing in research and development to keep us at the cutting edge of technology.

10. We have continued to work closely with the FCO to meet our sustainability commitments and have managed the implementation of "green" initiatives across our own business operations and at embassies overseas to lessen our impact on the environment.

We are responsible for managing the FCO's Environmental Management System across its UK estate and this has played an important part in its re-accreditation, in 2008, to ISO 14001. Meeting this international standard on environmental management systems clearly demonstrates our mutual commitment to minimising our impact on the environment.





We put our
unique expertise
to work wherever
it is needed –
around the world,
round the clock.

Section 2 Delivering For Our Customers

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We explain how our teams have delivered for our customers with truly effective solutions.

32 **Managing Operations Securely**

Explore a series of real-life case studies demonstrating our operational security expertise.

46 **Building For The Future**

Discover how we are working to meet the future needs of our business and our customers.

75,000m cable installed
in 220 global locations
over 53,000 hours

so that the FCO can deploy its new IT system across the globe

400 projects across
5 continents

so that our customers' environment is safe and their information secure

110% more
IT issues resolved
within 8 hours

giving our customers time to focus on their core activities

Section 2.1

Delivering Responsive Solutions

Our global reach and our expertise in secure IT, construction and logistical services mean that, whatever security challenges our customers face and wherever they face them, we can provide a tailored solution to meet their needs. Our teams operate in some of the most challenging locations in the world to keep our customers safe and their communications secure.





“The new cable infrastructure our teams installed does more than just enable faster communications – it means we can connect to even our most remote outposts with 21st century security.”

Overview: Worldwide cabling project for the FCO's new IT system

Featuring: Nick, Project Manager

Customer: Information and Technology Directorate

Location: Worldwide



The situation:

The FCO had embarked on a major transformation of its global IT system to enable it to keep communicating effectively and securely. Our Premises Cabling Office was commissioned to upgrade the structured cabling across the FCO estate, to meet the requirements of the new system. In short, we needed to cable the world. And we needed to do it in nine months.

The solution:

Our installation teams were immediately mobilised to start assessing the cabling and verify it could host the enhanced system. Where the cabling failed, we worked with the local staff on-site to make the necessary repairs or provide replacement cabling.

The impact:

Within two weeks of the initial request, we had established a systematic schedule of work aligned to the FCO's rolling deployment programme. The result was an infrastructure capable of carrying the extremely large bandwidths required by the new IT system and the extra connectivity required to accommodate its different security tiers.

The project was a triumph of co-operation between different teams from across FCO Services. It was fronted by the Premises Cabling Office with vital support throughout from Travel Section, Logistics and our global technical network, whose technical expertise and knowledge of embassy infrastructures were vital to the delivery of this complex project.

Due to the accelerated roll-out programme, complex security and logistical issues, the overseas cabling infrastructure was the highest risk facing the successful implementation of the new IT system. Thanks to the expertise and hard work of the whole team, the project was delivered on schedule.

“The teams from FCO Services have played a vital role in enabling us to begin the global roll-out of our new IT system. Working to extremely challenging deadlines, they delivered a huge programme of cabling work on time and with a level of professionalism that shows a new way of working.”

Edward Hobart, Future Firecrest Programme Director, **FCO**

Making A Difference With Biometric Technology



Overview: Biometrics upgrade across India's Visa Application Centres

Featuring: Peter, Base Manager

Customer: UK Border Agency

Location: Countrywide, India



The situation:

The biometric systems at India's 12 Visa Application Centres were non-standard at the time of the initial biometrics installation. The UK Border Agency, in conjunction with an external agency, required us to design and install a new compatible system across the centres to align and modernise the visa application process and enhance their service to their customers.

The solution:

As base manager, I provided the overall co-ordination and support, working closely with our technical services team, as well as the external agency, to design and build a tailored biometric solution. Three installers were assigned to different regions across the country, successfully completing the installation in just 12 days, with systems only shutting down at weekends or, in some cases, for just a day, to ensure that the UK Border Agency could maintain its service to customers.

The impact:

The project has brought India's Visa Application Centres into line with the rest of the world. The new systems are more reliable and provide a more streamlined service: a direct benefit for both UK Border Agency staff and their customers.

The expertise demonstrated by the team was fundamental to the success of the project. Careful planning and efficient work meant that the installation was completed within the tight project timescales and without any disruption to the high volume of applications in this busy region. The Indian project is just one part of a global programme, bringing the number of countries using biometric technology to 135.



*Peter,
Base Manager*

“Our installation team covered the whole country in less than a fortnight, speeding up the application process and making a real difference to life on the ground.”

Global Conversations



Overview: Technical enhancements to the FCO's intranet

Featuring: Tim, Programme Manager, Intranet Technologies team

Customer: Information and Technology Directorate

Location: Milton Keynes, UK



The situation:

FCONet, the intranet for the FCO and FCO Services, has had two major upgrades since its launch in 2004. Implementing large scale upgrades to the system took a great deal of time and resource and the FCO required a way of regularly upgrading their intranet that was more flexible and cost-effective.

The solution:

Our Intranet Technologies team developed a system that enables us to respond to individual change requests from the customer, providing a fixed price for the work to be carried out. Combined with our technical expertise, this means that we can provide a flexible service, responding to our customers' needs based on their priorities and putting the customer in full control of how much they spend.

The impact:

The new approach allows responsive and flexible changes to be made to FCONet. During the last 12 months we have delivered five different enhancements, providing interactive technologies such as voting and polling, feedback and blogs. We've also been able to add video plus other improvements to functionality.

The FCO's Information & Technology Directorate were so happy with the results that they have extended the arrangement for another year. They have also expanded our team's remit to include other IT applications used by staff.

The FCO continues to benefit from the enhancements to FCONet, which has become an essential two-way communications tool as well as an information resource for its staff.

Enhancing Building Security



Overview: Construction project management at British Embassy, Prague

Featuring: Tom, Architect

Customer: Estates and Security Directorate

Location: Prague, Czech Republic



The situation:

The location of the visa and consular area above the main vehicle access to the British Embassy in Prague made it vulnerable to potential security threats and it had to be relocated.

The solution:

As the lead Architect on the project, I worked alongside the Project Manager and Quantity Surveyor to produce detailed designs and specifications for the proposed renovations to the 400 year old building. These plans fully answered security requirements, whilst also improving the entrance and the internal layout. Based on the plans we produced, the public and private areas in the visa and consular section were completely redesigned and relocated within the building.

The impact:

First and foremost, the changes meant that staff and visitors could be confident of the safety and security of the visa and consular areas that they were working in or visiting. In addition to the move, we took the opportunity to make additional improvements to the site.

By lowering the floor of the new designated area by a metre, we increased the usable space, providing a much improved working environment for staff. This has the added advantage of making this part of the building more accessible and fully compliant with the UK's Disability Discrimination Act.

By working closely with our customer and embassy staff, we ensured that everybody understood the requirements and the proposals to meet them, contributing to the overall successful completion of the project.

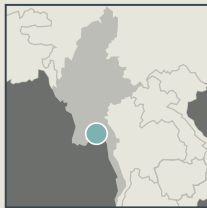
The Eye Of The Storm

Overview: Our emergency response to Cyclone Nargis

Featuring: Bob, Technical Management Officer

Customer: Asia Pacific Directorate

Location: Rangoon, Burma



The situation:

In May 2008, Cyclone Nargis swept through Burma, leaving destruction in its wake. It caused significant damage to the British Embassy in Rangoon and cut off its communications with the outside world.

The solution:

As the technical specialist for that region, the moment the airport re-opened, I flew from Bangkok to Rangoon. In spite of the difficult conditions I was able to restore access to embassy communications, enabling staff to continue with their responsibilities and restore some sort of normality to the Embassy.

Within a week, I was joined by Ian, an FCO Services civil engineer. He assessed the damage to the buildings, which had been made worse by flooding and falling trees, and got straight to work organising structural repairs. "It was the monsoon season, so we had to work hard to get everything done as quickly as possible," Ian explained.

The impact:

An embassy without communication is an embassy that is unable to fulfil its role. That was why it was essential to have an engineer on site so soon. With a standby generator as the only source of electricity, we restored the FCO phone network and set up two PCs that provided essential access for the Ambassador and his staff to the IT systems.

With the help of two gardeners and an embassy electrician, we dismantled and rebuilt the damaged radio repeater tower, allowing staff to use radios and mobile phones to carry out vital tasks. With communications restored, the embassy team could get back to work and start arranging for aid to get to the worst-hit areas in the countryside.



Bob,
Technical Management Officer

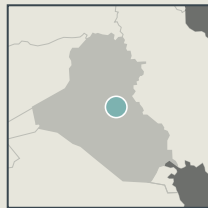
“We rebuilt the Embassy’s radio tower just days after the cyclone hit. Restored communications meant staff could get vital aid to the region.”



Keeping People Safe In Baghdad



Overview:	Construction project management at the British Embassy, Baghdad
Featuring:	John, Construction Project Manager
Customer:	Estates and Security Directorate
Location:	Baghdad, Iraq



The situation:

The British Embassy in Baghdad is the focal point of Britain's presence in Iraq, playing host to a large number of military personnel, officers from UK law enforcement agencies and Embassy staff. With security of paramount importance, security-driven enhancements were required throughout the Embassy compound to ensure the safety of all staff and visitors on site.

The solution:

The work included the construction of a new accommodation block for the Gurkha security force of 150, a new Ambassador's Residence, additional staff accommodation units and the independent provision of power generation and water supply

on-site, as well as substantial physical security enhancements. In FCO Services, we co-ordinated the design and provided the project management for the wide scope of construction works, managing the day-to-day activity of on-site contractors.

The impact:

Our experience of working in hostile and turbulent environments enabled us to bring together the right team of highly skilled professionals, to deliver the project on time and on budget. Despite the difficult working conditions, our proactive project management approach has enabled us to complete individual sections of the construction work ahead of schedule to meet the changing security environment, fulfil the requirements of the Embassy and complete the handover in stages to the customer.

Our customer has benefited from having our experienced, multi-disciplinary team on site, supported by an extended network of specialists in the UK. By bringing the new Residence and Gurkha building within the compound, the amount of 'regular and predictable movements' to and from the site has been minimised. This is of great importance as these are the types of journeys most vulnerable to attack.

“It’s vital that the people on the ground in Iraq representing the UK can do their jobs as safely and securely as possible. Our teams have worked tirelessly to provide them with the secure environment they need.”



*John,
Construction Project Manager*

Being Understood In Every Language



Overview: Providing interpreting services at the G20 Summit

Featuring: Steven, Interpreting Manager

Customer: Protocol Directorate

Location: London, UK



The situation:

On 2 April 2009, world leaders from the G20 countries gathered in London. They met against the backdrop of the worst international economic crisis in generations and the eyes of the world were upon them.

The solution:

We provided all the interpreting services at this high profile political event, sourcing and co-ordinating a team of over 40 top-level interpreters, working from and into 14 different languages.

The impact:

This was a major project of considerable political significance and it was crucial that we delivered the required services to the highest possible standard.

Months of planning ensured that we put together the right team of professionally qualified interpreters, working closely with our customers to ensure we could respond swiftly and flexibly to their evolving needs in the run up to the event.

We were praised by both the FCO and by representatives from other countries for the outstanding quality of our work and the positive contribution it made, reinforcing our reputation as a provider of best-in-class interpreting services and helping to uphold the reputation of the FCO and the British Government as a whole at this important event.

“ Many thanks for your handling of this aspect of the Summit. It was a very complicated challenge and you delivered superbly.”

*Tony Humphries,
Assistant Director,
Protocol Directorate*

Breaking New Ground In Recruitment



Overview:	Success of our innovative recruitment campaign
Featuring:	HR Resourcing team
Customer:	Internal FCO Services operations
Location:	Milton Keynes, UK



The situation:

To support the delivery of high profile and complex customer projects, we needed to increase our number of technical installation specialists. In an employment market with stiff competition for these specialist skills, our challenge was to give FCO Services real visibility in the marketplace and position our leading-edge technical credentials.

The solution:

We worked closely with a media communications agency to develop highly innovative recruitment concepts to attract potential candidates and help fill key technical specialist vacancies across our business. We developed an innovative and eye-catching ad campaign using the latest 2D barcode technology to provide a uniquely interactive experience for applicants.

The impact:

Featuring technology familiar to our target audience of experienced technicians, our newspaper and online adverts included barcodes which applicants would need to use to access detailed campaign information.

By using a more engaging approach to attracting candidates, we were able to showcase the technology we use in our everyday work, positioning FCO Services as an innovative employer where rewarding and stimulating careers can be developed.

The campaign was so successful it not only attracted high calibre applicants, but also won an award at the Public Sector People Managers' Association recruitment awards for innovation in a recruitment campaign – great recognition of the concept and the efforts of all involved in its delivery.

Keeping Our Couriers And Cargo Secure



Overview:	Enhancing security with our vehicle tracking system
Featuring:	Darren, Operations Manager, Supply Solutions
Customer:	Internal FCO Services operations
Location:	Milton Keynes, UK and wider Europe



The situation:

Our vehicles securely transport classified and non-classified goods to embassies overseas. With our fleet operating across different regions, we wanted to be able to verify the safety of our drivers and vehicles out on the road and ensure that we could safely deliver the goods that our customers entrust to us.

The solution:

We sourced and installed a state of the art vehicle tracking system across our fleet, providing us with complete visibility and real-time information on the location of our vehicles. This ensures that we are always up to date with their whereabouts and we know that our staff and the goods they are transporting are safe and secure.

The impact:

The safety of our drivers and the security of their freight are paramount and our new tracking system provides this increased security. We now have full visual contact with our entire fleet, 24 hours a day and our drivers have the added security of a panic button for rapid response assistance in case of emergency.

Vehicle data is continually streamed via GPS and mobile technology back to our UK site. An incident summary is generated, identifying any unusual or suspicious activity. This provides added reassurance for our customers, who trust us to transport sensitive material on their behalf.

The new system has also increased the efficiency, speed and accuracy of our fleet management information, helping us to make better-informed decisions, faster. Our sustainable operations support team can also use the data to calculate how we are performing against targets to reduce our carbon footprint.



“By being on the scene just days after the quake, we could rapidly assess the damage and help get our systems and services up and running again so the local community could receive the vital support they needed.”



Overview:	Our emergency response to the Sichuan earthquake
Featuring:	Jonathan, Technical Works Officer
Customer:	Europe and Globalisation Directorate
Location:	Chengdu, China



The situation:

In May 2008, a huge earthquake measuring 7.9 on the Richter scale, struck Chengdu, capital of the Sichuan province in China, causing widespread devastation and chaos. A number of buildings in the region were badly affected and, while restoring essential services to the British Embassy was our immediate priority, we were also keen to assist the local community as much as we could to ensure they could safely access their homes and offices.

The solution:

With the airports closed, three of us immediately took to the roads, driving for 30 hours from Beijing to inspect the condition of the buildings. Our first stop was the British Consulate General in Chongqing and from there we moved on to Chengdu, where we found the Visa Application Centre extensively damaged.

The impact:

Once we'd completed the 2,200 kilometre journey, navigating through landslides and damaged roads, we were able to inspect the damaged buildings. The local authorities didn't want to let us into many of the buildings at first because they weren't sure that the structures were stable enough, but eventually we persuaded them and we were able to carry out the inspections.

Our expertise enabled us to assess the damage effectively and to conduct a thorough safety assessment. To ensure the safety of the staff and visitors at the Visa Application Centre in Chengdu, we advised against the immediate use of the building.

In Chongqing we were able to give the all clear to local residents that their homes and offices were safe to live and work in. We also offered assistance to a number of UK based companies and representatives of other governments who were without technical support of their own. Our willingness to help others at this crucial time also raised awareness of the British Consulate General and Her Majesty's Government within the region.

24,000 shipments of diplomatic bags securely delivered

to support the vital work of the FCO across the globe

82% faster turnaround for SC security clearances

*47% for DV, so that our customers have the trusted
personnel they need, when they need them*

4,000 inspections and assessments worldwide

to ensure safe living and working environments for FCO staff overseas

Section 2.2

Managing Operations Securely

The security of our customers, their information and their working environment is at the heart of everything we do. Our network of technical specialists provides essential support services wherever they are needed in the UK or across the globe, to keep our customers' business functioning, 24 hours a day, 365 days a year.





Overview: Expert sustainability advice to help 'Green the FCO'

Featuring: Mia, Sustainable Operations Advisor

Customer: Estates and Security Directorate

Location: Milton Keynes, UK



The situation:

The FCO is committed to putting environmental considerations at the heart of the way it is run and ensuring that all its operations at home and overseas are managed sustainably.

The solution:

To help achieve this, the FCO looks to the support and guidance of our Sustainable Operations Support team. We advise FCO departments and embassies around the world on legislation, sustainability targets and how to reduce their carbon footprint.

The impact:

Our specialist knowledge has helped the FCO make considerable progress towards its 'Greening' goals. As the leader of our Sustainability team, I work closely with the FCO's Estates and Security Directorate, providing expertise on the measurement and reduction of our shared carbon footprint. In 2008 we participated in the Public Procurement Leadership Collaboration (Carbon Disclosure) Project as a major partner of the FCO. This initiative

is designed to help organisations understand the part played by suppliers in their overall 'carbon footprint'. By collaborating with the FCO in identifying our wider carbon impact, we can work more closely together to develop innovative carbon reducing products and services.

Overseas, our environmental management services and practical technical support have helped embassies worldwide make use of low carbon and renewable technologies and reduce their carbon footprint, with schemes including energy control systems, 'Smart' (i.e. remote) monitoring and passive energy reduction systems such as insulation. In partnership with a major supplier, we have also developed a flexible generator system that, for multi-generator installations, selects the generators for the actual load, thus further reducing carbon emissions. This system is currently running in Baghdad, Basra and Lagos and is also due to be installed in Dhaka. Following last year's work researching reliable solar hot water systems that are easy to install and maintain, we have now rolled out over 50 systems across the overseas estate, enabling renewable energy to be introduced in locations where it was not previously possible.

In 2008, the FCO's environmental management system was re-accredited to ISO 14001, an international quality standard awarded to organisations with high standards in environmental management. Our joint initiatives enable the FCO to contribute towards wider government targets for the sustainability of the government estate and act as a leading example to the public and private sectors, as well as the general public.

“From fitting low carbon solar hot water technology to measuring our freight footprint, we’re helping make the FCO a greener and more sustainable place to work.”



Mia,
Sustainable Operations Advisor

Providing A Secure Service Desk



Overview:	Setting up our secure IT service desk
Featuring:	Jem, Head of Global Support Centre
Customer:	Other UK Government Departments
Location:	Milton Keynes, UK



The situation:

After consultation with some of our customers from other government agencies, it became clear that they were looking for an enhanced IT service desk, providing comprehensive hardware and software support at the first point of contact, with robust security controls.

The solution:

We installed a secure service management toolset and expanded our team with additional staff with the appropriate security clearance and technical expertise. As head of the ICT helpdesk, I ensured that the processes for call handling were defined and agreed according to customer requirements. I secured the necessary accommodation and infrastructure and worked with our account managers to inform our customers of the enhanced service they could now expect.

The Impact:

The new service desk successfully went live in October 2008. The level and quality of service to our customers has been significantly improved: the new service desk can handle and process calls 24 hours a day, 7 days a week, truly providing our customers with round-the-clock secure support.

Because we have a detailed understanding of customer requirements and because we train our team members extensively to pass on that knowledge, our front-line staff can prioritise calls more effectively and ensure that they are handled appropriately. Our new service is trusted, effective and secure. Its success has generated interest from other governments with whom the UK has close links and discussions are now underway with them. The success of the venture is something that the team is rightly proud of and has been a real boost to their morale.



*Jem,
Head of Global Support Centre*

“ To my colleagues on the service desk, fixing problems first time is a real priority, even when it’s 11.59pm on New Year’s Eve.”



Overview:	Working with a US partner to deliver training
Featuring:	Technical Training team
Customer:	US Interagency Training Center
Location:	Milton Keynes, UK



The situation:

One of our close international partners, the US Interagency Training Center, wished to provide security training courses in the UK for their American and British personnel. This required a secure environment and the installation of technical equipment to support the training.

The solution:

We shipped the necessary equipment from the US, co-ordinated with Customs, handled the technical installation and set up the training environment. All this was hosted at a secure FCO Services location.

The impact:

This was the first time we had hosted training for the US Interagency Training Center, so the success of the event was crucial. Everything went smoothly, thanks to the tireless work of our IT & Technical Training team in managing the logistics and providing support throughout the course.

The US Interagency Training Center benefited from having a highly secure environment that they could use to provide technical security training for the course delegates. By hosting the event in the UK, both British and American personnel were able to attend and use the opportunity to share their experiences and ways of working in a constructive environment. This provided valuable insights and ways forward for everyone involved.

The event has helped to underpin the unique relationship between Britain and the US, and has contributed to the US Interagency Training Center's policy of greater integration with the UK.

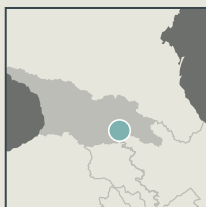
“ I couldn't have asked for a better set-up. The facilities were very impressive and the support from the FCO Services team was nothing less than incredible.”

*David McCune,
US Interagency Training Center*

Emergency Closure In Georgia



Overview:	Technical support for the British Embassy, Georgia
Featuring:	Simon, Technical Management Officer
Customer:	Russia, South Caucasus and Central Asia Directorate
Location:	Tbilisi, Georgia



The situation:

In August 2008, while on a routine service and maintenance trip to the Embassy in the Georgian city of Tbilisi, Russian troops invaded the region. We had to act fast to ensure the Embassy was secure and its staff were able to continue safely their vital work representing UK interests in the region.

The solution:

The decision was taken to close the Embassy temporarily and move to a contingency office. As Technical Management Officer, I was responsible for the technical aspects of the closure, which included dealing with confidential equipment, setting up temporary communications and restoring systems when the Embassy re-opened.

The impact:

In an emergency situation, the Embassy benefited from our crisis management capability and rapid technical support on the ground. Backed up by the FCO Services operations team in the UK, I was able to maintain information security and help the Embassy close swiftly and safely.

I also supported the FCO's 'rapid deployment' team, providing training to enable them to set up a contingency office from where they could effectively manage their temporary communication facilities.

When the Embassy re-opened, I remained on site to liaise with the operations team to order new equipment and to oversee its installation when it arrived. I didn't leave Tbilisi until the Embassy was fully operational.



*Simon,
Technical Management Officer*

“ My main priority was to keep lines of communication open and running smoothly, so our temporary mission was always in touch.”

**Overview:**

Developing our cash management function

Featuring:

Kevin, Investment Specialist

Customer:

Internal FCO Services operations

Location:

Milton Keynes, UK

**The situation:**

As a Trading Fund and with our new autonomy, we could no longer use the cash management function traditionally provided by the FCO. We needed to establish our own cash management and accounting capability to meet the specific needs of our business operations and to meet our requirement to report independently to Parliament on our financial management and performance.

The solution:

Our treasury management function handles the flow of monies into and out of the business, ensuring that our bank accounts are never in the red. A key part of this function has been to put in place more formal processes to improve the speed and efficiency of our payments to our suppliers.

The impact:

Our commitment to improving our payment timescales to suppliers has resulted in almost 95% of invoices we receive being paid within 30 days, while over 80% are paid within the 10-day target set by the Government's Prompt Payment initiative. Our challenge for the coming year is to reduce payment times even further.

Our banking procedures are first-class and we have successfully developed reporting mechanisms that give clarity and visibility of our financial situation, keeping our business and our customers better informed.

Providing clear and easily accessible guidance on our payment procedures and producing detailed supplier statement reconciliations help us maintain strong relationships with our suppliers, and this in turn enables us to deliver consistently for our customers.



Kevin,
Investment Specialist

“Our improved payment processes mean that our suppliers are paid promptly, something that’s vitally important as we operate in a more commercially confident way.”

Maintaining Security Across The World



Overview: The role of Technical Management Officers in maintaining security at embassies

Featuring: Richard, Technical Management Officer

Customer: Americas Directorate

Location: Worldwide



The situation:

In partnership with the FCO, our priority is to ensure that the environment in which staff work and in which they process and communicate classified information is safe and secure. The equipment they use must be regularly serviced and maintained, and if it fails, it must be swiftly repaired or replaced.

The solution:

Our global network of technical specialists, known as Technical Management Officers, maintains and supports classified IT, radio and telephony systems and protective security equipment in all our embassies overseas. We look after all systems installed by FCO Services, providing a full range of servicing, technical advice and on-site support. As we have specialised in sophisticated security solutions for over 60 years, our customers can have full confidence in the service we provide.

The impact:

We provide our services 24 hours a day, 365 days a year and can provide an immediate response whenever it is needed. With a worldwide network, we can mobilise teams from embassies in surrounding areas to provide additional support if required.

Based in Caracas, Venezuela, I am just one of the many TMOs working in challenging environments or areas affected by political unrest. Restrictions on accessibility can make it difficult for embassy staff to purchase the local services and equipment that they rely on to operate effectively. Even in hazardous and difficult working conditions and regions with varying levels of local infrastructure, we can source the right equipment and provide hands-on support. The specialist knowledge and support that we provide helps the Embassy to function efficiently.



Richard,
Technical Management Officer

“ In difficult environments and turbulent times, our customers can rely on us to keep them safe and keep them communicating.”

Reducing Our Carbon Footprint



Overview:

Reducing the carbon footprint of our European van service

Featuring:

Jason, Transport Manager

Customer:

Europe and Globalisation Directorate

Location:

Regional, Europe



The situation:

Via our European van service and our long haul overseas lorry service, our supply solutions team provides a secure logistics service from the UK to British Embassies and FCO Services staff overseas. With an increasing volume of goods to be transported, we needed to find a way of reducing the number of journeys made to key overseas locations, improving the efficiency of each service and reducing our impact on the environment.

The solution:

We developed and implemented a system of consolidation, whereby all classified and non-classified deliveries are combined to ensure that all vehicles leave with full loads. This requires a significant amount of planning and preparation. Together with my team, I co-ordinate delivery requirements and schedules with drivers and embassy staff and produce the documents necessary to ensure a smooth journey.

The impact:

By consolidating loads, reducing the need for flights and additional couriers to travel, we are lowering our carbon emissions, helping us to meet our targets for reducing our carbon footprint.

As well as consolidating on the outward journey, our drivers operate a 'round robin' system, collecting loads from embassies on their return to the UK. Our customers benefit from the improved efficiency that this shared logistics service provides.

During the last financial year, our European van service carried almost 150 tonnes of freight securely to and from the UK. Our consolidation policy ensures that this is transported as efficiently as possible.

Building A Strong Commercial Team



Overview:

Developing FCO Services' commercial team

Featuring:

Rhoda, Head of Commercial Section

Customer:

Internal FCO Services operations

Location:

Milton Keynes, UK



The situation:

Operating as a Trading Fund means working in a more competitive environment. From the outset we recognised that we had to develop our commercial expertise significantly, to compete effectively and to apply a higher degree of commercial judgement in our business operations.

The solution:

My role was to establish the new commercial team and, throughout the year, we have helped to shape and apply our organisation-wide commercial processes, to ensure that investment initiatives are commercially viable and the bids we put forward to secure new business are of the highest possible standard.

The impact:

The members of the new team bring with them a wide range of commercial experience and we are confident we have the skills to help FCO Services succeed in the commercial world. The team ensures that our commercial arrangements with our customers provide cover for our business and that we have sound contracts in place for the work we undertake.

Our customers are impressed with the quality of the bids we produce, thanks to the hard work of our bid teams of commercial team members and specialists from across the business. We are now much closer to the ideal situation where both our customers' requirements and our proposed schedule of work are more clearly defined and everyone knows exactly what is involved. The contracts in place provide greater protection for both ourselves and our customers, ensuring that liabilities are adequately covered and that all parties are clear on the terms under which our service is being provided.

Technical Security Support For “Cabinet In The Community”



Overview:	Technical security support for regional Cabinet meetings
Featuring:	Countermeasures team
Customer:	Cabinet Office
Location:	National, UK



The situation:

In 2008, the Prime Minister and his Cabinet embarked on a series of regional public events across the country and also held their full Cabinet meetings in these locations.

They needed to be confident that the venues for their sessions were as secure as Number 10 and they knew that, as the UK National Authority for Counter-Eavesdropping, we could be trusted to provide the comprehensive technical security expertise they needed.

The solution:

Within hours of the initial call, we brought together a team of technical experts who travelled to the location to carry out an exhaustive technical security inspection and vulnerability study of the venue ahead of the meeting.

This meant liaising closely with all parties involved, undertaking a security sweep of the building and making the necessary arrangements for our mobile countermeasures platform to be in position during the session.

The impact:

We have now provided specialist countermeasures support for five regional Cabinet meetings as well as the G20 Summit.

Our team possesses an unrivalled level of technical expertise, developed in the field over the last 60 years and uses the very latest technology to safeguard against even the most sophisticated technical security threats. As such, our customers know that they can rely on us to provide them with the very highest levels of assurance.

“ Our specialist team delivers an unrivalled level of expertise in technical security that even our most high profile customers can rely on.”

Countermeasures team

An Olympic Challenge



Overview:

Maintaining the Queen's Messenger service during the Beijing Olympics

Featuring:

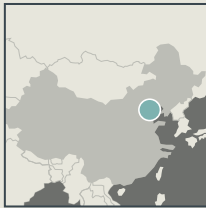
Julie, Head of the Queen's Messengers

Customer:

FCO and other Government Departments

Location:

S E Asia



The situation:

Our Queen's Messengers are the official couriers of classified diplomatic mail, responsible for ensuring the safe passage of classified diplomatic baggage to British Embassies and Consulates around the world. The challenge was to avoid any interruptions to the service during the 2008 Olympic Games, ensuring that all essential deliveries were made on time so that the Embassies could carry out their vital role.

The solution:

Advance planning was key. We started liaising with Posts in Hong Kong, Beijing and across South-East Asia many months in advance, to work out a schedule of visits and guarantee bookings during this very busy period.

The impact:

This was the first time that a schedule had been developed and co-ordinated so far in advance. With the full support of my team, I worked closely with the Embassies overseas to agree the detailed plans. By scheduling and reviewing travel bookings early, we were able to negotiate the lowest fares possible and provide a cost-efficient service.

The result was an uninterrupted and consistent level of service throughout the whole of the Olympic Games. Even with large volumes of classified diplomatic bags being moved through the area, the thorough planning, preparation of schedules and advanced bookings ensured that our Queen's Messengers always delivered on time. Without a co-ordinated team effort, services would have been severely disrupted and Embassies would not have received the vital deliveries they required.

Delivered Safely And Securely



Overview:

A secure mail delivery service for the Legalisation Office

Featuring:

The Secure Logistics team

Customer:

Consular Directorate

Location:

National, UK



The situation:

The FCO's Legalisation Office, who legalise formal documents and provide official confirmation of their authenticity, were relocating to new offices. This meant they would no longer have access to the secure mail services provided within the FCO's central offices in London.

The solution:

The first task for our Mail Services team was to re-direct mail to the new premises. We also set up secure internal mail collection and delivery services between the new office and other FCO locations.

The impact:

With a large volume of confidential or sensitive information, including passports, being sent through the mail system, security was paramount. We worked together with the Legalisation Office's move manager to establish the services they required in the short and long term and to agree how we could best meet their needs.

As a result, we were able to provide specialist support over the move period so that the office could concentrate on providing a full service as usual. Since the move, the services we provide ensure the continued secure delivery and collection of internal mail of all classifications.

The full internal mail system we've set up means the Legalisation Office can carry on sending internal mail across the different FCO sites just as securely as if they were still in central London.

Confidential Waste, Secure Disposal

Overview: Developing our new Secure Disposal offer

Featuring: Pete, Offer Manager

Customer: UK Government departments

Location: National, UK



The situation:

Both public and private sector organisations have a clear responsibility to handle and dispose of sensitive and confidential information securely. At the same time, there are also stringent environmental regulations around the disposal of classified electronic equipment. We saw that there was a gap in the market and we knew that we had the specialist capability to meet our customers' needs.

The solution:

Because environmental considerations are becoming increasingly important, it was an ideal time to introduce a service that ensured the secure transportation, destruction and disposal of classified information and equipment in a more efficient and environmentally friendly way. My role was to research thoroughly market demand and undertake competitor analysis. On the basis of my findings, our account managers developed the service offer and took it to market. Many of our customers took up the service immediately.

The impact:

We now have a full end-to-end secure disposal service, from collection to disposal, that can be tailored to meet our customers' needs. In turn, they benefit from having security cleared logistics specialists delivering a disposal service they can trust.

The destruction process is highly efficient and provides clear tracking and line-of-sight throughout. Importantly, we can provide a complete legal audit trail. The incineration process also meets strict environmental and sustainability targets; the gases produced are cleaned, all residues recycled and electricity is generated as a by-product.

Internally, the process we used to develop our new offer has provided a valuable template for developing other service offerings in the future.



Pete,
Offer Manager

“It’s particularly important to us that our secure disposal service conforms with stringent environmental controls. The recycling process we use even generates electricity.”



20 new technical apprentices

150% increase on 2007/08, so that we can grow our technical expertise for the future

£1.7m

procurement savings

enabling us to operate efficiently and deliver best value for money

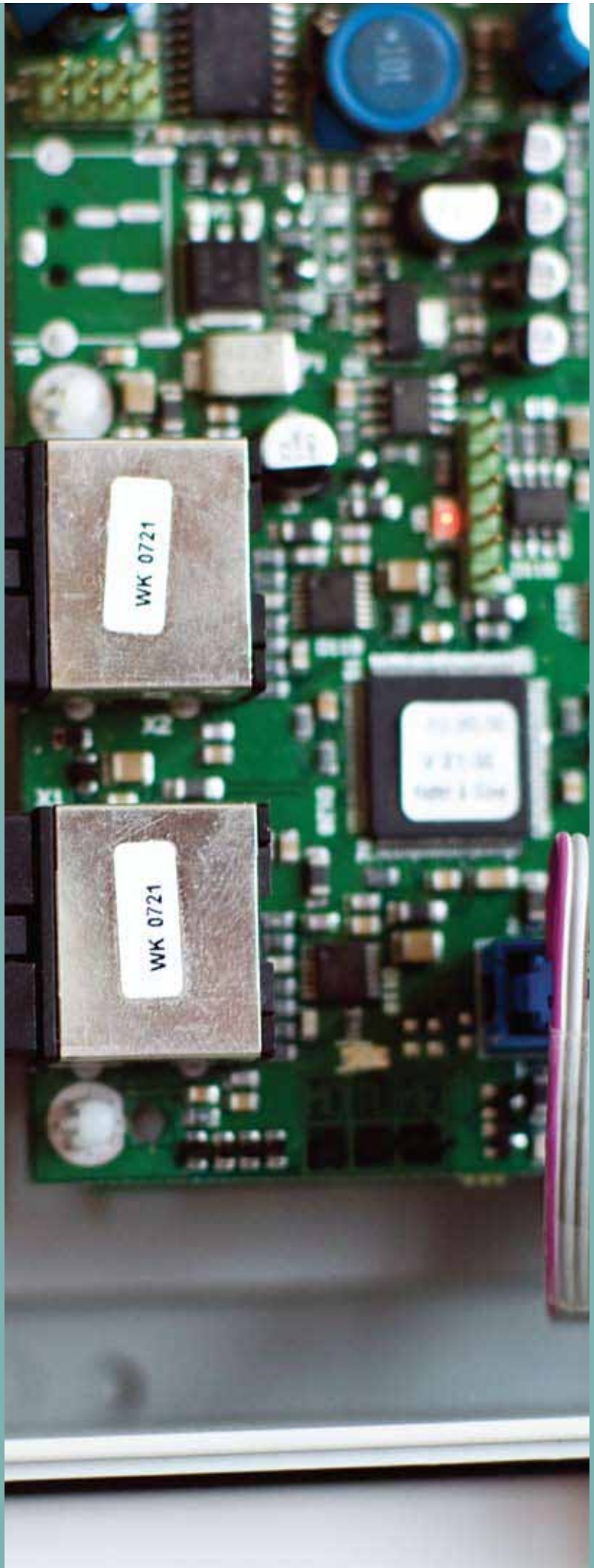
82% of invoices paid within 10 days

enabling us to build strong relationships with our suppliers and deliver efficiently for our customers

Section 2.3

Building For The Future

We have invested in enhancing the expertise of our in-house teams, equipping them with the necessary skills to meet our customers' needs. We continue to embed new business processes and to promote innovation and continuous improvement across all aspects of our operations, to drive improvements in delivery to our customers and ensure our long-term sustainability as a business.



Knowing Who You're Dealing With



Overview: Enhancing our vetting services
Featuring: Geoff, Deputy Head of Vetting
Customer: FCO and other customers
Location: Milton Keynes, UK



The situation:

Security vetting is one of our core specialist services. Government-wide vetting provision is currently undergoing a substantial change and, as one of a small number of organisations selected by the Cabinet Office to deliver national security vetting across government, it was essential that our vetting team should be well prepared to meet the challenges of the future.

The solution:

Our team undertook a major review to understand how we could further enhance the service we provide. As a result, we have implemented a comprehensive change programme that is transforming the way we work as well as safeguarding those elements of our service that create the most value for our customers.

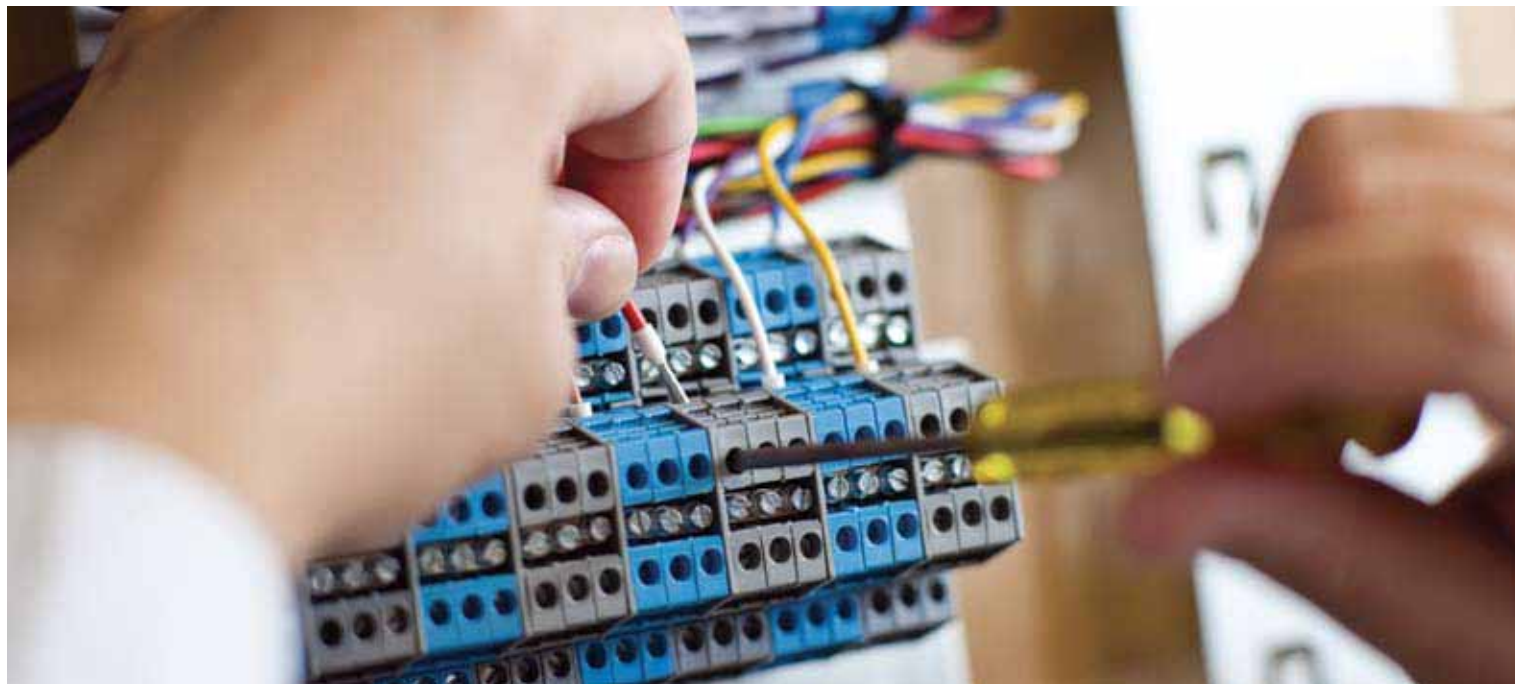
The impact:

Our 'cradle to grave' approach to managing vetting cases has always been popular with our customers. With one experienced Investigating Officer overseeing each case from start to finish, they can be confident that, at every stage in the process, our investigations are comprehensive and our reports are sound.

Through our change programme, we have built on this excellent foundation to ensure that the service we deliver is really tailored to our customers' needs. We produce timely information for customers, providing feedback on the cases in progress, as well as reports on how we're performing against agreed service levels. We have reviewed our structure and practices to streamline the way we work, harnessing new technology to improve our efficiency still further. Through these improvements, our performance results have significantly improved, with real reductions in average clearance processing times.

“ The FCO Services vetting team is reliable and responsive to our needs. We will be renewing our Service Level Agreement with them for another three years.”

*Shirley MacKinnon,
Home Office*



Overview:

Strengthening our health and safety provision

Featuring:

Sanjay, Health & Safety Manager

Customer:

Internal FCO Services operations

Location:

Milton Keynes, UK



The situation:

Previously, we operated under the FCO's health and safety management system, but once we became a Trading Fund, we took responsibility for developing a system tailored to our own specific business needs.

The solution:

As Health & Safety Manager, I was responsible for auditing current compliance levels and using my findings to create an approach to health and safety more closely aligned to our needs as a specialist technical business. Our new system provides improved risk assessments, training, communication, performance monitoring and processes for reporting incidents.

The impact:

Since taking full ownership of our health and safety responsibilities we have made significant improvements in our health and safety awareness, performance and compliance.

A key change has been in education and training, with more than two thirds of the organisation's management, including senior managers and line managers, receiving training on effective health and safety management in this first year. The training is reinforced through a range of feedback forums and opportunities for employees to offer their own ideas and solutions. Health and safety awareness has increased significantly, working practices have improved and staff have welcomed the new approach.

The progress we have made this year has also been recognised externally: FCO Services has recently been awarded the Royal Society for the Prevention of Accidents' (RoSPA) Gold award for Occupational Health & Safety.



*Sanjay,
Health & Safety Manager*

“ With our new proactive approach to health and safety, our staff have the tools and knowledge they need to make their working environment as healthy and safe as it can be.”

Explaining Our Strengths



Overview: Explaining to our customers the services we can offer

Featuring: Emma, Offer Manager

Customer: Internal FCO Services operations

Location: London, UK



The situation:

As 'Offer Managers', we needed to be able to give our customers a comprehensive overview of what our portfolio looked like, so they could make more informed choices about the products and services they needed from us. This meant that we needed to improve the consistency of the way we packaged, sold and delivered our services.

The solution:

We set out to gather an in-depth understanding of the full range of our services, how we delivered them and what truly makes us unique in the marketplace. We spoke to our account managers, suppliers, customers, competitors and service providers out in the business to develop a fully rounded picture that we then distilled into a clear and complementary set of service offers.

The impact:

The new sales pack we have created gives a complete overview of the services we can deliver for our customers. It therefore provides them with greater clarity, explaining the services they can buy from us as well as helping to increase their understanding of the benefits of working with FCO Services.

It has helped us to demonstrate that we are excellent value for money and how we reduce commercial risk for our customers. The overall effect has been to improve customers' confidence in FCO Services as partners.

Since our offers have been more formally defined, customers have shown an increased interest in our services.

It's All In The Data



Overview: Procurement savings through understanding our spend

Featuring: Clare, Category Manager

Customer: Internal FCO Services operations

Location: Milton Keynes, UK



The situation:

As a business, we need to be able to procure as efficiently and cost-effectively as possible. This year, in our Procurement and Contract Management Division, we have undertaken a major review of our processes and our resulting action plan sets out a five-year strategy of improvements and cost-saving targets, together with new ways of working to help us achieve our goals.

The solution:

One key action we took was to change the way we manage our suppliers. We introduced a process that groups suppliers and expenditure into categories, enabling us to analyse our level of spend with different suppliers and our costs with greater rigour. We also installed a new data analysis tool that extracts data from our central system, providing a more in-depth analysis of our spending patterns.

The impact:

The information we can gain from this improved analysis identifies where money can be saved and where we can work more closely with our customers to identify cost savings. As a result, we can renegotiate contracts with key suppliers based on accurate historical data. Significantly we can now use the improved cost comparison data to identify the suppliers that offer best value for money.

Our spend analysis offers us management information at a granular level that we have never benefited from before. With better control of our cost base, we can pass the savings onto our customers, who in turn benefit from our competitive pricing.



Meeting Our Future Information Needs

Overview:	A new strategy to meet our future IS needs
Featuring:	Ronnie, Strategy Co-ordinator, Business Processes
Customer:	Internal FCO Services operations
Location:	Milton Keynes, UK



The situation:

To achieve our business goals, our information systems have to enable the business to operate efficiently and effectively and our IT must be robust and cost-effective. We needed to work out how we could best achieve this.

The solution:

We have embarked on the formulation of an information systems strategy, proposing a timetable of improvement initiatives over the next three years. The strategy will address four key aspects of the business: security, technology, people and business process automation.

The impact:

The approach requires the team to 'deep dive' into each of the four areas to assess our existing technology and identify future requirements. Contributions have come from across our business, gathered by a variety of methods, from interviews to strategy days attended by dozens of staff members. This research has helped us understand these complex areas and carefully plan the most effective way forward.

Our new strategy will ensure that we have access to the tools and technology we need to work more efficiently and deliver an even better service to our customers. It will also give us greater visibility of our business operations through improved management information.

Just as importantly, it will help our staff develop new skills, grow their careers and work in a more flexible and mobile way, enabling us to continue to deliver innovative and robust solutions for our customers.

“We now have the framework for developing the information systems we need to make us more agile as a business and more responsive to our customers' needs.”



*Ronnie,
Strategy Co-ordinator,
Business Processes*



Overview: Investing in our advanced apprenticeship scheme

Featuring: Trevor, Technical Training Apprentice

Customer: Internal FCO Services operations

Location: Milton Keynes, UK



The situation:

FCO Services has recognised an increasing demand both from embassies overseas and from other customers for highly trained security-cleared staff who can use a broad range of technical and specialist skills to meet their changing security needs.

The solution:

FCO Services participates in the Advanced Apprenticeship Scheme through which students follow a three-year specialist development programme. This combines on-the-job training with college study, including overseas placements toward the end of the second year, leading to an NVQ3 and BTEC National Certificate qualification. It is vitally important to develop our in-house technical capability for the future and this year FCO Services has recruited more technical trainees to the apprenticeship scheme than ever before.

The impact:

I'm currently enrolled at Milton Keynes College and am in the second year of my apprenticeship. The scheme gives us the opportunity to develop skills and gain experience in a wide range of roles and eventually to specialise in a field that we find most interesting. The unique opportunity we have to work in embassies overseas gives us a detailed knowledge of the systems and layouts of sites across the world, enhancing our placement prospects when we graduate.

I've gained a lot of confidence from working hands-on with various projects using the technical knowledge I've acquired. It's a steep learning curve, but there are always knowledgeable members of staff prepared to give guidance and support.

It's not just the apprentices who benefit. FCO Services gets a larger pool of qualified people that they can then deploy to carry out a wide range of activities. The scheme also encourages the transfer of new knowledge and skills to in-house staff, enhancing the technical abilities of the workforce as a whole. Our customers also benefit from the added value of having fully qualified and experienced technical staff on site to support their day-to-day operations.

“My apprenticeship in FCO Services was hands on from the word go... with the kind of practical experience at ground level that’s boosted my learning and developed my skills.”



*Trevor,
Technical Training Apprentice*

Solving Problems – Not Just Fixing Them

**Overview:**

Developing best practice problem management capability

Featuring:

Adam, Problem Manager

Customer:

UK Border Agency

Location:

Milton Keynes, UK

**The situation:**

We have always had a defined process for dealing with IT service issues raised by our customers, but we needed to build on this by developing best practice proactive problem management – in other words, pre-empting potential issues before they became a problem.

The solution:

With the support of other members of our IT community, we introduced a new approach to IT problem management, involving a thorough, ongoing analysis of incidents to identify trends and establish the root cause. By applying this approach to IT issues, we can nip problems in the bud and resolve them for good.

The impact:

There has been a significant drop in the number of calls made to our help desk, demonstrating a genuine improvement in our service.

Our customers also benefit from the monthly trend analysis reports that we give them, with detailed information on the number and nature of calls received, together with the root cause analysis. This is produced in collaboration with the incident manager and specialist support team, who share their knowledge and experience of the service to develop and propose corrective actions.

Our new problem management approach now goes even further. By identifying potential weaknesses before they arise, the number of calls is likely to drop further and our customers will be able to spend less time dealing with IT issues and more time on their core activities.



Adam,
Problem Manager

“By taking a proactive approach to IT problem solving, our team is better able to tackle issues before they become critical... heading them off at the pass.”

Maintaining A Healthy Cash Flow

**Overview:**

Improving our credit management

Featuring:

Rachel, Credit Controller

Customer:

Internal FCO Services operations

Location:

Milton Keynes, UK

**The situation:**

The key responsibility of our Credit Control function is to ensure strong cash flows for our business through developing positive relationships with our customers.

The solution:

We have taken a number of initiatives over the last year to achieve this. We took full responsibility for developing new processes to help us understand customer issues and support us in resolving them, keeping cash flowing and customers satisfied.

The impact:

By putting the right tools in place we are better equipped to monitor and manage customer issues efficiently. Producing regular reports for the business has improved awareness of the need for accurate billing and of the impact that queries on our invoices have on customer satisfaction and on our cash flow.

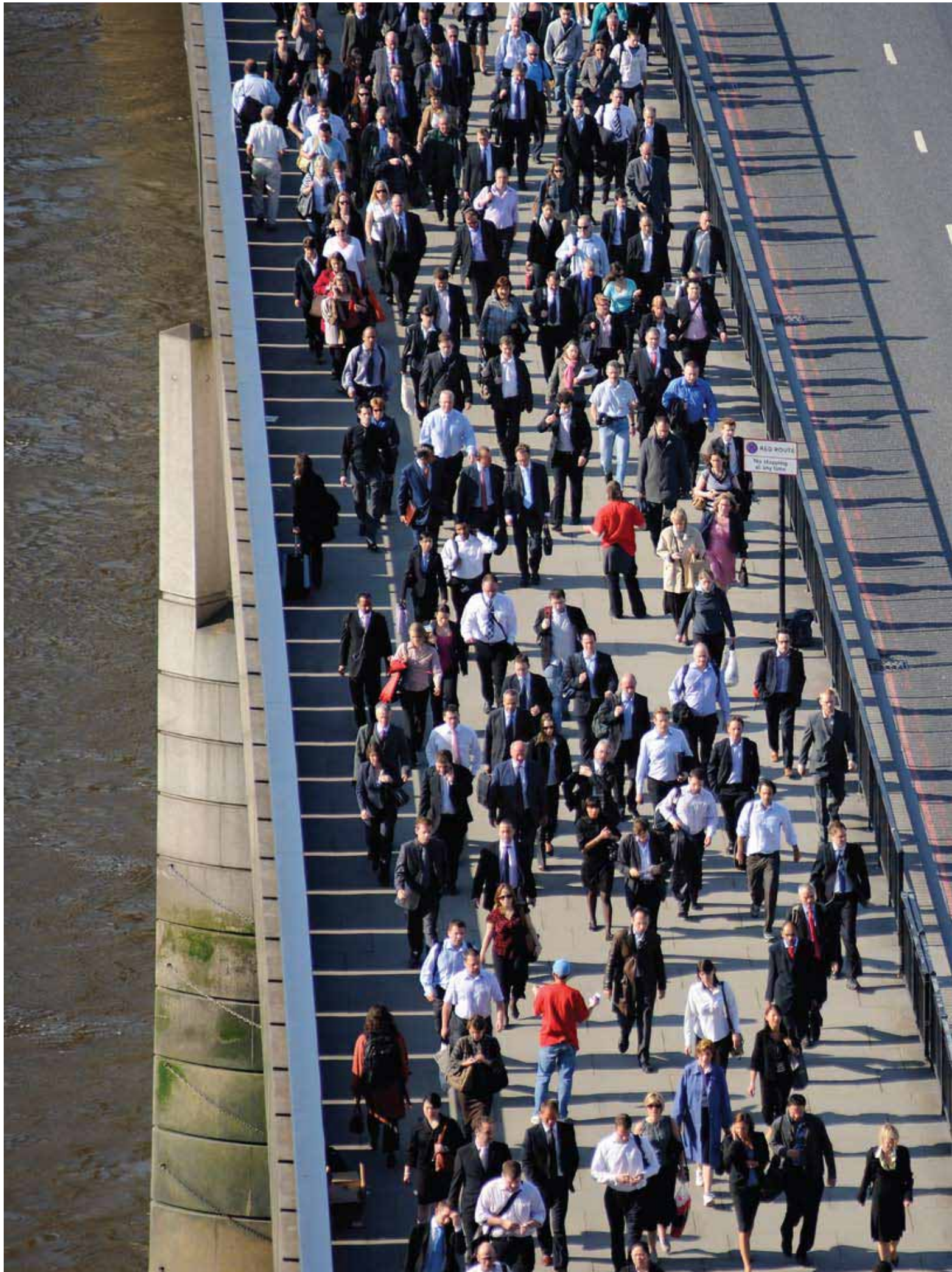
Thorough analysis of all invoice queries and credits raised has helped us understand the reasons behind customer issues and enables us to put preventative measures in place to minimise their recurrence. Our customers benefit from greater clarity of invoices, more accurate billing and more timely identification and resolution of invoice queries. We in turn benefit from more timely payment of invoices.


By the end of the last financial year, the number of bills still unpaid after 60 days was minimal and queried invoices represented just 2% of total debtors, demonstrating the hard work and achievements of the Credit Control team.



*Rachel,
Credit Controller*

“By working with customers, understanding and resolving their issues, we have significantly improved our own cash flow – a true win-win solution!”





The expertise
of our people is
the foundation of
our business and
we invest heavily
in their future
capabilities.

Section 3 Creating A High Performance Organisation

58 Developing Our People:

- Our new Organisation
- Workforce Strategy & Planning
- Diversity & Resourcing
- Rewarding our Staff
- Investors in People
- Health & Safety
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60 How We Engage With Our Staff:

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64 Developing Our Business Capability

66 Our Priorities for 2009/10

Our new Organisation

As part of our move to becoming a more customer- and commercially-focused organisation, we have completed the second stage of our organisation changes.

We have further simplified our structure, aligning it to mirror our interactions with our customers, from business generation, through project completion and on to ongoing operations and support. Our Business Development function, set up in 2007/08, is now successfully established and works closely with the rest of the business to ensure that we identify new customer needs and progress future business opportunities. As part of our drive for continuous improvement in all aspects of our delivery, we are currently developing a more flexible technical skills capability, with the aim of setting up a Technical Services Centre. This will provide greater flexibility in deploying multi-disciplinary teams of technical specialists so that we can deliver the most efficient and effective service to our customers. In addition, we have been reviewing our corporate functions to ensure they are shaped appropriately to meet our governance, financial, management and legal requirements to operate as a Trading Fund.

Workforce Strategy & Planning

We have developed a strategy that identifies the key steps we need to take to attract and retain a capable, diverse, flexible and motivated workforce to deliver our business objectives.

Our strategy is based on a thorough analysis of our workforce and people processes, together with best practice and recent and forecast employment trends. It also reflects our updated Corporate Plan for 2009-2014 as well as our new organisational structure.

We are also developing a behavioural competence framework to identify more clearly and manage more effectively our technical and non-technical workforce, ensuring their development needs are met, building capability in our permanent workforce and allowing us to reduce our dependency on contract and external resources.

We have implemented a workforce planning process which identifies our human resource requirements over a five-year rolling period. This enables us to plan and deliver appropriate skills for the business through internal and external recruitment and through the development of our people. As part of this process, we also have a structured programme for the release of contract staff, which is closely aligned with our process for recruiting permanent staff with the appropriate skills into these roles.

Diversity & Resourcing

We continue to value the many differences our people bring to the workforce in terms of their skills, perspectives and backgrounds and we work hard to ensure our policies reflect their differing needs.

This year we have focused on enhancing the diversity of our workforce through a range of innovative recruitment campaigns to attract high calibre people, in sufficient numbers, with the requisite skills. We continue to focus on developing our own talent with, for example, our highly successful Advanced Apprenticeship Scheme, which saw an intake of 20 trainees in 2008, an increase of 150% on previous years. We actively seek partnership opportunities, such as our collaboration with iCould, a charity aimed at promoting career opportunities to people of all ages, to give ideas, direction, inspiration and hope for the future. Through our involvement we hope to increase awareness of FCO Services by reaching a diverse potential workforce.

Investing in a recruitment applicant tracking system has enabled us to streamline our resourcing process and we can now focus more closely on working with the rest of the business to understand their resourcing needs as well as analyse more accurately the cost effectiveness of our recruitment activity.

We have continued our commitment to the 'Equal Choices for Schools' programme, a local community initiative providing young people from diverse backgrounds with the opportunity to experience the world of work. We are delighted to have won an award this year for Outstanding Commitment to Equal Choices.

We also continue to monitor our diversity statistics and as a result of our external recruitment activity this year, from the offers made, 23% were female, 6% from ethnic minority groups and 6% with a declared disability. We are committed to continuing with this work.

We are also committed to creating and sustaining a culture that values and promotes diversity, including fairness and equality of opportunity for disabled people. We are a member of the 'Two Ticks' Guaranteed Interview Scheme and undertake adjustments where required throughout the recruitment process and the employment of staff with a disability.

Rewarding our Staff

We are implementing our "Total Reward" Strategy for 2008-2012, based on developing pay and related systems that are market-facing, equitable, transparent and affordable and that recognise individual contribution.

In becoming a Trading Fund, we obtained delegated authority from the FCO to determine our own terms and conditions of employment and, as part of this, we successfully negotiated

and implemented a pay award for 2008/09 that met our specific needs as a business. With our business needs in mind, we have also started to review our salary pay band structure, our approach to variable pay and the use of market allowances, our promotion policy and our employee recognition scheme to ensure that they support and are closely aligned with our business goals.

Investors in People

We are currently in a period of continuous assessment to achieve independent accreditation to the Investors in People (IiP) Standard and will undergo an external assessment in October 2009.

We are committed to achieving IiP status in our own right because we believe that well informed, appropriately trained and motivated staff are essential to achieving our business aims. We are currently taking forward a detailed programme of activity across the organisation to support our efforts to achieve accreditation as an Investors in People organisation.

Health & Safety

The health and safety of our people continues to be of the highest priority. We are committed to implementing robust health and safety policies, procedures and standards, to raising awareness of health and safety requirements, and to establishing clear accountability to ensure that those requirements are met.

This year we took forward a comprehensive programme of health and safety related activity. This included setting up a forward-looking health and safety committee under the chairmanship of our health and safety Board Champion, completing a structured programme of risk and safety assessments, rigorously monitoring accident and incident rates and auditing our key operations, including our installation work overseas.

As part of our training and awareness activity, we have also delivered a structured occupational health and safety training programme, training over 200 managers and 150 employees on health and safety issues this year. These initiatives have helped us ensure that we not only comply with our legal obligations but that we continue to drive improvements through our business. Our commitment to health and safety good practice has recently been recognised externally with the Royal Society for the Prevention of Accidents' Gold Award for Occupational Health & Safety.

Learning & Development

We continue to build our commercial, technical, leadership and management skills. This year we have continued to deliver training to embed the use of our commercial and financial processes across the organisation and have re-designed our induction process to align it more closely with our business direction and to enable colleagues new to FCO Services to see more clearly how they fit in.

We have also implemented the Cabinet Office's new 'Protecting Information' e-learning package to ensure we meet our data-handling responsibilities to our customers and the public. We have continued to invest significantly in specialist training for our staff, both via our own in-house IT and Technical Training teams and through procuring the services of external providers. We have delivered a programme of management development to our management community, while a new leadership programme is also in the process of being developed.

“Investing in the skills of our people is vital to our future success. Providing opportunities for our staff to deepen their expertise means that they can reach their full potential and together we can really deliver for our customers.”



Sarah Phelan,
Human Resources Director



Communication and Engagement

We recognise the importance of good two-way communications in building a strong business, with people who understand what the organisation aims to achieve, how they can contribute and how they can benefit.

As we have progressed through a substantial period of change, from being an internal department of the FCO to a commercially-focused Trading Fund, effective communications have been vital in taking our people with us on that journey and helping them understand what this means for them.

Accordingly, in 2008/09, we have continued to focus on developing our programme of communication and engagement. Providing opportunities for regular discussions with managers, staff and trade union colleagues remains central to our communications approach.

We have continued our programme of six-weekly forums with our senior management community and our programme of monthly staff forums to give people the opportunity to discuss topical issues with our Executive Committee.

Workshops and other events also provide a means to canvass views and involve people from across the organisation in activities across the business.

Our overseas community is a key part of our organisation and we ensure they have the opportunity to participate in events through secure video conferencing facilities.

Specific initiatives in 2008/09 have called for targeted communications support to involve staff, develop their understanding and seek their buy-in. These have included promoting health and safety best practice, embedding our new business processes and providing information packs to each member of staff to help them understand what the organisation redesign meant for them.

We have acted on feedback from our people that they prefer to receive information about the organisation through their managers. Accordingly, we have strengthened the support we give to managers, through communications materials and advice and through training activity, so that there is a regular two-way flow of information through the management chain.



Whistleblowing

If we have not received feedback, we have not communicated effectively. We seek the views of our staff through a variety of mechanisms including:

- Communications and training channels;
- Our annual employee opinion survey;
- The 'Investors in People' assessment process.

Feedback over the last year has indicated that our communications are having an impact, with people understanding what we as an organisation are aiming to achieve and the part that they can play, while results from employee opinion surveys show a year-on-year rise in the levels of staff engagement.

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

We encourage them to report any acts that they encounter in the course of their work that they believe to be illegal, improper or unethical.

All approaches are taken seriously and treated in confidence. We will not tolerate the victimisation of anyone who comes forward to raise a genuine concern. The Public Interest Disclosures Act 1998 provides legal protection for employees who make disclosures about suspected malpractice in the workplace.

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



Our customers rely on our technical excellence and ability to deliver to the highest standards in all circumstances. We are recognised as a leading authority in security and we operate successfully in many challenging environments around the world. To meet customer expectations and keep our competitive edge, we need to continuously develop our business capabilities.

Responding to Customer Needs

The ability to serve our customers in a timely, efficient and effective fashion becomes ever more critical as our customer base grows and as we move into ever more competitive environments.

We have therefore transitioned to a new organisational structure that faces up to the market segments in which we operate and which mirrors the customer lifecycle. In doing so, we have broken down old silos and encouraged the organisation to work in new and innovative ways. This has supported us in:

- moving to one way of working with standard corporate processes for all aspects of our work;
- managing our business from the customer's perspective in a client-centric fashion; and
- improving financial efficiency and resource utilisation.

In the coming year we will take further steps, through the development of our Technical Services Centre and Technical Skills Framework. These will enable flexibility in working, and greater effectiveness in delivery through the creation of multi-disciplinary teams and increased transparency in deployment.

Our vetting team in particular delivers services in line with national security vetting standards, deploying best-in-class investigative procedures that are tailored to the needs of our customers. We are working with national security vetting partners across government, helping to shape the Vetting Transformation Programme. We are committed to creating a vetting system that is:

- Faster – decreasing the total time taken to deliver a clearance;
- Smarter – saving money, time and effort through use of common tools and processes by all involved in the vetting process;
- Cheaper – driving productivity improvements through more efficient operations.

A key element of the programme is investment in new IT infrastructure to underpin the vetting process that will enable electronic submission of information through e-forms and the creation of electronic interfaces between vetting providers and information providers. This will allow the reduction of re-keying of information, support better data validation routines and reduce the burden on key information providers.

Investing in Technical Excellence

This year we have developed an enhanced R&D process which will provide a structured approach to the allocation of funding and resources to initiatives that are backed by a sound business case.

We are also focusing on developing our expertise in identifying, managing and exploiting the intellectual assets that are owned or created by the business. R&D will become increasingly important to our business in the coming years and these initiatives, together with the development of specific specialist skill sets, will help keep us at the forefront of technological innovation.

Our work in this area is already delivering results. In our capacity as the UK National Authority for Counter-Eavesdropping we have been working on a joint venture proposal with CESG to develop a new piece of computer security equipment. We have now signed a contract with Thales UK to take forward the design of this equipment and we expect the end result to contribute significantly to the Government's objective of ensuring the security and integrity of electronic information and will help reinforce our position as a key partner across government.

Investing in Our Infrastructure

Improving the service we offer our customers means we have to introduce new ways of working, which in turn makes new demands on our infrastructure. We have therefore continued to invest in developing our systems, processes and accommodation.

In so doing, we have worked to enhance the resilience of our operations, improve the management of risk and provide a better working environment for our people.

We have embedded our standardised commercial processes, supported by the introduction of tailored management information and a targeted programme of training. We have developed our approach to both business continuity planning and risk management, ensuring they are built into our routine management processes. Future evolution of our business processes will be carried out through quality management, ensuring that developments are fully thought through, justified in terms of benefits to the business and implemented in a controlled fashion.

Our Priorities for 2009/10

Our business strategy focuses on meeting our customers' security needs, with the provision of secure IT, estates and logistical services. These are our core strengths and represent areas in which we have specialist technical expertise.

Over the course of 2008/09, we have worked to embed the changes and build the capability required to deliver our strategy. Our priority in 2009/10 will be to ensure that these new capabilities feed through to our customers in improved service provision. We have four priorities...

Meeting Our Efficiency Challenges

Building on the progress we have made in our first year as a Trading Fund, a central commitment in our strategy is to continue to improve the efficiency of our business operations, to enable genuine value for money improvements to be passed on to customers.

Optimising the input costs to the business is being tackled on two fronts. Firstly, we are building expertise and capability in-house, increasing productivity and reducing the use of contracted staff as we do so. Secondly, we are ensuring that the organisation leverages its buying power effectively through strategic procurement, obtaining goods and services at optimum market rates. Driving down our input costs allows us to offer best value and competitive prices to our customers.

A Business in Control

Our first year of operation as a Trading Fund has reiterated the need to develop our commercial skills and competencies as an organisation. We have approached this through developing our processes and tools around customer engagement and the management of commercial risk and developing enhanced management information.

This enables us to offer a consistent, responsive and rapid service to customers while understanding and controlling risk. We plan to build on the foundations we have laid through the introduction of our Technical Services Centre for our project-based staff. This will help us maintain and build the technical expertise we need to meet customer requirements, while also driving further productivity gains and better control of our strategic portfolio.

Enhancing Customer Satisfaction

Improving our customer satisfaction is a second key pillar in our strategy. Through the generation of a defining brand, intelligent offers and optimal pricing of services we are communicating how we add value to our customers.

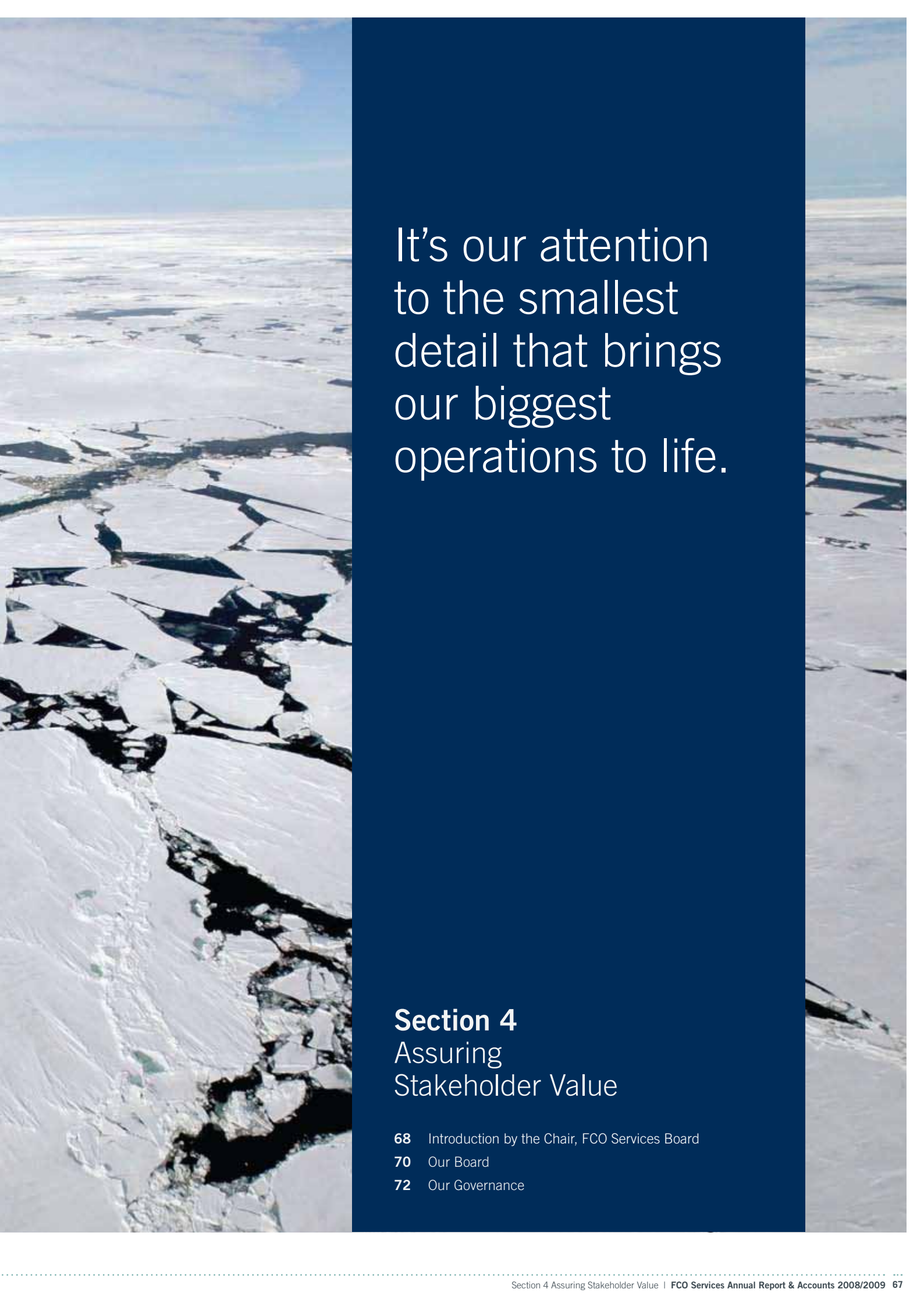
We are committed to delivering improved understanding of and responsiveness to our customers' needs and we plan to develop further our processes and capabilities in this area. We believe that it is only through developing a comprehensive understanding of our customers' needs that we can refine and tailor our services to deliver best value and develop strong customer loyalty.

Developing the Right Skills and Culture

One of the biggest challenges we face is ensuring that our organisation's culture change keeps pace with the rapid changes in the environment around us.

As a service-based organisation, achieving a high degree of employee engagement is a prerequisite for maintaining and improving our customers' experience. Through the development of a revised competency framework and the Technical Services Centre we are committed to valuing and developing the technical expertise of our people, improving flexibility and building a fully engaged workforce.





It's our attention
to the smallest
detail that brings
our biggest
operations to life.

Section 4 Assuring Stakeholder Value

- 68** Introduction by the Chair, FCO Services Board
- 70** Our Board
- 72** Our Governance

As Chair of the FCO Services Board, I congratulate FCO Services on its successful first year as a Trading Fund. It was a far from easy year to make this major change – but FCO Services has come through it with flying colours.

FCO Services' performance in 2008/09 has been impressive in economic conditions which have been extremely challenging. The twin pressures of operating in a more competitive commercial environment and delivering to customers with increasingly tight budgets have required FCO Services to manage itself rigorously, to drive down costs and to attract new business.

The progress made this year shows clearly that FCO Services is maturing as a business and can stand on its own two feet as a viable trading entity. New business processes, introduced over the last financial year, have delivered the benefits we hoped in 2008/09. Some, such as our commercial and cash management processes, have had a direct impact on the financial outturn. Others, such as our management of health and safety, have been recognised with external awards for good practice.

The FCO Services Board has continued to provide oversight and constructive challenge to the Chief Executive and the whole executive team throughout the year. We have worked well together to review and revise FCO Services' five-year Corporate Plan, agreeing more stretching targets for growth, which will enable us to deliver increased value to the FCO and our other customers.

The composition of the Board will change in 2009/10, with the departure of one of our Non-Executive Directors, Mike Hayle. Mike has been closely involved in FCO Services' move to Trading Fund status, firstly as a member of the FCO's Trading Fund Programme Board and then, since 2007, as a Non-Executive Director on our Board.

During that time, we have been fortunate to be able to draw on Mike's valuable experience as a past Chief Executive of a Ministry of Defence Trading Fund and we are grateful for having had the benefit of his insights. Mike is now taking up a new career opportunity with another organisation, which trades in similar markets to FCO Services. Accordingly, we have agreed that Mike will stand down from our Board in June 2009. I would like to take this opportunity to thank him for his sustained commitment to FCO Services and I wish him well for the future.

Our work throughout 2008/09 to strengthen our internal capabilities has not meant any lessening of our focus on our customers. At a time of economic and political turbulence across the globe, security and the threats to it remain a key focus for governments. As High Commissioner to India, I know from last year's attack in Mumbai how threats can materialise at any time. Security – of our people, our buildings and our information – is paramount and the demand for the kind of professionalism and expertise in secure services which FCO Services offers remains strong.



There are many examples throughout this Report which highlight the professional skills of our people. What is also very evident is the ethos, shared by colleagues right across the organisation, of wanting to deliver the very best value to the public. I believe that this combination of expertise and dedication will stand FCO Services in very good stead for the future and the excellent financial results in its first year of trading are an encouraging pointer to long-term success.

A handwritten signature in dark ink, reading "Richard Stagg".

Richard Stagg
Chair, FCO Services Board

“The progress made this year shows clearly that FCO Services is maturing as a business and can stand on its own two feet as a viable trading entity.”

Richard Stagg, Chair, FCO Services Board

Sir Richard Stagg
Non-Executive
Director & Chair



Neil Masom
Non-Executive
Director and Chair of
Audit Committee



David Kogan
Non-Executive
Director



Mike Hayle
Non-Executive
Director



Chris Moxey
Chief Executive and
Accounting Officer



Steven Rymell
Client Delivery
Director and Chief
Information Officer



The FCO Services Board is responsible for the strategic management of the business. Chaired by Non-Executive Director Sir Richard Stagg and comprising the Chief Executive, his Executive Directors and part-time Non-Executive Directors, the Board supports the Chief Executive in taking ownership of the organisation's performance. This includes developing FCO Services' strategic aims and agreeing the broad allocation of resources to achieve them, maintaining a system of prudent and effective controls and management of risk, overseeing organisational performance and encouraging innovation.

David Williams
Operations Director



Nigel Morris
Services and Logistics
Director



Helen Sullivan
Acting Finance
Director



Sarah Phelan
Human Resources
Director



Phil Colley
Interim Business
Development
Director



Kerry Simmonds
Interim Corporate
Services Director



The composition of the Board has changed this year. We welcomed David Williams, Operations Director, to FCO Services and the Board. David brings with him a wealth of experience in a wide variety of operational roles and adds strength to our corporate leadership team.

David has held the positions of Chief Information Officer for PepsiCo's European businesses and Chief Operating Officer of a subsidiary of Accenture. David also undertook a six-month assignment to the Cabinet Office as part of the 2004 Efficiency Review led by Sir Peter Gershon. Most recently, David was a Business Unit Director within Fujitsu Services, responsible for providing outsourced services to the Home Office, Department of Work and Pensions and the former Department of Trade and Industry.

We also welcomed Helen Sullivan to the Board, assuming the responsibilities of Acting Finance Director following Clive Heaphy's resignation from FCO Services. Helen joined FCO Services in 2006 as a finance professional with a strong background of experience in the private sector, including some ten years as Financial Controller in a company specialising in shipping and distribution for the retail trade. She has also worked as Finance Director for an Italian-owned manufacturing company. Most recently, Helen was our Group Financial Controller.

Following Clive Heaphy's departure from FCO Services, the responsibility for Internal Audit was incorporated into the Corporate Services function and, in recognition of the significance of this role in our corporate governance, our interim Corporate Services Director, Kerry Simmonds, became a member of the Board on 1 November 2008.

The membership of the Board will again change for the 2009/10 financial year, with the departure of Mike Hayle, one of our Non-Executive Directors. Mike's involvement with FCO Services began in his role as a member of the FCO's Trading Fund Programme Board, after which he joined the FCO Services Board as a Non-Executive Director in 2007. Mike has taken up a new career opportunity and stands down from the Board in June 2009.



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

Our Chief Executive has ultimate responsibility for the day-to-day management of our organisation. As Accounting Officer, he is personally responsible and accountable to Parliament for the management and organisation of FCO Services, ensuring proper use of public money and the stewardship of its assets. Our Chief Executive is supported in this by three main bodies:

The FCO Services Board

This includes the Chief Executive, Executive Directors and part-time independent Non-Executive Directors. Meeting at least six times per year, the Board is responsible for reviewing FCO Services' strategic agenda, setting our corporate policy and monitoring our performance.

The Audit Committee

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

The Executive Committee

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


To ensure best practice and underpin our commercial focus, we have adopted many of the requirements of the Combined Code which defines the governance requirements for Public Limited Companies. The Board, under the direction of the Chair, has established a performance management process to appraise on an annual basis the Board's overall performance and the overall effectiveness, performance and contribution of individual Board members. The Audit Committee has established a similar process under the direction of its Chair.

“FCO Services has demonstrated its commitment to the highest standards of risk management and control. This augurs well for its long-term success as a Government Trading Fund.”



Neil Masom
Non-Executive Director
and Chair of Audit Committee





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

Section 5 Financial Report & Accounts

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Review of Our Financial Performance

In its first year as a Trading Fund, FCO Services has produced an encouragingly strong financial performance: in absolute terms, compared to the final year as an Executive Agency, revenues and profitability have both improved, with a consequent strengthening of the balance sheet value at the end of the year.

All the formal Ministerial financial Key Performance Indicators have been achieved, including the successful delivery to the Foreign and Commonwealth Office of Comprehensive Spending Review (CSR) savings to the value of £2.2m.

Transferred Activity

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

This has required a re-statement of the 2007/08 financial statements in accordance with FRS6 'merger accounting' rules to value the opening net assets of the Trading Fund and to enable like-for-like comparatives to be shown in the Income and Expenditure Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement, and Notes to the Accounts.

A summary of the impact of this re-statement is detailed in note 20 to the Accounts.

Balance Sheet Restructuring

As part of its establishment as a Trading Fund, certain assets and liabilities were transferred to the Fund from the FCO Services On-Vote Agency in accordance with the FCO Services Trading Fund Order 2008 (SI 2008 No.590) as amended by the FCO Services Trading Fund (Variation) Order 2009 (SI 2009 No.1362).

The restated net assets of the On-Vote Agency immediately prior to becoming a Trading Fund were valued at £12.87m. After surrender of £3.09m cash at bank to the Foreign and Commonwealth Office, the balance of assets and liabilities of £9.78m was funded by Public Dividend Capital of £4.98m and a Vesting Day loan of £4.75m, with the balance of £0.05m comprising the revaluation reserve.

Full details of this balance sheet restructuring, including the repayment terms and interest rates for the Vesting Day loan, are set out in notes 22 and 29 to the Accounts.

In addition, a working capital loan of £10m was received on 1 April 2008 from the Secretary of State for Foreign and Commonwealth Affairs. Repayment terms and interest rates are set out in note 22 to the Accounts.

Financial Outturn 2008/09

Total revenue achieved in 2008/09 was £137.2m, which equates to a growth of £8.4m (6.5%) on the restated revenue of £128.8m in 2007/08.

This can be segmented into FCO revenue (£113.7m), and Wider Market revenue (£23.5m) and means that 83% of revenue has been generated from FCO customers, and 17% from Wider Market customers.

The continued development of non-FCO business is a critical element in the Trading Fund's future strategy.

The organisation continues to seek to create greater resilience and financial sustainability by developing a more diverse customer base.

The Ministerial target for Wider Market growth is set annually and for 2008/09 called for a revenue growth of 10% over last year. This Ministerial target has been achieved.

FCO Services produced an operating surplus for 2008/09, before taking into account interest receivable and payable, of £11.5m, a return of 8.4% on revenue of £137.2m. This compares with a restated operating surplus for 2007/08 of £8.3m, a return of 6.4% on revenue of £128.8m.

Non-Recurring Exceptional Items

In order to assess the underlying performance of the organisation as may be judged by the outturns for the current and previous year, certain adjustments need to be considered in order to facilitate a valid comparison:

Payments in lieu of notice £1.6m:

After eliminating the distorting effect of a significant charge in 2007/08 for payments in lieu of notice to staff in activities which were discontinued during the year, the comparable operating surplus for 2007/08 would have been £9.9m, representing a return of 7.7% on revenue of £128.8m.

Review of Our Financial Performance

Revised implementation of revenue recognition policy £1.5m:

In 2008/09 there has been a change in the way in which the revenue recognition policy has been implemented against some service lines, in particular the management of construction projects.

In previous years, revenue for such projects was only recognised on their practical completion. It was felt that this interpretation of the policy was excessively prudent, and that it did not enable a true reflection of the extent of service activity and performance during the financial year.

In 2008/09 revenue has therefore been recognised on such projects by reference to the stage of completion at the balance sheet date. For those service projects whose outcome could not be estimated reliably, revenue has only been recognised to the extent that costs are deemed to be fully recoverable.

The impact of this change in interpretation in the 2008/09 Income and Expenditure Account is that revenue of £9.3m has been recognised, which previously would have been carried forward as payments on account, and costs of £7.8m have been charged to cost of sales, which last year would have been carried forward as Work in Progress. This has therefore resulted in an increase in the operating surplus for the year of £1.5m.

Overall, the effect of the above adjustments would present the normalised underlying performance of FCO Services as having achieved an operating surplus for 2008/09 of £10m, which represents a return of 7.8% on revenue of £127.9m.

This would directly compare with a potentially enhanced statement of the operating surplus for 2007/08 of £9.9m, representing a return of 7.7% on revenue of £128.8m. This is an encouraging result as it indicates clearly that despite difficult economic conditions in the current year, both revenue and margin levels have been effectively maintained.

Interest Receivable and Payable

Interest of £1m was earned in the year from cash on deposit with the Office of the Paymaster General (2007/08 £nil), and this has exceeded the interest payable on Vesting Day and working capital loans by £0.406m.

After taking into account interest receivable and payable, FCO Services produced a surplus of £11.9m, a net return of 8.7% on revenue.

In the current economic climate, it appears unlikely that the more healthy deposit interest rates enjoyed for the first three quarters of 2008/09 will be available in 2009/10 and therefore the net outturn in 2009/10 will not have the benefit of such a significant amount of interest receivable.

Net Assets

At 31 March 2009, FCO Services' balance sheet showed total net assets of £17.7m against an opening year position (immediately on becoming a Trading Fund) of £5.03m, a positive movement of £12.67m.

These comprise: fixed assets £3m (2007/08 restated £2.3m); stocks and Work in Progress £2m (2007/08 restated £6.6m); cash at bank £38.9m (2007/08 restated £nil); other net current liabilities of £13.5m (2007/08 restated net assets £0.8m) and Vesting Day and working capital loans due after more than one year of £12.7m (2007/08 restated £4.7m).

Cash Generation

The significant increase of £38.9m in cash at bank at 31 March 2009 (from an opening position of £nil) has been generated by the in-year surplus of £11.5m, careful management of working capital resulting in a cash inflow of £17.4m, and the receipt of a £10m working capital loan.

The high level of cash very clearly reflects the impact of the robust measures taken in 2008/09 to improve the management of working capital, particularly in ensuring that Work in Progress is properly funded by our customers, and that credit control procedures are as effective as possible.

Review of Our Financial Performance

Performance Against Formal Ministerial Targets

Long-Term Goal	Short-Term Objective	Key Performance Indicator	Target 2008/09	Result
We will be a financially successful sustainable business	To be a financially successful and commercially sustainable business delivering value through maximising opportunities with the FCO and an expanding Wider Markets customer base	In-year surplus before interest and tax	An in-year surplus of at least £1.3m	£11.5m
		Return on Capital Employed	A Return on Capital Employed of at least 3.5% (weighted average)	101.1%
		Growth in Wider Market revenue	A Wider Market revenue growth of 10% on that achieved in 2007/08, assessed on a normalised baseline	15.3%
We will be an efficient and effective business delivering to customers	To continually improve customer satisfaction in all aspects of our products and service delivery	Customer satisfaction rating derived from an independent, quantitative customer survey	At least 85% satisfied or very satisfied	80%
Processes, efficiency and effectiveness	To be an efficient organisation committed to continuous improvement in operational efficiency	Contribution to FCO's Comprehensive Spending Review commitments by delivering the agreed level of savings	£2m delivered through price stabilisation	£2.2m
	To implement process improvements that enable effective measurement, understanding and control of the business	Utilisation rate of revenue earning staff	At least 65%	75.4%

Review of Our Financial Performance

Financial Performance Targets

FCO Services is measured against three key financial performance measures in 2008/09: in-year surplus; Return on Capital Employed (ROCE); and growth in Wider Market revenue.

In-Year Surplus: Target Achieved

FCO Services has significantly exceeded its formal target of a surplus of £1.3m, achieving a result of £11.5m. This over-performance against budget has been driven by three main factors:

- Firstly, customer demand resulted in significantly higher revenue volumes than expected, with revenue levels being further enhanced by the revised implementation of the revenue recognition policy;
- Secondly, we have begun to see the fruits of our efficiency programmes in the improved rate of utilisation achieved by revenue earning staff, the increasingly effective management of projects, and in improved billing processes, which have ensured that more billable costs are properly captured and invoiced to the customer;
- Thirdly, given the current economic climate and the fact that this was our first year as a Trading Fund, revenue investments have been carefully managed, with a resultant underspend at the end of the year of our corporate expenditure budget.

ROCE: Target Achieved

The Return on Capital Employed is based on the surplus before interest and dividend, expressed as a percentage of average net assets. The result for the year was a ROCE of 101.1% (2007/08 92% restated) compared against a

weighted average target in accordance with HM Treasury guidance of 3.5%. Given the service-based, non-capital intensive nature of the business, ROCE will normally be significantly higher than 3.5%.

The increase in ROCE is a natural function of the increasing level of reserves which have been building steadily as FCO Services has traded successfully for two years as an Executive Agency, and in 2008/09 as a Trading Fund. These reserves will be used to provide future dividend streams to the FCO, after retention of sufficient earnings to safeguard the Trading Fund's financial position and to enable required investments to be made in Capital and Research and Development.

Growth in Revenue from Wider Markets: Target Achieved

Against a normalised baseline for 2007/08 of £12.3m, target growth in Wider Market revenues of 10% produced a new cash target of £13.6m for 2008/09. Against this target, the actual Wider Market revenue achieved, after adjusting for the reclassification of the UK Border Agency from FCO to Wider Market revenue in 2008/09, was £14.2m.

Non Financial Performance Targets

Customer Satisfaction: Target Not Achieved

Our annual independent customer survey showed that 80% of our customers (both FCO and Wider Market) were satisfied or very satisfied. While this may be seen as a positive result, it is below our stretching target of 85% and is a reflection of the fact that as we develop into an increasingly more commercial organisation, our customers' expectations in respect of effective service delivery will naturally become higher.

We have already developed and are beginning to implement an action plan to address specific issues raised in this survey and in particular, are establishing a framework within which we can capture and respond promptly to regular customer feedback throughout the year.

Contribution to FCO Comprehensive Spending Review: Target Achieved

FCO Services has been able to deliver and evidence to the FCO, cash savings of £2.2m based on price stabilisation in respect of services delivered in 2008/09.

Utilisation Rate: Target Achieved

Our utilisation rate target of 65% has been met, with an average, over the year, of 75.4% utilisation being achieved by revenue earning staff. This good result reflects firstly the work done to improve staff compliance with time-recording, thus ensuring that all billable time is captured effectively. Secondly it highlights the increased productivity of fee earners within the business.

Payments from Customers

During the course of the year, we have continued to improve the billing and credit management functions within FCO Services. A new invoice dispute management process has been implemented, which has proved highly successful in capturing disputes in a timely and formal way, and in expediting their resolution. Its success has driven down the value of FCO Services' '60 plus' overdue debt to only £7.2k at the end of March, with the level of total overdue debt being 2.7% (14.3% at the start of the year).

Review of Our Financial Performance

Payments to Suppliers

FCO Services is committed to the prompt payment of bills for goods and services received and has actively engaged in the Prompt Payment initiative, established by the Prime Minister in October 2008. As part of a range of measures aimed at helping suppliers during a period of economic difficulty, this initiative set a new challenge to government bodies to pay all valid supplier invoices no later than ten days from receipt into the correct processing department.

For the period January to March 2009 (the first period for which this target was to be reported formally) FCO Services achieved a success rate of 82%.

Pensions

Information regarding pensions is provided in the Remuneration Report and described in note 4(c). The accounting policy note in the Accounts also refers to the treatment of pensions.

Sickness Absence

The average working days lost per employee due to sickness absence was 5.1 days in 2008/09 and 4.9 days in 2007/08. This compares well with the overall civil service average of 9.3 days in 2008/09 and the slight annual increase may be accounted for by the implementation of improved controls on the reporting and monitoring of absences.

Post Balance Sheet Events

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

Auditors

These accounts have been audited by the Comptroller and Auditor General, whose certificate and report appear on pages 92-93. The total audit fee for 2008/09 is £96k (2007/08 £75k). In addition, fees of £13k have been incurred in respect of a review of the restated Balance Sheet at 1 April 2008 in accordance with IFRS accounting rules.

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

Christopher Moxey

Chief Executive
and Accounting Officer
2 July 2009

Remuneration Report

This report provides details of the remuneration, compensation payments, service contracts and pensions of FCO Services Board members for the year ended 31 March 2009. The Board is comprised of both Non-Executive and Executive Directors and the relevant disclosures of each are set out below.

Remuneration Policy for Senior Civil Servants

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

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

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

- individual performance, capability and competence as demonstrated through delivery.

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

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

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

Service Contracts for Executive Directors who are Civil Servants

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

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

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

Clive Heaphy (Finance Director) resigned with effect from 8 October 2008.

Helen Sullivan was appointed on a one-year contract on 9 October 2008 as Acting Finance Director.

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

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

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

David Williams (Operations Director) was appointed on 10 November 2008 on an open-ended appointment until retirement.

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

Service Contracts for Executive Directors who are not Civil Servants

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

Catesby Interim Ltd provided the services of **Kerry Simmonds**, who was appointed as Interim Director of Corporate Services from 1 November 2008.

Remuneration Report

Executive Members' Remuneration

	2008/09		2007/08	
	Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
Phil Colley ^(note 1)	–	–	–	–
Clive Heaphy (until 08/10/08)	60-65 (105-110 full year equivalent)	Nil	100-105	Nil
Nigel Morris	80-85	Nil	40-45 (75-80 full year equivalent)	Nil
Christopher Moxey	145-150	Nil	130-135	Nil
Sarah Phelan	105-110	Nil	75-80 (85-90 full year equivalent)	Nil
Steven Rymell	115-120	Nil	100-105	Nil
Kerry Simmonds ^(note 2) (from 01/11/08)	–	–	–	–
Helen Sullivan (from 09/10/08)	30-35 (65-70 full year equivalent)	Nil	N/A	N/A
David Williams (from 10/11/08)	40-45 (100-105 full year equivalent)	Nil	N/A	N/A

The above table and notes have been subject to audit.

Note 1. Veredus Interim Management provided the services of Philip Colley and the total fees paid to the Agency amounted to £140k-£145k (2007/08: £120k-£125k); this equates to £180k-£185k for a full year (2007/08: £170k-£175k). Comparator restated to exclude VAT that was irrecoverable in 2007/08.

Note 2. Catesby Interim Ltd provided the services of Kerry Simmonds and the total fees paid amounted to £70k-£75k (2007/08: £nil); this equates to £145k-£150k for a full year (2007/08: £nil).

Salary

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

Benefits in Kind

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

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

Remuneration Report

Executive Members' Pension Benefits

	Accrued pension at age 60 as at 31/03/09	Related lump sum as at 31/03/09	Real increase in pension at age 60	Real increase in lump sum at age 60	CETV at 31/03/09	CETV at 31/03/08	Real increase in CETV
	£000	£000	£000	£000	£000	£000	£000
Phil Colley ^(note 1)	–	–	–	–	–	–	–
Clive Heaphy (until 08/10/08)	5-10	–	0-2.5	–	98	90	7
Nigel Morris	25-30	80-85	0-2.5	0-2.5	630	597	17
Christopher Moxey	5-10	–	0-2.5	–	100	63	27
Sarah Phelan	0-5	–	0-2.5	–	56	36	16
Steven Rymell	0-5	–	0-2.5	–	52	23	20
Kerry Simmonds ^(note 1)	–	–	–	–	–	–	–
Helen Sullivan (from 09/10/08)	0-5	–	0-2.5	–	71	–	15
David Williams (from 10/11/08)	0-5	–	0-2.5	–	6	–	5

The above table and note has been subject to audit.

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

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a 'final salary' scheme (classic, premium or classic plus) or a 'whole career' scheme (nuvos).

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail

Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three

years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos, members build up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March), the member's earned pension account is

Remuneration Report

credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) their pension for a lump sum up to the limits set by the Finance Act 2004.

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

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

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

Cash Equivalent Transfer Values

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

the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real Increase in CETV

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

Non-Executive Directors

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

The Non-Executive Directors are appointed by the FCO Services Chief Executive in his capacity as Accounting Officer on fixed appointments. Their remuneration and terms are agreed at the time of their appointment, which is normally for three years with the option to be extended under

mutually agreed terms. No compensation is payable for early termination.

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

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

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

Michael Hayle, until 30 June 2009.

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

Neil Masom (Chair of the Audit Committee) was renewed on 1 April 2008 on a 16-month contract as a Non-Executive Director.

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

Remuneration Report

Remuneration Payments to Non-Executive Directors

	2008/09	2007/08
	£000	£000
Sir Richard Stagg ^(note 1)	–	–
Michael Hayle (until 30/06/09)	10-15	0-5
David Kogan	10-15	0-5
Neil Masom	10-15	10-15

The above table and note has been subject to audit.

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

Christopher Moxey

Chief Executive
and Accounting Officer
2 July 2009

Statement on Internal Control

1. Scope of Responsibility

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

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

As Chief Executive of FCO Services, I am accountable to the Secretary of State for Foreign Affairs for the performance of FCO Services, in accordance with the Framework Document and our Corporate and Business Plans.

2. The Purpose of the System of Internal Control

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

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

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

- manage the risks efficiently, effectively and economically.

The system of internal control has been in place in FCO Services for the year ended 31 March 2009 and up to the date of the approval of the Annual Report & Accounts and accords with HM Treasury guidance.

3. Capacity to Handle Risk

As Accounting Officer, I am personally responsible for ensuring that FCO Services has an effective risk management process, including the regular review and updating of risk registers.

We have a documented risk approach that follows HM Treasury's guidance on risk management and processes, defines what is meant by risk and risk management and outlines the key principles underpinning our approach to the management of risk.

During the year, we continued to make good progress in implementing a common risk framework across FCO Services and embedding it throughout the organisation through a series of training and workshop sessions.

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

Our staff are trained appropriately and have access to policies and guidance through our intranet. There is a clearly defined and controlled procedure available to risk owners and managers to escalate risks should it be necessary.

The corporate risks register is reviewed regularly by the Executive Committee, the FCO Services Board and the Audit Committee in order to ensure that it remains up-to-date, relevant and that controls are strengthened in areas of greatest exposure.

4. The Risk and Control Framework

Our strategy for risk management is designed to achieve a cost-effective balance between mitigation and acceptance of risk. We recognise that no successful business operates without taking some risks and that consistently successful businesses take risks in an informed and considered way, understanding the likelihood and impact of risk occurrence.

We are developing a Risk Management Framework that promotes the identification, quantitative assessment, management and reporting of risks in a way that clearly identifies the 'risk appetite' that the business is willing to accept. This approach will enable the business to understand the risks it faces and respond in an appropriate manner.

Senior management has responsibility for embedding a consistent risk and control framework throughout the organisation. The Executive Committee has identified, assessed and recorded in a risk register the key risks that we consider threaten the achievement of FCO Services' main objectives and its ability to prosper as a business. Each identified risk was allocated to an appropriate Director and/or Senior Manager to own and manage.

Statement on Internal Control

During 2008/09, we started to implement a 'top down and bottom up' approach to risk identification to ensure completeness of risks identified. To ensure the consistency and quality of our risk data, we have developed a set of processes, currently being tested, to standardise the approach we take to managing risk. This approach ensures that:

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

To support the implementation, we have established a Joint Risk review and Management Panel, a business-wide body, to ensure the effective management of risks and issues below the corporate level. Its primary purpose is to provide independent assurance to the Executive Committee and the Audit Committee that risks and issues are being effectively managed.

The panel acts as a control mechanism within the Risk Management Process and is a communications mechanism that enables risk information to be transmitted across the business in a commonly understood format and to a commonly agreed quality standard.

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

Key elements of our framework of control include:

- an Executive Committee that meets regularly to consider the strategic direction and key monitoring information for FCO Services and which reviews corporate risks on a bi-monthly basis;
- an Audit Committee that considers all aspects of internal control, including the consideration of reports from the internal and external auditors and regular reports from Directors and senior managers on operational and financial aspects of their activities;
- an annual process of budget setting through the Business Plan;
- monthly monitoring of key performance measures and indicators, including a comprehensive pack of trading accounts;
- a tri-annual business review of operational and financial performance;
- a system of cascaded delegations supported by a clear mandate letter and enforced through system controls;

- project management controls designed to ensure the effective management of key programmes and projects using project management methodologies and intranet based tools.

FCO Services is committed to protecting and using its information securely and effectively, in compliance with its legal obligations and with the standards and requirements set out by the Cabinet Office. The Executive Committee recognises its responsibility in providing leadership and promoting a culture of information security awareness throughout FCO Services. The Senior Information Risk Officer is a Board member and Directors have been made accountable and responsible for their information assets. FCO Services is either compliant with, or on schedule to be compliant with, the mandatory requirements on information security and assurance that are set out in the Security Policy Framework.

5. Review of Effectiveness

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

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the FCO Services Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Statement on Internal Control

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

- Executive Committee members: I usually meet weekly with the other members of my executive team to consider and discuss the Trading Fund's operational plans and objectives and to discuss day-to-day management issues;
- The FCO Services Board: which comprises a Non-Executive Chair, a further three independent Non-Executive Directors and Executive Committee colleagues. We meet at least six times a year to discuss the Trading Fund's strategy and performance, risks and progress on major projects;
- The Audit Committee: this is chaired by an independent Non-Executive Director. The Audit Committee meets at least four times a year, usually with both Internal and External Auditors present, to receive and respond to reports, to consider and advise me on the appropriateness of our corporate governance and internal control arrangements and to review the financial statements;
- Annual Assurance Statements: members of my Executive Team conduct self-audits and are required to give me documented assurances regarding compliance with their operational risk management and internal control responsibilities;
- Financial Control Framework: this is in place to ensure the integrity of the financial information received and the adequacy of the financial process;
- Internal Auditors: The Head of Internal Audit was appointed on 1 April 2008. The FCO Internal Audit Department (IAD), supported by PricewaterhouseCoopers (PwC), undertake internal audits to Government Internal Audit Standards and provide regular reports and an overall annual opinion on risk management, control and governance within FCO Services;
- External Auditors: the National Audit Office (NAO) which provides internal control comments in its management letters and other reports; and
- Other specific risk reviews: these include health and safety reviews, OGC Gateway reviews of certain projects and commissioned third party reviews of certain policies and processes.

6. Review of Internal Controls

During 2008/09, the systems of internal control have strengthened such that most of the risks referred to in last year's Statement on Internal Control have been brought under effective control. In particular, the ability to comply with government accounting regulations and ensure integrity in our accounting systems, the control of cash resources and workforce planning are all considered to be fully effective.

Our first year of operation as a Trading Fund has reiterated the need to develop commercial skills and competencies. New emphasis has been placed on key processes supporting customer engagement, the management of commercial risk, billing, debt collection and time recording.

During the year considerable effort (including new process guidance, an extensive training programme and improved management information) has been devoted to building new skills and improving compliance, particularly in the area of project management. Recruitment of high calibre people with commercial skills has reinforced this overall cultural change and significant improvements in process compliance have resulted.

Health and safety awareness throughout the business has been raised significantly and a robust health and safety control framework has been put in place. Increased resources have been devoted to maintaining the framework and to setting and improving standards. Our track record compares well with industry benchmarks and the control environment is considered to be good.

Further progress has been made in developing appropriate, accurate and timely management information to support our operations. Standards of financial and HR reporting are considered to be high and work continues to improve standards in project and procurement data to ensure that strategic objectives are met and the business fully controlled.

Following the discovery of a misuse of the corporate credit card, we have carried out a complete review of the processes and controls around the validation of corporate credit card expenditure. New monitoring reports and escalation procedures have been introduced, training material and user guidance revised, and sanctions against non-compliant users implemented. A systems-based audit has since been carried out by Internal Audit, which has reported there are satisfactory controls in place to prevent or detect misuse of the corporate credit card.

Statement on Internal Control

A major programme of work to meet the mandatory measures relating to information management set by the Cabinet Office has been undertaken during 2008/09. Internal policies and procedures to support and promote awareness of data handling and information risk have been implemented. We will continue to improve our practices through continued staff training and education and the implementation of robust business processes and practices.

7. Significant Control Issues

During 2008/09 we have made good progress in establishing an effective Business Continuity Framework which enables us to respond effectively to business interruption events.

In line with BS25999:2, we have in place a Business Continuity Policy, Strategy and Business Impact Assessment. We have developed our response plans and we are implementing mitigating actions towards embedding resilient business processes.

There is still more to do to implement and test our plans and tests will be carried out during the course of this year. A programme of staff training and communications has been established and this work will continue throughout the year.

Following a full fixed asset verification exercise in January 2009, it was discovered that the proper approval and accounting process had not been followed in respect of the acquisition of a number of fixed assets in a particular business area. This had resulted in a significant value of fixed assets (£948K) not having been capitalised and included on the fixed asset register.

We recognise that this highlighted a weakness in the internal controls around capital items in this business area. As a result we have reviewed, strengthened and documented the control processes around fixed assets, and undertaken specific training to raise awareness and improve understanding of the capitalisation policy and process.

Considerable progress has been made during the year to strengthen the framework of internal control and overall my review indicates that, subject to the issue mentioned above, there were no significant control weaknesses identified during the year and that this is consistent with the advice I have received from the Head of Internal Audit.

Christopher Moxey
Chief Executive
and Accounting Officer
2 July 2009

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

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

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

The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Trading Fund and of its income and expenditure, total 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 financial statements;
- prepare the financial statements on a going concern basis.

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

Christopher Moxey
Chief Executive
and Accounting Officer
2 July 2009

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

I certify that I have audited the financial statements of FCO Services for the year ended 31 March 2009 under the Government Trading Funds Act 1973.

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

Respective responsibilities of FCO Services, the Chief Executive/Accounting Officer and the auditor

FCO Services and the Chief Executive as Accounting Officer are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder.

I report to you whether, in my opinion, the information, which comprises the 'Creating A High Performance Organisation', 'Assuring Stakeholder Value' and 'Financial Report & Accounts', included in the Annual Report, is consistent with the financial statements. I also report whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

I review whether the Statement on Internal Control reflects FCO Services' compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of FCO Services' 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 remaining parts of the Annual Report and the unaudited part of the Remuneration Report. 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 opinions

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 FCO Services and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to FCO Services' 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.

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Funds Act 1973 and directions made thereunder by HM Treasury, of the state of FCO Services' affairs as at 31 March 2009 and of the surplus, total recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder; and
- information, which comprises of the 'Creating A High Performance Organisation', 'Assuring Stakeholder Value' and 'Financial Report & Accounts', included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS
6 July 2009

Income and Expenditure Account

for the year ended 31 March 2009

	Note	2008/09 £000	Restated 2007/08 £000
Turnover	2	137,205	128,777
Cost of sales	5(a)	(92,868)	(89,948)
Gross surplus		43,337	38,829
Operating expenses	5(a)	(32,797)	(30,490)
Operating surplus		11,540	8,339
(Loss) / profit on disposal of fixed assets		(46)	5
Surplus on ordinary activities before restructure costs, interest and dividend payable		11,494	8,344
Restructure costs	5(b)	–	(254)
Surplus on ordinary activities after restructure costs before interest and dividend payable		11,494	8,090
Interest receivable	6	999	–
Interest payable	7	(593)	–
Net interest		406	–
Surplus on ordinary activities before dividend payable		11,900	8,090
Dividend payable	8	(207)	–
Cost of capital credit	8	–	1
Retained surplus for the financial year	17	11,693	8,091

All income and expenditure are derived from continuing operations.

On 1 April 2008, FCO Services was established as a Trading Fund (see note 29).

Comparative figures relate to FCO Services' final year as an On-Vote Agency, excluding the transferred activity (see note 20).

The notes on pages 98-115 form part of these accounts.

Statement of Total Recognised Gains and Losses

for the year ended 31 March 2009

	Note	2008/09 £000	Restated 2007/08 £000
Surplus for the financial year		11,693	8,091
Unrealised net surplus on revaluation of tangible fixed assets	18	32	11
Total recognised gains and losses relating to the year		11,725	8,102

All income and expenditure are derived from continuing operations.

On 1 April 2008, FCO Services was established as a Trading Fund (see note 29).

Comparative figures relate to FCO Services' final year as an On-Vote Agency, excluding the transferred activity (see note 20).

The notes on pages 98-115 form part of these accounts.

Balance Sheet

as at 31 March 2009

	Note	31/03/09 £000	Restated 31/03/08 £000
Fixed assets			
Intangible assets	9	147	–
Tangible assets	10	2,857	2,332
		3,004	2,332
Current assets			
Stocks and Work in Progress	11	2,055	6,634
Debtors	12(a)	22,276	31,528
Cash at bank and in hand	13	38,889	–
		63,220	38,162
Creditors (amounts falling due within one year)	14(a)	(35,765)	(30,708)
Net current assets		27,455	7,454
Total assets less current liabilities		30,459	9,786
Creditors (amounts falling due after more than one year)	22	(12,754)	(4,754)
Net assets		17,705	5,032
Capital and reserves			
Public Dividend Capital	15	4,981	4,981
General reserve	16	948	–
Income and expenditure account	17	11,693	–
Revaluation reserve	18	83	51
		17,705	5,032

On 1 April 2008, FCO Services was established as a Trading Fund (see note 29).

Comparative figures relate to FCO Services' final year as an On-Vote Agency, excluding the transferred activity (see note 20).

The notes on pages 98-115 form part of these accounts.

Christopher Moxey
Chief Executive and
Accounting Officer
2 July 2009

Cash Flow Statement

for the year ended 31 March 2009

	Note	2008/09 £000	Restated 2007/08 £000
Net cash inflow / (outflow) from operating activities	19(a)	28,830	(11,380)
Return on investments and servicing of finance			
Interest paid		(301)	–
Interest received		990	–
Net return on investments and servicing of finance		689	–
Capital expenditure	19(c)	(630)	(301)
Net Cash inflow / (outflow) before financing		28,889	(11,681)
Financing inflow	19(d)	10,000	2,386
Increase / (decrease) in cash in the period		38,889	(9,295)

On 1 April 2008, FCO Services was established as a Trading Fund (see note 29).

Comparative figures relate to FCO Services' final year as an On-Vote Agency, excluding the transferred activity (see note 20).

The notes on pages 98-115 form part of these accounts.

Notes to the Accounts

2008/2009

1. Accounting policies

1.1 Basis of accounting

These financial statements have been prepared in accordance with an Accounts Direction dated 18 December 2008, in accordance with section 4(6)(a) of the Government Trading Funds Act 1973, which requires the Trading Fund to comply with the accounting principles and disclosure requirements of the 2008/09 Government Financial Reporting Manual (FReM), the Companies Act 1985 and Trading Funds Accounts Guidance, as issued by HM Treasury. The accounting policies contained in the FReM follow generally accepted UK accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

1.2 Accounting convention

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

1.3 Turnover

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

1.4 Dividend

An annual statutory dividend is payable to the Foreign and Commonwealth Office. The charge is calculated at a rate set by HM Treasury on the average capital employed during the year less interest on the Vesting Day loan. A discretionary dividend may be paid to the Foreign and Commonwealth Office after taking into account the future investment needs of the Trading Fund.

1.5 Value added tax

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

1.6 Operating leases

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

1.7 Stock, Work in Progress and long-term contracts

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

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

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

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

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

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

1.8 Transfer of assets and liabilities and comparative figures

On 1 April 2008, FCO Services was established as a Trading Fund. For comparison purposes, figures relating to the final year as an Agency have been provided. Those comparative figures are restated to exclude the transfer of Home Estates Services to the Foreign and Commonwealth Office on 1 April 2008 (see note 20).

1.9 Fixed assets and depreciation

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

Notes to the Accounts

2008/2009

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.

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

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

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

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

1.10 Intangible assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £3,000 or more is incurred. Except where reliable evidence of 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.

1.11 Research and development policy

Expenditure on research and development is treated as an operating charge in the year in which it is incurred.

1.12 Bad debts provision

A formal review of debtors is carried out and specific provision is made for any debts where recovery is considered to be doubtful.

1.13 Provisions

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

1.14 Pension costs

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

1.15 Foreign exchange gains and losses

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

1.16 Financial instruments

Financial assets and financial liabilities are recognised when FCO Services becomes a party to the contractual provisions of the financial instrument. When financial assets and financial liabilities are recognised initially, they are measured at fair value, being the transaction price plus directly attributable transaction costs, or in the case of financial assets or financial liabilities not at fair value, through the Income and Expenditure Account.

Short-term receivables and payables are measured at the original invoice amount where the effect of discounting is immaterial.

Public Dividend Capital is not an equity instrument as defined in FRS 25 Financial Instruments.

Notes to the Accounts

2008/2009

2. Turnover

	2008/09 £000	Restated 2007/08 £000
Foreign and Commonwealth Office	113,749	116,269
Other UK Government bodies and other organisations	23,456	12,508
	137,205	128,777

3. Segmental reporting

FCO Services is organised on three service delivery providers: Client Delivery, Operations and Services & Logistics:

Client Delivery Group manages all commercial and delivery aspects of multiple, project-based programmes, including installations, ICT projects and technical architecture and project management construction.

Operations Group delivers global secure technical services, property management, technical security and ICT operations services across the UK and internationally.

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

	Client Delivery £000	Operations £000	Services & Logistics £000	2008/09 Total £000
Turnover	73,836	41,015	22,354	137,205
Cost of sales	(52,714)	(25,229)	(14,925)	(92,868)
Gross surplus	21,122	15,786	7,429	44,337
Operating expenses	(15,478)	(12,573)	(4,746)	(32,797)
Operating surplus	5,644	3,213	2,683	11,540

Notes to the Accounts

2008/2009

4. Staff numbers and costs

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

Staff numbers	Permanent	Other*	2008/09 Total	Restated 2007/08 Total
Operations	748	246	994	1,032
Sales & Marketing	24	7	31	27
Corporate Services	88	30	118	90
	860	283	1,143	1,149

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

Staff numbers	Permanent £000	Other* £000	2008/09 Total £000	Restated 2007/08 Total £000
Salaries / Agency staff and Fee Paid Officers	34,104	24,474	58,578	58,697
Social Security costs	2,304	–	2,304	2,493
Other pension costs	5,232	–	5,232	5,379
	41,640	24,474	66,114	66,569

*Other comprises Agency staff and Fee Paid Officers.

4(c) Pensions

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but FCO Services is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Details are in the resource accounts of the Cabinet Office: Civil Superannuation www.civilservice-pensions.gov.uk

For 2008/09, employers' contributions of £5,461,000 were payable to the PCSPS (2007/08 £5,469,000) at one

of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions usually every four years following a full scheme valuation. From 2009/10, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2008/09 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account and a stakeholder pension

with an employer contribution. Employers' contributions of £7,000 (2007/08 £13,000) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £400 (2007/08 £700), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Notes to the Accounts

2008/2009

note 4(c) continued

Contributions due to the partnership pension providers at the balance sheet date were £nil (2007/08 £nil). Contributions prepaid at that date were £nil (2007/08 £nil).

In the 12 months to March 2009 one (2007/08 one individual) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £3,000 (2007/08 £600).

5. Cost of sales, operating expenses and restructure

5(a) Cost of sales and operating expenses

	2008/09			Restated 2007/08		
	Cost of sales £000	Operating expenses £000	Total £000	Cost of sales £000	Operating expenses £000	Total £000
Staff costs	25,581	16,059	41,640	27,772	15,715	43,487
Agency staff and Fee Paid Officers*	21,041	3,433	24,474	19,840	3,242	23,082
Training and recruitment	51	1,649	1,700	41	1,319	1,360
Travel	11,921	2,617	14,538	7,206	1,582	8,788
Contractors*	4,103	–	4,103	6,179	–	6,179
Consultants	–	2,409	2,409	–	447	447
Communications	846	1,035	1,881	2,065	2,524	4,589
Supplies, services & facilities management**	13,060	3,683	16,743	14,522	4,096	18,618
Work in Progress decrease / (increase)	5,186	–	5,186	(54)	–	(54)
Freight	6,399	–	6,399	7,615	–	7,615
Maintenance	3,461	812	4,273	3,684	864	4,548
Operating leases	–	7	7	–	16	16
Accommodation charges***	341	534	875	344	538	882
(Profit) / loss on exchange	–	(18)	(18)	–	15	15
Other	–	454	454	–	52	52
Depreciation	869	14	883	718	5	723
Impairment losses on fixed assets	9	–	9	16	–	16
Auditors' remuneration and expenses (no non-audit work)	–	109	109	–	75	75
Total costs	92,868	32,797	125,665	89,948	30,490	120,438

*Agency Staff, Fee Paid Officers, and contractors charged to cost of sales are fee-earning.

**Includes £2,927,000 in respect of management charges from the FCO (2007/08 £ 2,723,000).

***Accommodation charges are payable to the FCO.

Notes to the Accounts

2008/2009

5(b) Restructure cost

	2008/09 £000	Restated 2007/08 £000
Restructure cost	–	254

The restructure cost related to the cessation of certain activities in 2007/08.

6. Interest receivable

	2008/09 £000	Restated 2007/08 £000
Bank deposit interest	999	–
	999	–

This relates to interest receivable from deposits held with HM Paymaster General.

7. Interest payable

	2008/09 £000	Restated 2007/08 £000
Working capital loan interest	401	–
Vesting Day loan interest	192	–
	593	–

Interest is payable at a fixed rate to the Foreign and Commonwealth Office (see note 22).

Notes to the Accounts

2008/2009

8. Dividend payable / Cost of capital

	2008/09 £000	Restated 2007/08 £000
Dividend payable	207	–
Cost of capital credit	–	(1)
	<hr/>	<hr/>

The dividend is payable to the Foreign and Commonwealth Office. The prior year comparative was a notional cost of capital credit.

9. Intangible fixed assets

	Assets under construction £000	Software £000	Total £000
Cost or valuation			
At 1 April 2008 (restated)	–	–	–
Additions	–	55	55
Transferred from tangible fixed assets	106	–	106
Assets brought in to use	(106)	106	–
Disposals	–	–	–
Impairments	–	–	–
Revaluation	–	–	–
	<hr/>	<hr/>	<hr/>
As at 31 March 2009	–	161	161
Depreciation			
At 1 April 2008 (restated)	–	–	–
Provided during the year	–	14	14
Disposals	–	–	–
Impairments	–	–	–
Revaluation	–	–	–
	<hr/>	<hr/>	<hr/>
As at 31 March 2009	–	14	14
Net book value			
	<hr/>	<hr/>	<hr/>
As at 31 March 2009	–	147	147
As at 31 March 2008 (restated)	–	–	–
	<hr/>	<hr/>	<hr/>
Owned as at 31 March 2009	–	147	147
	<hr/>	<hr/>	<hr/>

Notes to the Accounts

2008/2009

10. Tangible fixed assets

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

A full review of fixed assets was undertaken and this resulted in the identification of unaccounted fixed assets (£948,000) at 1 April 2008. These have been included in additions and were valued on the basis of existing use, by senior management, as specialist knowledge was required.

All assets have been revalued at 31 March 2009 using appropriate indices.

Notes to the Accounts

2008/2009

11. Stocks and Work in Progress

	2008/09 £000	Restated 2007/08 £000
Raw materials and consumables	1,479	965
Work in Progress*	576	5,669
	<u>2,055</u>	<u>6,634</u>

*Included within Work in Progress is £434,000 in respect of the FCO (31 March 2008 £5,562,000)

12. Debtors

12(a) Analysis by type

Amounts falling due within one year:	2008/09 £000	Restated 2007/08 £000
Trade debtors	17,506	26,375
Amounts recoverable on long-term contracts	–	165
Other debtors	501	233
Prepayments and accrued income	4,269	4,755
	<u>22,276</u>	<u>31,528</u>

12(b) Intra-Government balances

	2008/09 £000	Restated 2007/08 £000
Foreign and Commonwealth Office	18,309	24,230
Other central government bodies	2,722	5,993
NHS Trusts	–	–
<i>Subtotal: intra-government bodies</i>	<u>21,031</u>	<u>30,223</u>
Balances with bodies external to government	1,245	1,305
Total debtors at 31 March	<u>22,276</u>	<u>31,528</u>

Notes to the Accounts

2008/2009

13. Cash at bank and in hand

	2008/09 £000	Restated 2007/08 £000
Balance at Office of HM Paymaster General at 31 March	38,889	–

14. Creditors

14(a) Analysis by type

Amounts falling due within one year:	Notes	2008/09 £000	Restated 2007/08 £000
Trade creditors		2,611	2,595
Accruals		11,499	9,719
Payments on account*		10,963	11,795
Long-term contract payments on account		198	531
Other creditors**		6,871	5,791
VAT		1,416	277
Dividends payable		207	–
Loans repayable in one year	22	2,000	–
		35,765	30,708

*Included within payments on account is £8,611,000 from the FCO (31 March 2008 £9,050,000).

**Included in other creditors is £2,077,000 (31 March 2008 £1,715,000) due to FCO in respect of management charges and accommodation.

Notes to the Accounts

2008/2009

14(b) Intra-Government balances

	2008/09 £000	Restated 2007/08 £000
Foreign and Commonwealth Office	22,838	16,953
Other central government bodies	2,692	3,025
Local authorities	–	–
<i>Subtotal: intra-government bodies</i>	<u>25,530</u>	19,978
Balances with bodies external to government	10,235	10,730
Total creditors	<u>35,765</u>	30,708

15. Public Dividend Capital

	2008/09 £000	Restated 2007/08 £000
Public Dividend Capital created on the appropriation of net assets from the Agency to the Trading Fund on 01/04/08 (see note 29)	4,981	4,981

16. Reconciliation of movements in general reserve

	Note	2008/09 £000
Balance at 1 April		–
Unaccounted fixed assets	10	948
Balance at 31 March		<u>948</u>

Notes to the Accounts

2008/2009

17. Reconciliation of movements in income and expenditure account

	2008/09 £000
Balance at 1 April	–
Surplus for the year	11,693
Balance at 31 March	11,693

18. Revaluation reserve

	2008/09 £000	Restated 2007/08 £000
Balance at 1 April	51	40
Unrealised net surplus on revaluation arising on tangible fixed assets during the year	32	11
Balance at 31 March	83	51

19. Notes to the Cash Flow Statement

19(a) Reconciliation of surplus to operating cash flows

	Note	2008/09 £000	Restated 2007/08 £000
Net surplus on ordinary activities before interest and dividend		11,494	8,091
Adjustments for non-cash items	19(b)	938	149
Decrease in stock	11	4,579	370
Decrease/(increase) in debtors	12(a)	9,261	(13,321)
Increase/(decrease) in creditors	14(a)	2,558	(3,881)
Use of provision		–	(2,788)
Net cash inflow/(outflow) from operating activities		28,830	(11,380)

Notes to the Accounts

2008/2009

19(b) Adjustments for non-cash items

	Note	2008/09 £000	Restated 2007/08 £000
Depreciation	5(a)	883	723
Loss / (profit) on disposal of fixed assets		46	(5)
Impairment	5(a)	9	16
Notional cost of capital credit		–	(1)
Unutilised provision transferred to the FCO		–	(913)
Auditors' notional remuneration	5(a)	–	75
Provision provided in year		–	254
		<u>938</u>	<u>149</u>

19(c) Analysis of capital expenditure

	Note	2008/09 £000	Restated 2007/08 £000
Tangible / Intangible fixed asset additions	9,10	637	348
Proceeds from disposal of fixed assets		(7)	(47)
Net cash outflow from capital expenditure		<u>630</u>	<u>301</u>

19(d) Analysis of Financing

	Note	2008/09 £000	Restated 2007/08 £000
Working capital loan	22	10,000	–
Funding from the FCO		–	2,386
		<u>10,000</u>	<u>2,386</u>

Notes to the Accounts

2008/2009

20. Transfer of assets and liabilities

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

Transferred activities assets and liabilities	2008/09 £000
Debtors	235
Creditors	(9)
Net assets attributable to transferred activities	226
Current year transferred activity financed by FCO Services	(152)
Payment to FCO for transferred activities	74

21. Commitments under leases

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

Obligations under operating leases comprise	2008/09 £000	Restated 2007/08 £000
Operating leases:		
Expiry within one year	–	15
Expiry after one year but not more than five years	–	3
Expiry thereafter	–	–
	–	18

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

Notes to the Accounts

2008/2009

22. Creditors (amounts falling due after more than one year)

	2008/09 £000	Restated 2007/08 £000
Loans		
Repayable in one to two years	4,000	–
Repayable in two to five years	7,803	2,853
Repayable after five years	951	1,901
	12,754	4,754

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

Loans comprise:

Loans	£000	Interest Rate %	Date drawn	Due within 12 months £000 Note 14(a)	2008/09 Due after 12 months £000
Vesting Day loan	4,754	4.03%	01/04/08	–	4,754
Working capital loan	10,000	4.01%	01/04/08	2,000	8,000
	14,754			2,000	12,754

23. Capital commitments

There are no contracted capital commitments (2007/08 £40,000) at 31 March 2009 for which no provision has been made. Capital expenditure, approved but not contracted, amounted to £177,000 at 31 March 2009 (2007/08 £22,000).

24. Other financial commitments

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

25. Contingent liabilities

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

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

26. Financial instruments

Fair values

Set out below is a comparison by category of book values and fair values of FCO Services' financial assets and liabilities as at 31 March 2009.

Financial risks:

Liquidity risk

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

Notes to the Accounts

2008/2009

note 26 continued

		Book value 2008/09 £000	Fair value 2008/09 £000
Primary financial instruments			
Financial assets			
Cash at bank and in hand		38,889	38,889
Financial liabilities			
	Note		
Working capital loan	22	10,000	10,000
Vesting Day loan	22	4,754	4,754
		14,754	14,754

Other short term debtors and creditors have been excluded, the working capital loan, however includes the current instalments shown under creditors.

Interest rate risk

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

Credit risk

Exposures to credit risk are as a result of transactions in FCO Services' ordinary course of business, the major risks being in respect of trade debtors and cash. These risks are managed through policies issued by the Board of Directors.

Overdue debtor balances in excess of 60 days amounted to £7,200 at the end of March.

Foreign currency risk

The majority of the assets and liabilities are denominated in sterling and there is no associated currency risk.

There are, however, some non-material transactions that are subject to currency fluctuations. Any gains or losses are taken to the income and expenditure account in the year.

27. Losses and special payments

During the year, costs falling into the category of losses and special payments were below the level, of £250,000, at which they needed to be reported separately (2007/08 £nil).

28. Related party transactions

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

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

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

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

On 1 April 2008 the Trading Fund was established in accordance with FCO Services Trading Fund Order 2008 (SI 2008 No.590) for the operations of the Foreign and Commonwealth Office undertaken by FCO Services from that date. This Order has been amended by FCO Services Trading Fund (Variation) Order (SI 2009 No.1362).

The adjustments to the closing balance sheet of FCO Services as on On-vote Agency to reflect its restructuring as a Trading Fund are presented in the table overleaf.

Notes to the Accounts

2008/2009

note 29 continued

	Agency Restated 31/03/08 £000	Adjustment 01/04/08 £000	Trading Fund 01/04/08 £000
Fixed assets			
Tangible fixed assets	2,332	–	2,332
Current assets			
Stocks and Work in Progress	6,634	–	6,634
Debtors	31,528	–	31,528
Cash at bank and in hand	3,087	(3,087)	–
	41,249	(3,087)	38,162
Creditors (amounts falling due within one year)	(30,708)	–	(30,708)
Net current assets	10,541	(3,087)	7,454
Total assets less current liabilities	12,873	(3,087)	9,786
Creditors (amounts falling due after more than one year)			
Vesting Day long-term loan from the FCO	–	(4,754)	(4,754)
Net assets	12,873	(7,841)	5,032
Financed by:			
Capital and Reserves			
Public Dividend Capital	–	4,981	4,981
General fund	3,094	(3,094)	–
Income and expenditure account	9,728	(9,728)	–
Revaluation reserve	51	–	51
	12,873	(7,841)	5,032
Movement in net cash			
At 31 March 2008			3,087
Surrendered to the Foreign and Commonwealth Office			(3,087)
At 1 April 2008			–

Notes:

- (a) The balance at the bank on 31 March 2008, totalled £3,087,000. This was surrendered to the Foreign and Commonwealth Office on 2 April 2008.
- (b) In accordance with FCO Services Trading Fund Order 2008 (SI 2008 No.590) and amended by FCO Services Trading Fund (Variation) Order (SI 2009 No.1362) the balance of assets and liabilities transferred was funded by a Vesting Day long-term loan from the Secretary of State for Foreign and Commonwealth Affairs and Public Dividend Capital. The Vesting Day loan is repayable from 1 October 2011 to 1 October 2015 and interest is fixed at 4.03% on the outstanding principal.
- (c) A working capital loan of £10,000,000 was received from the Secretary of State for Foreign and Commonwealth Affairs on 1 April 2008. The loan is repayable from 1 April 2009 to 1 October 2012 and interest is fixed at 4.01% on the outstanding principal.

Notes to the Accounts

2008/2009

30. Post balance sheet events

There are no post balance sheet events to report.

These financial statements were authorised for issue on 6 July 2009 by the Chief Executive and Accounting Officer.

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