

FCO Services
**Annual Report
and Accounts 2011/12**
(for the year ended 31 March 2012)

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Foreword by Henry Bellingham MP

Minister for Africa, the UN, Overseas Territories and FCO Services

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

The past year has again presented a range of unprecedented challenges for the Foreign and Commonwealth Office, HM Government and the country as a whole. The economic climate remains challenging. As a government we have been required to evolve to deliver more with less, and events in the Middle East and elsewhere have tested the resourcefulness of our foreign policy machinery and infrastructure.

Against this backdrop, FCO Services has again delivered a strong performance, achieving the targets I set it, whilst at the same time supporting our government in its key aims of security, prosperity and a first class consular service.

I noted in my foreword last year that the work FCO Services does internationally with other governments and organisations was expected to be a key area for growth. This expectation is now a reality as the strategies it put in place over the last few years come to fruition. Estates and protective security works are already underway with a range of foreign friendly governments in often hostile parts of the world. These ties are also being strengthened by government to government engagement, and FCO Services is increasingly being seen as an important vehicle for governments' prosperity agendas.

In terms of its core business, the ties FCO Services has with the FCO as both its major stakeholder and main customer have been strengthened during the course of the year. Closer co-operation has ensured that FCO Services is in a position to provide the FCO with the expert support it needs in a more efficient and cost effective manner. The commercial ethos of the organisation is a core strength on which the FCO can draw to deliver its own commercial prosperity aims.

None of this would be possible without the drive and commitment of FCO Services' staff. 2011/12 has again been a difficult year for civil servants across government, as the necessity of the deficit reduction programme has impacted. Throughout this, the men and women who work for FCO Services have continued to deliver, reflected in the successful outcomes detailed within this report.

2012/13 promises to be an interesting and exciting year for FCO Services as the hard work and clear strategies undertaken in the last few years begin to be realised. The targets I have set will be challenging but I am confident that under the stewardship of their management team, and with the backing of the FCO and our government, it has the capabilities and professionalism to achieve them.

Henry Bellingham MP,
Minister for Africa, the UN, Overseas Territories and FCO Services

Foreword by Chris Moxey

Chief Executive, FCO Services

Last year I set out how we had securely laid the foundations of our organisational and service capabilities to provide the bedrock on which to grow. The significant reductions in public spending and the uncertainty in the economy as a whole have made recent times particularly challenging. As a result we had to react even more quickly than we might have anticipated in order to drive the transformation of our business.

To focus this transformation we set out a development strategy in 2010/11 concentrating on our core strengths and secure offerings, engaging with key decision makers across government and developing new products and services to place us at the leading edge of secure services provision, supporting government policy. During 2011/12 we have made significant progress against these objectives.

We have seen central players across government increasingly looking to us as a key source of expertise and knowledge. Our strategy of engagement has spread the profile of FCO Services as a solution and key partner in this age of austerity. Our position in government and the public service ethos we follow, combined with the commercial outlook we have worked so hard to embed, set us apart from our competitors and are now recognised across government and internationally as significant strengths that our customers can use to their advantage.

We have transformed our IT business, aligning it even more closely to the priorities of the government and our wider customer base. The development of HMG's first secure cloud platform has been a significant highlight of the year and promises continued growth in years to come. Concurrently, we have developed new and cost-effective methods of integration, monitoring and support, which will improve efficiency and security at lower levels of cost.

Internationally, friendly foreign governments and institutions are recognising us as a key partner to deliver the secure products and services they need to operate. We have fostered firm and lasting relationships with some of the UK's key allies and are already delivering on the ground in some of the most hostile parts of the world. Increasingly we are being seen as a vital component for the delivery of HMG's prosperity agenda, working across government and with key international allies to deliver economic growth to the UK.

We have strengthened our relationship with our owner and principal customer the FCO, enabling us to contribute more fully and effectively to its key aims and priorities. The FCO review into the relationship between the FCO and FCO Services was welcomed by all and has delivered a much stronger partnership from which to grow and support each other. As a result we are in a stronger position than ever to deliver our primary aim of supporting the FCO flexibly and efficiently.

These positive developments are assisted by the vital work of the rest of our organisation: Our Vetting Unit has delivered to record levels, its output and productivity doubling as it supports preparations for the Olympics. Our Translation and Interpreting team has again worked on high profile events in the past year including international summits and conferences. Our Logistics team was the first to operate commercial deliveries into Benghazi following the Libyan conflict.

Economic conditions remain challenging and there is still much to be done to secure our long term vision for FCO Services. We are however confident that the strategies we have in place, combined with the dedication of our staff, will enable us to be successful.

Christopher Moxey,
Chief Executive,
FCO Services

Lead Non-Executive Director Report

Sir Richard Stagg, Chair of the FCO Services Board

FCO Services continues to operate in a world where its customers' budgets are under enormous pressure. The end of year figures detailed in this report show however, that the business remains robust and sustainable with significant opportunities for growth. I believe this reflects both the high calibre leadership provided by the CEO and the Executive Team; and their effective partnership with the Board.

As a Board, we have continued to provide both support and challenge to the Chief Executive and his leadership team throughout the course of the year. We have become more closely engaged in developing the strategic direction of FCO Services. And this has been matched by the strong oversight provided by our Audit Committee.

During this year, the Board has focused on some of the key strategic challenges facing the organisation undertaken and overseen a number of key strategic programmes. Throughout the first half the year, we oversaw FCO Services' input to the FCO review into its relationship between the two organisations, by being represented on the review oversight Board through one of our Non-Executive Directors. The outcome, which we have fully endorsed, offers greater opportunities for closer partnership and an improved collaborative approach to doing business together - and thus a real chance to deliver greater mutual benefit.

Other key items considered by the Board during 2011/12 include the implementation of the Corporate Plan and in particular the development of the key IT, Estates and Protective Security strategies, to provide a strong foundation for the future. Looking ahead, the Board offered advice and support as the Executive Team worked to develop new opportunities overseas – something we warmly welcomed. We also engaged closely on the strategic HR agenda – including the role of contractors, talent management,

succession planning and learning & development.

The Board has been strengthened by the addition of Andrew Mitchell, who joined on 1 September 2011. A career FCO officer and formerly Her Majesty's Ambassador to Sweden, Andrew brings with him a wealth of knowledge of our key client and has considerable experience of working alongside FCO Services in the past. In February 2012, Andrew Camp left the organisation. As Commercial Director for over two years, he implemented and refined key processes which will serve as a solid foundation for our future growth plans.

We undertook our annual Board performance evaluation earlier this year. The key conclusion was that we needed a communication strategy to help the Board engage better with the staff of FCO Services, who wanted the Board to be more visible. This has now been agreed. We have also agreed to the creation of ad hoc advisory panels, with Non-Executive membership, to ensure the skills and experience of the Board are utilised to best effect.

It is clear that austerity will be the watchword for government departments for some considerable time. With the determination and professionalism which I have seen from FCO Services people, I am confident that they will continue to be a dependable partner for the Foreign and Commonwealth Office, while seeking out new opportunities with other parts of the UK government and an increasing number of friendly foreign governments.

Sir Richard Stagg,
Chair, FCO Services Board

Who we are, how we are organised, what we do and what we aim to achieve

With over sixty years experience in providing secure services across HM Government in ICT, estates, protective security, logistics, vetting and translation and interpreting, we are the in-government partner for those seeking end-to-end security advice and solutions.

Who we are

We are a Trading Fund of the Foreign and Commonwealth Office (FCO). We provide a range of bespoke, secure services worldwide to the FCO and other UK government departments. We also provide services to foreign governments and international organisations closely linked to the UK.

Operating worldwide, our security-cleared people design and deliver secure services that meet the demanding needs of our customers. Our unique expertise positions us as the partner of choice for government customers seeking global solutions, who rely on us to understand and interpret their security needs, the threats they face and the need for best value and cost efficiencies in today's challenging financial climate.

Our mission: We design and deliver secure services that meet the demanding needs of government

Our vision: To be the partner of choice for government seeking global secure solutions.

How we are organised

Our organisation is structured to mirror the entire customer lifecycle. From the early stages of concept and design, through project build and delivery, on to ongoing operation and eventually demobilisation, we are there for our customers over the full lifespan of the service.

Working closely to understand our clients' exact needs, our service development and project experts in Client Delivery and Commercial groups design, build and deliver unique, tailored solutions. Upon delivery, work is entrusted to professional service managers in Live Services – incorporating our Operations and Services and Logistics groups – who provide ongoing, round-the-clock operational support, maintenance and security protection.

What we do

We have firsthand experience in putting government policy into action and our customers trust us to implement security requirements in their organisations. Our teams work together, across a global network, to provide secure working environments to protect our customers' people, assets and information, delivering secure services in **four key areas**:

Secure ICT

In the fast-evolving world of information technology, our specialist ICT teams play an essential role in enabling our customers to communicate securely on a global scale. We invest in leading cutting-edge technologies and develop solutions and services that protect government assets to the highest impact levels, including cloud services, secure data and operation centres.

Secure estates and construction

Our customers rely on us to provide their teams around the world with a safe and secure working environment. We build secure premises and protect them against physical and technical attack, providing an end-to-end solution from concept and design through to construction services, property management and global support services.

Protective security

Our international network of technical specialists takes an integrated, layered approach to protecting people and critical assets, ensuring our customers' working environments are safeguarded with the highest standards in security. This includes security advice, counter eavesdropping, perimeter security, physical access and systems monitoring.

Secure logistics and services

Organising the logistics of a worldwide government department is a complex and multi-layered operation, and our customers need the confidence that their consignments have not been compromised in transit. Our experienced security-cleared teams transport official mail and equipment globally to remote and challenging environments, and offer a disposal service for protectively marked information.

Our National Security Vetting team is one of the authorised suppliers of specialist vetting services to government and offers a comprehensive range of vetting services.

Our Translation and Interpreting section provides written translations and confidential interpreting to the highest standard for UK government departments and international organisations.

What we aim to achieve

As the economic climate remains unsettled, and as we face increasing competition from the private sector, it is critical for us to maximise opportunities across government – in the UK and internationally.

Our relationship with the FCO is core to our future priorities and, with increased clarity in

our working relationships following a review last year, we have renewed confidence and trust to strengthen our partnership and to provide the services that will enable them to deliver their critical priorities.

Our partnership also provides us with opportunities to increase our wider market customer portfolio. Our Trading Fund model offers advantages that are becoming increasingly understood across government. Our commercial ethos and business flexibility, combined with an in-depth knowledge of the threats and pressures that our customers face, all pave the way for us to raise our profile with key partners.

Our priorities for 2012/13 include:

- strengthening our relationships with other governments and international organisations. Our international government partners have to manage complex and ever-changing security and economic challenges and by channelling our efforts into developing new end-to-end services in the fields of estates and protective security we aim to be their natural choice of service provider
- harnessing exciting new opportunities to roll out new technologies in the field of ICT across Whitehall – supporting government agendas to work more efficiently and more collaboratively while maintaining security standards
- supporting the FCO as it changes its overseas support model to maximise efficiency and minimise cost. We will work closely together on developing the new model in order to establish the most suitable and economic solution for their needs.

We have created new business strategies in each of our key areas that seize the opportunities presented to us. We aim to support and anticipate change, focus on enhanced levels of customer experience and service delivery and continue to deliver the very best in cost effective and collaborative security services.

How we have performed:

Corporate overview

Our highlights of 2011/12

This year we set out to implement an even more customer-focused organisation, anticipating and reacting to their requirements and building a platform for future growth.

Last year we reported that, despite operating in a challenging environment that saw a significant decline in our revenue, we maintained our strong financial position by driving for efficiencies throughout our operations, reducing our costs, and improving our margins.

In 2011/12 we have built on this solid foundation, focusing on looking ahead to a stronger future, investing in new business capabilities and modernising our business to keep ahead of the game.

Investing in a successful future

Last year we said that we would invest in our products and services, adapting them to meet the ever-changing needs of both our new and existing customers.

Despite operating against an economic backdrop bordering on recession, our revenue has significantly increased this year, from £102.5m in 2010/11 to £129.0m in 2011/12, bringing us back to the level we enjoyed prior to UK government budget cuts taking effect. Alongside this substantial revenue growth we have experienced a tightening of margins – we achieved an operating surplus this year of £6.2m (4.8%) in comparison to £7.1m (7%) in 2010/11.

Cash generation has remained robust but cash balances have fallen from £42.1m at the end of 2010/11 to £37.6m at the end of 2011/12. This fall is largely explained by our renewed emphasis on investment in our future business. We have developed a targeted programme of investment focused on meeting specific customer needs, providing us with a platform that will deliver continuing growth in the years to come.

We have achieved this position by:

- recognising that now is the right time to invest in our business. The financial downturn has opened up opportunities for us to address changing customer needs, placing us in a position to drive forward rapidly in future, as the economy recovers
- investing in new revenue opportunities through robust business strategies in our key service areas, renewing focus on developing solutions that will maximise our wider expansion
- developing completely new capabilities to widen the range of our service offerings, exploiting new technologies and building on our broader capabilities
- continuing to recognise the crucial value of our people in our ambitions, investing in training and skills development, promoting increased cross-team working practices and further embedding best practice throughout the business.

Expanding our capabilities and capturing opportunities

Last year we said that we would continue to exploit new opportunities to grow our business, encouraging innovation and seeking new and more efficient ways to meet our customers' needs.

We expected to face a continuing decline in revenue from the FCO this year, and aimed to prioritise wider market growth in order to compensate for this fall. We set out to prove that the flexibility and transparency of our Trading Fund model was well placed to help both our existing and new partners across government deliver their objectives.

We succeeded in our objective, achieving significant growth in revenue from our wider market customers this year, increasing from £24.3m in 2010/11 to £46.8m in 2011/12. A large part of this growth was a result of our winning a major managed service integration contract.

In doing so we have shown that, despite an increase in private sector competition, we are a viable, preferred competitor in the wider market, both across HMG and internationally.

At the same time, we were pleased to see that our revenue from the FCO has increased modestly, from £78.2m in 2010/11 to £82.2m in 2011/12 (up 5%), demonstrating the strength of our relationship.

We have achieved this growth in wider market and FCO revenue by:

- identifying opportunities and engaging further with new government customers and with other governments with whom the UK has close links
- strategically promoting our new products and services, leading to us winning new contracts across our customer base in the UK and globally
- continuing to embrace the FCO as our principal customer, strengthening our relationship and supporting its agendas
- anticipating our customer needs and responding with fully-developed solutions that meet their ever-changing priorities.

How we have performed:

Project Delivery - Client Delivery

Our Client Delivery group has designed and delivered some 600 projects worldwide for our customers in ICT, technical and protective security and global estates

What we do

Client Delivery group operates globally to design and deliver major projects and programmes in secure ICT, global estates and technical and physical security systems.

Our Technical Services Centre (TSC) is a key part of Client Delivery and provides around 450 security-cleared technical and professional services experts directly into our clients' organisations to deliver a wide range of project services. Across FCO Services the TSC provides staff to deliver business transformation in support of our corporate objectives in areas such as ICT hosting systems support and technical helpdesk cover.

Our estates teams provide our customers with a service incorporating the full project lifecycle - from concept design and professional services advice, to carrying out feasibility studies and implementing project delivery. We have become more commercially flexible this year, tailoring our contract and management processes to suit our customers' needs. Expert at working as design and build contractor, prime integrator, sub-package manager or deployment manager, we also act as Client Agent to successfully manage our clients' main contractors.

Our protective security specialists design and deliver highly secure perimeter and protective systems around the world. We provide a full range of systems that support technical and physical security, including fully integrated CCTV, thermal imaging, access control, incident alarms and public address.

Our counter eavesdropping rooms and acoustically shielded telephone enclosures ensure the most confidential of discussions can take place without compromise. We design and build guardhouses, barrier systems, bomb blast walls and windows and security hardened residential pods. Our secure buildings experts provide an end-to-end secure service that fully integrates our clients' security needs into the fabric of their buildings.

Our ICT capability has been developed to provide state of the art virtualised G-Cloud technologies and complex secure technical architecture in global ICT networks. Our multi-disciplined teams have embraced new technologies and 'modern ways of working' principles, designing innovative touchdown hubs that will become the future of government shared environments and flexible working. We have developed a new cadre consisting of over 30 experienced security specialists as our 'network of experts'. This group provides advisory services to UK and international clients seeking pragmatic security solutions or advice on strategy and policy implementation.

Our Centre of Technical Expertise (CoTE) leads the technical advancements to our services using a combination of research and development methods and technological innovation to ensure we stay ahead of our competitors and enhance our brand value. A new customer contact centre has been established to be a central contact point for clients and an eCatalogue has been launched to simplify the ordering process for products.

This year we launched our Programme Management Office (PMO), building on industry standard methodology and with a greater focus on supporting the delivery of projects and programmes. The PMO has standardised management information provision, allowing better decision making and improved capacity planning, and has focused on embedding best practice into all 650 of our projects this year.

Our highlights

Providing quality global services year round

Global political challenges and natural disasters led to our teams responding to rapidly changing security requirements, providing innovative solutions to live operational issues from communications to protective security.

Despite the difficulties of the year, we successfully broadened our customer portfolio beyond the UK market, winning several major international projects, and meaning we now operate in over 260 locations around the world.

Throughout the year our project teams have demonstrated unparalleled experience by delivering our clients' projects on time and to budget regardless of political or climatic environment. We successfully delivered customer projects in the hostile environments of Egypt and Libya during the Arab Spring, and in key political locations including Washington, Brussels, London, Moscow, Ottawa and Pretoria.

Working in all climates from the coldest parts of Tibet, to the humid conditions of Abuja and Jakarta and the dry hot deserts of Iraq and Afghanistan, our teams ensured integrity, reliability, capability and value for money.

We work in close partnership with the FCO; successfully delivering over 100 major projects all over the world

This includes three very large high classification projects, tailored to meet the unique requirements of the FCO and international partners across government.

Our technical specialists received excellent customer feedback for their significant role in promoting and supporting the

objectives of the FCO in Libya during recent developments. Working closely with FCO representatives, we supported the establishment and subsequent relocation of the temporary mission to the Interim National Council in Benghazi, later providing a wide range of technical and professional services to facilitate the re-establishment of the British Embassy in Tripoli.

Our VOICE project - an automated public address system - continued delivery in the USA, adapting to fit in with the working patterns of the mission in New York that never sleeps. In Washington the same team delivered a highly complex installation in one of the busiest and most diverse diplomatic environments in the FCO estate, winning praise from post for their comprehensive planning as well as their considerate installation practices.

Developing our relationships with foreign governments

We are continuing to develop our business relationships with foreign governments with whom the UK has close links, providing security projects including security fit-outs and secure building designs.

This year has seen a steady increase in activity for the Canadian government with two major construction projects underway and a worldwide security upgrade programme planned. An Ottawa-based officer, combined with three of our people on location in overseas sites, will ensure the successful delivery of these projects.

Providing secure IT networks for our government partners

Our programme teams have been active throughout the year installing secure IT across the world for the FCO, for key UK government departments such as HMRC and SOCA and for foreign governments such as New Zealand.

We have been heavily involved in a variety of aspects of the programme for replacement telephony systems in all FCO posts globally. Our team built and implemented a new system for sharing and summarising diplomatic information from posts around the globe that was well received by the customer.

Providing new technologies in a secure environment

Our specialist technical teams have developed a confidential mobile solution that can be implemented anywhere in the world, using a range of alternative technologies to allow connection back to host systems in the UK.

This product has been implemented on behalf of government partners such as HMRC in a range of international locations. Our programme teams have also built a secure government cloud environment, upon which an increasingly varied number of applications are being offered to government organisations who wish to utilise modern integrated and collaborative solutions within a secure environment.

The future

We have defined our strategies for developing our estates and protective security business over the next three years. These strategies define our target markets, our target customers and how we will be developing ourselves as well as our services and products to future-proof our business. A key aspect of the strategic delivery will be the launch of our new service offerings: client representation, estates advisory services and strategic asset management.

We will deliver major programmes for the FCO, including secure communications rollout, significant construction works and a large seismic programme as well as security adjustments to the FCO estate around the world. Ordering products will be made simpler for customers through the creation of online ordering functionality.

In ICT, we will focus on two large global rollouts for the FCO, which will preserve and enhance our ability to securely communicate with overseas posts. We will also undertake similar work for wider UK government bodies and overseas governments. We will develop and enhance our secure government cloud environment, allowing us to offer a broader range of exciting new services to users across government. We are enhancing our secure mobile solution, providing a simpler and more compact unit to increase flexibility.

Our Programme Directorate, set up in 2011, has made a positive impact on how we manage our portfolios, with increased emphasis on customer engagements and delivery excellence. Our Programme Directors have developed strong supply chains and will continue their flexible approach to contracting to ensure that doing business with us is as easy as possible.

We are continually improving our project delivery methods and practices to ensure that we apply best practice. Our project management excellence programme will review our commercial and financial approach throughout 2012, supported by the implementation of key tools such as Enterprise Project Management (EPM).

Our new security advisory service, GSAT (Government Security Advisory Team) will continue to provide strategic advice on security solutions to UK government departments and provide consultancy to foreign governments, building on existing relationships and engaging with new clients as its reach extends further into the marketplace.

How we have performed:

Live Services - Operations

This year saw continuing financial challenges across government, and the principal focus of our Operations Group was to offer services that delivered significant improvements in value for money to customers. The group has had a strong year which has seen the deployment of new capabilities and a considerable extension of services across government.

What we do

Operations group is responsible for the efficient management and commercial performance of products and services, process improvement and the development of resources across FCO Services.

Our experts in a broad range of disciplines deliver high quality day-to-day services and develop new solutions to meet changing customer needs.

Our Cyber and Technical Security Service operates as the UK National Authority for Counter-Eavesdropping (UKNACE), and provides a complete countermeasures capability protecting our customers' information, buildings and people.

Overseas, our Global Secure Technical Services network of specialists provides support for ICT, communications and physical security systems for the FCO and other government partners at around 240 locations worldwide.

Our ICT teams provide secure infrastructure, servers and data centre expertise with service management and service desk functions to operate systems and support users. We have completed major investments in up-to-date technologies, and continue to develop new solutions and services to meet customer requirements that, in the fast-paced world of technology, are constantly evolving.

Our property management team of estates professionals and engineers works closely with the FCO, managing health and safety and environmental compliance in residential and office accommodation and ensuring that electrical and mechanical systems are kept in a good state of maintenance and repair.

Our highlights

Exploiting new technologies

In 2011 the government announced its ICT Strategy and vision for better, cheaper ICT delivered using Internet technologies and shared between organisations.

Reflecting the ICT Strategy, we launched the Government Secure Applications Environment (GSAE). Based on technologies used by Internet providers, this new IT capability delivers shared service IT solutions with high levels of reliability and low levels of cost.

In July we entered a partnership with Huddle, a leading supplier whose collaboration system is used by 90,000 organisations in the private sector and government world-wide. Together we developed what became our first service on the GSAE platform - a secure (Impact Level 3) version of the Huddle collaboration system.

Huddle IL3 provides customers across government with a cost-effective, flexible and secure way of working, enabling them to access and distribute content across departmental boundaries. Uptake of Huddle IL3 has been encouraging, and other services are being delivered from the GSAE platform, including a key part of the FCO's own Diplomatic Telegrams (Diptels) service.

Cloud computing demands new ways of operating and in setting up our GSAE services we needed to ensure we could deliver rapid responses to customer requirements and maintain very high levels of availability. We therefore created a whole new operating unit, bringing together new and existing skills from across the whole business, embedding key processes and creating a firm foundation of excellent operations and shared services.

Our approach was profiled by the CIO (Chief Information Officer) Executive Board as a global exemplar for successful exploitation of Internet technologies. Lessons learnt in developing the new unit will be rolled out across existing areas of IT operations during 2012.

An earlier investment in new IT capabilities has also seen encouraging achievements this year. We successfully brought into operation our new Secure Mobile Solution (SMS) - a highly flexible laptop-based service that can be used up to Impact Level 4 (Confidential) and which connects to customers' own core IT systems. In order to operate SMS, we implemented a Secure Operations Centre that meets the latest government standards.

Also in the IT arena, we took on the role of Services Integrator for the International Group of the UK Borders Agency (UKBA IG). This role requires us to manage the group's contracts and to integrate and operate complex processes that span multiple suppliers, including leading IT companies. By doing so we have simplified a complex IT model and helped UKBA IG to understand the full picture of its IT services, in areas such as pricing and contract control.

Delivering services globally

During 2011 we completed a series of changes in the Global Secure Technical Services and Property Management Services provided to our FCO and government customers, aimed at reducing costs and improving outcomes.

These changes included the roll out of a new system for passing tasks to staff deployed globally and the introduction of improved reporting of activities and outcomes.

Supporting the FCO's IT re-procurements and its Working Differently initiative, we have also begun planning further evolution of these services. Pilots of new approaches are currently underway and it is anticipated that they will form the basis of a re-designed service, which will operate with a greater degree of regionalisation in order to improve efficiency and allow effective responses to regional crises, urgent requirements or changing demands.

Keeping assets and information secure

Our expertise in technical and protective security remained in considerable demand, as customers from across the government and worldwide sought to protect assets against ever-changing threats.

We developed new capabilities to ensure that our training and service capabilities programmes remained current and will prioritise further investment during the coming year.

The future

In 2011/12, our principal goal was to strengthen our IT business to ensure that we could continue to offer up to date and relevant capabilities that delivered highly capable and competitive solutions to customers. This goal has been met and we will build on the foundation that we have now created by adding new services and seeking to gain new customers. Our main focus for change in 2012/13 will be in global services. Following a request from the FCO, we will develop a new global overseas support model to meet changing needs. As part of this work, we will create a new cadre of Overseas Support Officers (OSOs), who will be based in the UK and selected posts to create regional hubs, and who will work alongside our Secure Technical Support Officers (STSOs).

A roaming resource, like many STSOs, OSOs will not belong to individual posts. A new service level agreement will set out in detail the service that STSOs and OSOs together will provide. As part of the same initiative, colleagues in Services and Logistics will create regional diplomatic bag hubs in a small number of Posts to support delivery of escorted bags as a door to door service.

The first pilot will start in mid-2012 and will help shape the approach. We plan to roll out the full solution over the next 18 months.

We will also extend our technical security capabilities, with research and development aimed at staying ahead of the threat and further increasing the degree of integration between our central, UK-based resources and capabilities deployed overseas.

How we have performed:

Live Services - Services and Logistics

Our reputation as the trusted and secure partner for government departments continues to afford us the highest respect, and customer satisfaction scores, across the board. Our highly security-aware and vetted people, and rigorous adherence to security policy in the handling of protectively marked material mean that we remain the supplier of choice for customers for whom the delivery of high-security services and logistics are crucial.

What we do

Our Services and Logistics group delivers secure logistics, security vetting and translation and interpreting services across the UK and internationally.

Our range of secure logistics services enables our customers to send and receive mail and equipment securely, to the most difficult environments, confident in the knowledge that it has not been compromised during transit. Our services include:

- reliable and rapid air freight and door to door secure delivery services in the UK and overseas
- Queen's Messengers - highly regarded and experienced couriers who can deliver classified material around the globe effectively and securely
- a secure, flexible and cost-effective disposal service for sensitive information which guarantees our customers an environmentally friendly service with a fully documented audit trail, now ISO9001 quality accredited.

The National Security Vetting team is held in the highest regard as one of the authorised suppliers of specialist vetting services to government, with 50 years of vetting expertise. We offer a comprehensive range of vetting services at all levels required by government and other customers, and also supply a review process.

Our skilled team of professional linguists in the Translation and Interpreting section provide the highest quality written translations and confidential interpreting services to and from a broad range of languages for UK government departments, EU institutions and international organisations.

Our highlights

Secure from end to end

Historically prestigious and highly valuable to embassies, our Diplomatic Bag service continues to be modernised. As part of their 'Working Differently' agenda, the FCO have changed their overseas operations structure, and we redesigned our processes to support this.

Trials of our new cost procedures and door to door diplomatic bag service, which we reported last year, have proved successful and we have rolled out the service to over 200 posts.

Our process, delivering directly to the door, integrates both outward and inward movements and removes the need to arrange collection locally from the airport, freeing up essential staff and reducing the operational burden on Embassies and Missions. A proactive communications programme, supporting and informing our customers through the integration of the new service, has increased customer trust and satisfaction in our delivery.

We have supported cross government working in a number of areas, one of which is the scanning and delivery of mail in the capital. Following a tender process, the Department for International Development (DfID) awarded its mail scanning and London delivery operation to our integrated mail operations group. To further enhance security, improved scanners were installed at both our sites in Milton Keynes and in London.

The security of protectively marked material is of the highest priority. To meet our customers' exacting demands regarding storage and packing of material, a new 1,000 m³ high classification facility was opened at our Hanslope Park site.

All organisations in the public or the private sector have a responsibility to manage their sensitive data throughout its life span. Our secure disposal service - ISO9001 accredited since April 2011 – enables our customers across government to meet this responsibility in a sustainable and cost-effective way, providing a secure, tracked service from collection to incineration.

This year our logistics experts have designed and developed an improved asset tracking system, which has led to further improvements in our efficiency in this area, efficiencies which benefit both the security of our customers' assets, and the public purse.

Driving greater efficiencies

Responding to crisis situations quickly and securely is a challenge that our customers face more and more. With our connections across government and internationally and our experience in rapid response, our customers rely on us to securely deliver their equipment wherever they need it to be sent.

During the Arab Spring and the series of crises in North Africa that followed, our experienced team organised and delivered nine specialised charter flights into the region. The dedication and expertise of our planners and drivers ensured that our customers received their deliveries at

very short notice, with no compromise to their security.

Our transport group has opened up further routes into Europe providing customers with reliable and multiple channels while reducing cost, reducing air miles and improving network flexibility. Our professional and dedicated teams work long hours in all weathers to ensure that critical equipment for projects is delivered on time, whilst maintaining tight security.

Ensuring that our operations have as low an environmental impact as possible, continues to be a priority for our entire organisation, and the logistics teams are no exception. We have continued to upgrade our fleet to meet both British and EU standards with the replacement of older vehicles with modern dual fuel hybrid vehicles that generate fewer emissions.

This year we signed a new, two year contract with DfID to provide our car service, utilising our new green fleet of hybrid vehicles, which have reduced our carbon footprint by 17%.

National Security Vetting

Ever vital for our customers' security, and that of the nation as a whole, our vetting service continues to grow, and this year has delivered more cases to more customers than ever before. Our wider market share in vetting has continued to increase, comprising 72% of our work, and we now have over 70 customers from across government, police forces and commercial companies working with government (up from 13 in 2009).

As delays in clearance mean delays in appointing staff to new positions, our customers expect us to deliver fast turnaround times for clearances. With significantly increased work volumes in the run up to the London 2012 Olympics this has been a challenge. Nevertheless, DV clearances were still within target times of 60 days and SC/CTC clearances within 21 days, despite the case volume doubling on last year's total.

Translation and Interpreting

At the heart of high level diplomatic and political relationships lies effective, secure communication, and our Translation and Interpretation team has continued to be the provider of choice for customers organising some of the highest profile events and visits this year.

On the translation front, our team further consolidated and improved its rankings in its framework contracts with the European Commission, the European Translation Centre and the European Court of Justice, achieving a 100% score against our evaluations target for European Commission work. In addition, we have undertaken a substantial volume of Arabic translation work for a range of new customers firmly situated within our security footprint.

Noteworthy interpreting assignments have included the Chinese Premier's visit to the UK in June, the London Conference on Cyberspace in November, which was hosted by the Foreign Secretary and for which we fielded 45 interpreters working from and into the five UN languages, and the International Conference on Somalia in February.

The future

Over the coming year we will focus on our vital work with the FCO, modernising and updating our services to drive through further efficiencies. By expanding our door to door air freight service to include post to post movements, we will further reduce the operational burden on our overseas missions, improving our overall service provision, and integrating a number of currently fragmented elements into one integrated service.

Building on our strengths and supporting FCO Services' strategies for growth, we will continue to invest in our buildings and infrastructure, and add new, more efficient vehicles to our fleet to enable us to operate more effectively, whilst further reducing our carbon footprint. We will develop additional services to support the changing requirements of both our existing customers and a new, expanded customer base.

We will continue to work closely with our partners across government to help define the future structure of vetting services across the whole of government, while planning for the medium term by building capacity and resilience into our vetting service offerings.

In translation and interpreting, we will consolidate and build on our existing European Union business, further improving our rankings and maintaining our current key performance indicator successes. By building on our existing language base, we will aim to enhance our competitive position when bidding for future contracts.

Across the whole group, we will strengthen our in-house teams at all levels aiming to increase internal capacity and resilience, whilst driving down the need for external contractors.

How we have performed:

Our corporate areas

Our journey to Trading Fund necessitated a strong corporate element to build our capabilities and lay solid foundations for our organisation by establishing structures and processes. With these now firmly in place, our focus is on driving for corporate efficiency and tightly controlling and reducing these overhead costs. This year we can report that our efforts have resulted in a significant reduction in overall corporate costs to £9.1m, down from £10.8m 2010/11, on increased turnover.

Customer satisfaction

Ensuring that our customers are satisfied remains our key focus. This year we benchmarked our performance against similar organisations using the Institute of Customer Service's (ICS) customer satisfaction survey. We successfully met our Ministerial target of a customer satisfaction index of 70, and gained very useful information on where we perform well, and where improvements are possible.

We have continued to carry out intensive monitoring of our customers' everyday experience of us through 'Finger on the Pulse', our pulse test programme, allowing us to monitor performance at service level and develop service improvement plans to target specific customer needs.

We have also continued to invest in customer contact skills for those staff in front office positions, by running several ICS endorsed 'First Impressions' courses, giving staff an opportunity to develop and rehearse customer contact skills. We also held a series of events during National Customer Service Week, including presenting Customer Service Awards to recognise our people's and teams' outstanding efforts in delivering customer service.

Our aim for next year is to continue to improve the way we manage the relationships with our customers by further embedding customer service ethos and practice in our organisation.

We will continue to gain feedback from our customers, using our survey tools, and will build on continuous improvement plans across the business to address areas where our customers have identified scope for improvement. We will work closely with the Institute of Customer Service in order to maximise the benefits of membership and benchmark ourselves against other organisations.

That our frontline staff are fully engaged in the customer experience is crucial to our progress and we will continue to implement and improve our customer service training programme. In addition we will recognise outstanding efforts made by our staff and teams in delivering customer service through our annual FCO Services Customer Service Awards.

Delivering innovation

Our approach to innovation keeps a targeted focus on our customers. By firstly identifying and researching our customers' key problem areas, we can harness our engineering and technical expertise and channel our research and development activities to meet their needs.

We aim to better understand the economic challenges our customers face, while being aware of the competitive environment in which we operate and the potential of new and emerging technology. This allows us to focus on providing solutions for our customers that are both good value for money and that fully meet their security requirements.

This year, in addition to continued investment in our secure mobile solution development, we invested in a range of smaller innovation activities to generate solutions. These included the development of a solution around Local Radio Communications for a key customer. We also generated a new solution for a customer, linking fire alarm systems in secure environments which we will develop further this year.

Managing our contracts

Our Contracts and Supply Chain Group (formerly known as Procurement and Contract Management Division) is instrumental in helping us meet the challenges we face as a Trading Fund operating in challenging economic times. In a time of increasing competitive pressure, we must manage our non-pay spend effectively both to protect existing revenues and to win new business.

This year the procurement team has contributed to our overall profitability by significantly reducing the cost of sales and overhead costs.

In addition to achieving our savings target we have:

- supported our new door to door diplomatic bag service by concentrating supplier management resources on its logistics supply chain and negotiating service expansion
- extensively reviewed and restructured the supply chain we now manage in our Service Integrator role for UKBA IG
- provided strategic sourcing support to key objectives in all areas of our business
- maximised our ability to acquire new business and secure existing revenue by building and managing value for money supply chains, providing commercial input to proposals and effectively managing suppliers and supply chain risk
- carried out risk profiling of our strategic contracts including completing of an Information Management audit of those suppliers holding sensitive data. The findings of this audit were then validated by CESG, the National Technical Authority for Information Assurance.

Security and Information Assurance

Security is at the heart of everything we do and the protection of information is paramount. We conducted a successful Information Assurance Maturity assessment with CESG, which underscored the progress we had made over the previous year.

We were pleased to achieve maturity Level 3, the highest level currently attainable.

Business continuity

Continuing operations in the event of a disruption, whether due to a major disaster or a minor incident, is a fundamental requirement for any organisation.

We have continued to invest in business continuity, focusing on retaining the British Standards Institute BS25999 certification that was awarded last year. We have also worked closely with the FCO to minimise disruption during the Olympic and Paralympic Games and to ensure that we have the ability to meet our customer obligations during that period.

Health and Safety

The health and safety of our people continues to be of paramount importance. We are committed to robust health and safety planning and promoting good health policies, procedures and standards.

We work with the Health and Safety Executive (HSE) and its partners, and have aligned our internal audit processes to enable the effectiveness of our health and safety systems to be benchmarked against best practice industry standards as set out by the British Safety Council. We continue to enjoy Four Star certification status, awarded by the British Safety Council last year.

Our people are empowered to contribute towards creating safer work environments both in the UK and overseas; we continue to deliver nationally accredited health and safety training courses to raise their awareness and enhance their skills and competencies.

Engaging and recognising our people

We have maintained our commitment to investing in and engaging our workforce against a background of continuing uncertainties in our external environment and pay constraints across the public sector.

Feedback from our Your Say annual survey indicates that, despite these challenges, our people remain committed and motivated, with engagement remaining fairly stable at 54%.

We have focused on improving leadership and management capability through targeted development programmes, and encouraged business managers to implement action plans to motivate their teams and address underlying issues impacting on engagement. Successful initiatives have included the ICT Operations transformation programme, diversity workshops and local recognition awards. Progress is monitored by the Staff Engagement Programme Board, which also oversees the Investors in People process of assessments over 3 years to March 2013.

Our programme of communications activities has continued to be wide-ranging, with a focus on interactive channels. The Chief Executive and Directors continue to hold regular staff forums to discuss topical issues, which have also been used to provide the opportunity for discussions with the Board and senior FCO colleagues.

We continued to improve the 'Golden Thread' process whereby strategic aims and targets are cascaded into team and individual objectives, and maintain cost-effective two-way communications. This year we added a monthly business news update to our range of in-house staff publications. This is sent to managers to facilitate regular engagement with teams on commercial and financial performance and other corporate issues.

Encouraging recognition of our staff is key to engaging our people and maintaining morale. Our in-house communications are now actively used to highlight the successes and achievements of individuals and teams. We have promoted our corporate recognition scheme, leading to a record number of individual and team awards in 2011/12,

and also held our second annual Customer Services Awards to coincide with National Customer Services Week in October. We launched Re:Think – a scheme to encourage and reward ideas and innovations that deliver business benefits. These corporate schemes have been supplemented by devolved initiatives, such as team of the month awards.

Workforce planning, recruitment and diversity

We have responded to the uncertainty around existing customer contracts and new commercial opportunities by improving the flexibility, efficiency, effectiveness and responsiveness of our workforce.

We have well established workforce planning processes in place for forecasting staffing requirements, managing recruitment and providing promotion and development opportunities within our financial plans. We aim to attract, retain, and develop our people with the right skills to maintain a successful Trading Fund.

In line with the business requirement for a more flexible, effective and efficient workforce, at the end of March 2012 our total headcount increased by 1% to 1082 following a 17% reduction in 2010/11. This figure included 825 employees which represented a fall of 67 during the year, with a turnover rate of 10% (excluding voluntary exits).

This fall was partly due to the Civil Service-wide freeze on external recruitment, but also to the implementation of a voluntary exit scheme where 29 employees left non-business critical roles on 31 March 2012 as part of our drive for efficiencies and reduction of our overheads. There were a further 16 leavers through retirement and 29 from resignations.

Employee turnover was offset by an increase in the number of interims to 257 to cover project work, key and specialist roles and to resource new commercial bids. We re-started external employee recruitment again from August and by the end of March 2012 there were 50 new starters, including seven IT trainees and 18 transfers from the FCO. There is a growing use of fixed-term

contracts to cover projects and minimise long-term financial commitments. We created 12 new apprentice vacancies in 2012 - comprising 10 engineering apprentices and two electrical apprentices as part of our 2012 apprenticeship recruitment campaign. Successful candidates are due to start in September 2012.

Our apprentices play an essential role in supporting the FCO's frontline diplomacy, and in return for their dedication they are rewarded with unique and varied career opportunities in the UK and in over 260 locations around the world. The engineering apprentice programme is run jointly with Milton Keynes College and supplements college-based learning with hands-on work experience. A total of 29 apprentices and trainees are currently employed by FCO Services - 22 engineering apprentices across the three-year programme and seven dedicated IT trainees.

We are an organisation that values fairness and equality of opportunities and our approach to recruitment has built further on our culture of valuing the diversity of our workforce. In 2011/12 our employee headcount consisted of 23.9% women, 8.1% ethnic minorities and 4.4% declaring a disability. This represented a slight reduction in the proportion of female employees over 2010/11 due to the profile of leavers.

Our Diversity Team still plays an important role, working in partnership with our people to promote best practice through awareness courses and involvement in vetting processes. The team engaged in Diversity Practitioner and Civil Service Disability Networks and worked collaboratively with government departments on understanding and implementing the implications of the Equality Act 2010. The team also continued to ensure reasonable adjustments were implemented for employees and job candidates with disabilities.

Developing our people

We are proud of our commitment to developing our employees to build their careers and deliver to our customers. In addition to investing annually in our apprentice scheme, a significant amount is spent on technical and specialist development to ensure we continue to have a knowledgeable workforce and one that can keep abreast of changing customer requirements and markets.

We implemented a programme with the Institution of Engineering and Technology to encourage professional membership and accreditation up to chartered status. So far 30 employees have enrolled with 10 working towards professional registration. We also continue to deliver a wide range of health and safety, managerial and business skills classroom based and e-learning courses linked to our core behaviours framework.

We are reviewing the way we deliver these within the new Civil Service Learning framework. Our investment in our people led to 48 employees being promoted and a further 79 taking on new roles in 2011/12.

Community social responsibilities

We aim to provide long-term benefits to our people, our customers, and the communities in which we live and work. As a major employer in the region we have well established links with the local community and our staff actively engage and volunteer in various initiatives.

We work with the Milton Keynes education business partnership, Countec. We are committed to various employment skills programmes such as Equal Choices for Schools, which allows young people from diverse backgrounds to experience a real working environment.

In February 2012, we hosted a special event, 'Celebrating Apprentices' as part of National Apprenticeship Week. The event celebrated the work of the 340 apprentices trained by the FCO over the last 40 years and also launched the 2012 apprentice recruitment campaign. FCO Services and its predecessors have run apprentice and trainee programmes at the Hanslope Park site since the early 1960s. Since 1965, 340 individuals have been trained through various schemes.

The event was attended by many local dignitaries and a large number of current and former apprentices. Milton Keynes College, the National Apprenticeship Service and FCO's Corporate Services Centre (CSC) exhibited at the event to raise awareness of opportunities in the region.

Our apprentices also act as ambassadors for the apprenticeship scheme. They help to deliver talks to local schools and careers advisors about the value of the apprenticeship route. We encourage our apprentices to provide information to other young people to help them make informed career decisions.

Raising concerns

We are committed to dealing professionally and responsibly with any concern our staff may have about possible malpractice. We encourage them to report any acts they encounter in the course of their work that they believe to be illegal, improper or unethical. All such 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 Disclosure Act 1998 provides legal protection for employees who make disclosures about suspected malpractice in the workplace. Guidance on raising concerns is freely available to our staff and, if anyone feels they are being asked to act in a way that is inconsistent with the Civil Service Code, they can discuss their concerns in confidence with specially nominated colleagues.

Public interest matters

Correspondence from the public

FCO Services received 12 Freedom of Information (FOI) requests from members of the public during the 2010/11 financial year. All of these received a response within statutory deadlines.

Payment of suppliers

In May 2010 the HMG target to pay 90% of supplier invoices within 10 working days was replaced with a new target to pay 80% of supplier invoices in five working days.

FCO Services supports this important government initiative, paying 92% of supplier invoices within five working days of receipt of a valid invoice in the financial year ending March 2011.

Sickness absence

The average number of working days lost per employee due to sickness absence was 5.4 in 2011/12. We have continued to make improvements in managing stress related and long-term absences.

Review of Financial Performance

In 2011/12 FCO Services delivered another strong financial performance in its fourth year as a Trading Fund, despite the continuing pressures on its public sector customers' budgets, and the increasing need to deliver best value solutions and more for less to our customers.

This has required focused financial control throughout the year, including effective management of our revenue pipeline and related workforce planning, and a robust corporate and business planning process.

Financial outturn 2011/12

Total revenue achieved in 2011/12 was £129.0m which is an overall increase of £26.5m against revenues last year of £102.5m. This increase is primarily attributable to a new major managed service integration contract, and also to the global roll out of two IT programmes of work for the FCO.

Overall FCO Services' revenues can be segmented into FCO revenue (£82.2m), and non-FCO revenue (£46.8m). This means that in 2011/12 36.3% of total revenue has been generated from non-FCO customers, compared to 23.7% in 2010/11. This is a trend that continues to reflect the strategy of the Trading Fund to develop new market opportunities across a wider range of customers within government, both in the UK and overseas.

FCO Services achieved an operating surplus before financing for 2011/12 of £4.6m, a return of 3.6% on revenue. This compares with a surplus before financing for 2010/11 of £5.1m, a return of 4.9%. The lower return in 2011/12 is principally the result of the new service integration contract, which delivers high turnover, but a low margin.

The operating surplus also includes the cost of a Voluntary Exit Scheme of £1.5m, and has been achieved through driving down costs particularly in the corporate areas (£1.3m reduction from the previous year), and in focusing on maximising utilisation and the benefits of using a flexible workforce of contractors.

The segmental performance analysis in note 3 to the Accounts highlights the impact of the pressure on customer budgets in the results of the Client Delivery group, which has a reduced activity level and margin in comparison with the previous year.

The Operations group has an increased level of revenue but a reduced surplus (falling from 9.0% to 5.4% this year), reflecting the effect of the major service integration contract. Additionally the margin has been impacted by investment in both staff and technology to deliver cloud solutions for government customers, the financial benefit of which will be seen in future years.

The Services and Logistics group has also achieved a significant increase in revenue, from £20.0m in 2010/11 to £25.5m in the current year. This increase was due to higher volumes of overseas shipments on behalf of both the FCO and other partners across government within the Diplomatic Bag Service. Increased volumes and efficiency measures also produced better margins in the area of vetting.

Voluntary Exit Scheme

Another Voluntary Exit Scheme was run this year. This is an efficiency programme to deliver cost savings from ongoing reduced numbers of permanent employees, while we retain frontline and business critical roles. A total of 29 employees left voluntarily on 31 March 2012 on Civil Service Compensation Scheme terms. Efficiencies of at least £0.5m per annum will result from not replacing leavers, redesigning jobs and restructuring.

Last year's Voluntary Exit Scheme delivered savings in the current year of £1.0m, against a forecast of £840K.

Financing income and costs

Interest of £116k was earned in the year from cash on deposit with the Government Banking Service, compared to a value of £93k in 2010/11. Financing costs of £0.3m (2010/11 £0.4m) relate to interest on loans from the FCO and the year on year reduction arises from the repayments of the Working Capital Loan. The resulting net finance charge is £0.2m, compared to £0.3m in 2010/11.

Surplus for the year

After taking into account the net cost of financing, FCO Services produced a surplus of £4.5m, a return of 3.5% on revenue. After deduction of the statutory dividend of £0.7m, the retained surplus for the financial year was £3.7m.

Net assets

At 31 March 2012, FCO Services' Statement of Financial Position showed total net assets of £27.2m against an opening year position of £23.4m, a positive movement of £3.8m.

The net assets comprise: non-current assets £7.5m (2010/11 £5.7m); inventories £1.8m (2010/11 £1.4m); cash and cash equivalents £37.6m (2010/11 £42.1m); and other net liabilities of £19.7m (2010/11 £25.8m).

Cash generation

The level of cash of £37.6m at 31 March 2012 is a reduction of £4.5m from the end of the previous financial year. The cash inflow generated from the surplus and other non cash items, of £6.2m, funded a net investment in non-current assets (mainly research and development) of £3.5m, repayment of £3.0m of FCO loans, and the payment of a statutory dividend of £0.6m.

Cash management

The credit management of customers has remained strong throughout the year, with consistently low values of '30 plus days overdue' debt. At 31 March, this stood at £80.6k, which represents 0.7% of Trade Debtors (2010/11 0.2%). Debtor days outstanding were 20 days at the end of March 2012 (2010/11 20 days).

FCO Services remains committed to the prompt payment of supplier invoices for goods and services received in accordance with the government's target of paying at least 80% of all properly rendered invoices from suppliers within five working days of receipt.

For 2011/12, FCO Services achieved an average success rate in meeting this target of 92.2% (2010/11 90%). Effective cash management ensured that liquidity remained strong, with a quick ratio of 1.6 at the end of March (2010/11 1.7).

Performance against Formal Ministerial Targets

Long term goal	Short term objective	Key Performance Indicator (KPI)	Target 2010/11	Result
We will be a financially successful sustainable business	To be a financially successful and commercially sustainable business for government, delivering value through maximising opportunities with the FCO and expanding non FCO customer base	In year surplus before interest and tax	An in-year surplus before interest and tax producing a net margin of between 1 and 5%	3.6%
		Return on Capital Employed (ROCE)	A Return on Capital Employed of at least 3.5% (weighted average)	18.3%
To put the customer at the heart of everything we do, driving innovation and delivery	To continually improve customer satisfaction in all aspects of our products and service delivery	Customer satisfaction rating derived from an independent, quantitative customer survey	Customer satisfaction rating to be within or above the 2nd quartile in the customer satisfaction index, as produced by the Institute of Customer service	A customer satisfaction index of 70 against a public sector (national) average of 70
Processes, efficiency and effectiveness	To be an efficient organisation committed to continuous improvement in operational efficiency	Benchmarking of efficiency of corporate functions against an independent survey	Corporate functions (HR, Finance and Procurement) achieve efficiency savings that place us in the top half of the Treasury's Operational Efficiency Programme (OEP) best practice benchmarking survey	Second Quartile
	To implement process improvements that enable effective measurement, understanding and control of the business	Utilisation rate for revenue earning staff (including work on customer bids and R&D)	Between 75% and 80%	Exceeded 81%

Financial performance targets

FCO Services' financial performance in 2011/12 has been measured against two key financial performance indicators: In year surplus before interest, and Return on Capital Employed (ROCE).

In year surplus: target achieved

FCO Services has met its formal target of a surplus of between 1 and 5% of revenue, achieving an actual result of 3.6%. This performance against the target has been driven by a continued focus to drive down the cost of the corporate areas which are showing a reduction in cost of £1.3m compared to the previous year; and to maximise the utilisation of our staff.

Return on Capital Employed (ROCE): target achieved

ROCE is based on the surplus before financing, expressed as a percentage of average net assets. The result for the year was a ROCE of 18.3% (2010/11 23.7%) 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 is likely to remain significantly higher than 3.5%.

Non financial performance targets

Customer satisfaction: target achieved

The results of the independent customer satisfaction survey completed in February 2012 indicate that we have achieved a second quartile position in the customer satisfaction index, as produced by the Institute of Customer Service. Although we have achieved the formal target, a detailed analysis of the result has highlighted a number of issues which will be addressed by a focused programme of work in 2012/13.

Efficiency of Corporate Functions: target achieved

The cost of FCO Services' corporate functions on a like for like basis against the Treasury's Operational Efficiency Programme (OEP) best practice benchmarking survey showed that the corporate functions appeared within the second quartile with combined cost compared to similar non-ministerial bodies of 2.6% against a normalised benchmark of 3.2%.

Utilisation rate: target achieved

Our utilisation rate target of between 75% and 80% has been exceeded, with an average over the year of 81% utilisation being achieved by revenue earning staff. Staff compliance with the prompt completion of time recording has remained a focus of attention throughout the year.

Pensions

Information regarding pensions is provided in the Remuneration Report and described in note 4(d).

Events after the reporting period

There have been no significant events after the reporting period, which need to be noted in these accounts.

Auditors

These Accounts have been audited by the Comptroller and Auditor General whose certificate and report appears on page 49. The total audit fee for 2011/12 is £100k (2010/11 £107k).

As far as I, as the Accounting Officer, am aware, there is no relevant audit information of which the National Audit Office are unaware, and I have taken all reasonable steps to ensure that I have 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
29 June 2012

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 2012. 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 that are executive members of FCO Services is determined across government within the pay policies agreed by the Cabinet Office. Within these policies, remuneration is set in accordance with the FCO's agreed pay structure according to a framework of delegations administered through the FCO Services' governance structure.

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

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- government policies for improving the public services, including the requirement on departments to meet the output targets for the delivery of departmental services
- likely funds available to FCO Services from its trading relationship with the FCO and wider markets and the need to provide appropriate levels of service to customers in accordance with Service Level Agreements 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 Senior Management Structure (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 performance groups to the Pay Panel which determines pay reviews in accordance with prevailing government and Cabinet Office policy.

Employment 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 Services' stated selection and recruitment policy, the stated aim of which is 'the selection of the most suitable person for the job.'

This policy incorporates practices for ensuring equal opportunities and will be conducted on an objective basis, dealing solely with the candidate's suitability for appointment.

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

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

Helen Sullivan (Finance Director) holds an open-ended appointment until retirement.

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

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

Philip Worthington was appointed on 28 June 2010 as Acting Human Resources Director until 20 November 2011, when the Human Resources Director returned from a period of absence.

Daniel Payne (Client Delivery Director) was appointed on 1 April 2011 and holds an open-ended appointment until retirement.

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

Andrew Camp (Commercial Group Director) held an open-ended appointment until retirement, he resigned on 17 February 2012.

Early termination by FCO Services, other than for misconduct or early retirement on ill health grounds, would result in the above individuals receiving compensation as set out in the Civil Service Compensation Scheme.

Included in the Remuneration Report are two non directors who are key management personnel with influence over the strategic decision making for the business as a whole and as such attend regularly the Executive Committee.

Employment contracts for key management personnel who are civil servants

Richard Bishop (Head of Contract and Supply Chain Group, formerly Procurement and Contract Management Division) holds an open-ended appointment until retirement.

The remuneration policy for key management personnel is similar to the senior civil servants policy, except that pay and other terms and conditions of employment are delegated to FCO Services.

Pay reviews are determined in accordance with FCO Services' performance management system which has been developed with the civil service policy framework and HM Treasury / Cabinet Office pay remit guidance.

Early termination by FCO Services, other than for misconduct or early retirement on ill health grounds, would result in the above individual receiving compensation as set out in the Civil Service Compensation Scheme.

Service contracts for key management personnel who are not civil servants

Badenoch and Clark provided the services of **Philip Colley** who was appointed as Interim Commercial Director on 20 February 2012 for 120 days.

Catesby Interim Ltd provided the services of **Kerry Simmonds** who was appointed as Major Projects Director on 1 April 2010 for one year, it was renewed for one year from 1 April 2011 until 31 March 2012 at which point the contract with Catesby Interim Ltd was terminated.

Executive Members' and Key Management Personnel Remuneration

	2011/12			2010/11		
	Salary £000	PRP (Performance Related Pay) £000	Total Remuneration £000	Salary £000	PRP (Performance Related Pay) £000	Total Remuneration £000
Richard Bishop	65-70	0-5	65-70	N/A	N/A	N/A
Andrew Camp	70-75 (80-85 full year equivalent)	Nil	70-75 (80-85 full year equivalent)	80-85	Nil	80-85
Sarah Cevro (from 23 May 2011)	80-85 (95-100 full year equivalent)	Nil	80-85 (95-100 full year equivalent)	70-75 (95-100 full year equivalent)	0-5	75-80 (95-100 full year equivalent)
Philip Colley (Note 2)	N/A	N/A	N/A	N/A	N/A	N/A
Nigel Morris	75-80	Nil	75-80	75-80	0-5	80-85
Christopher Moxey	130-135	10-15	145-150	130-135	20-25	155-160
Daniel Payne	100-105	Nil	100-105	N/A	N/A	N/A
Kerry Simmonds (Note 3)	N/A	N/A	N/A	N/A	N/A	N/A
Helen Sullivan	70-75	Nil	70-75	70-75	5-10	75-80
David Williams	105-110	5-10	115-120	105-110	5-10	115-120
Philip Worthington (until 20 November 2011)	50-55 (80-85 full year equivalent)	0-5	55-60 (85-90 full year equivalent)	60-65 (80-85 full year equivalent)	0-5	65-70 (80-85 full year equivalent)
Band of highest paid director's total Remuneration		145-150			155-160	
Median total Remuneration		33,372			31,622	
Ratio		4.4			5.0	

Note 1. No benefits in kind were received in either financial year.

Note 2. Badenoch and Clark provided the services of Philip Colley, the Interim Commercial Director. The total fees amounted to £20k-£25k, which equates to £160k-£165k for a full year (2010/11 £nil).

Note 3. Catesby Interim Ltd provided the services of Kerry Simmonds, who has assisted the organisation with a number of major projects throughout the year. The total fees amounted to £135k-£140k (2010/11 £140k-£145k).

The above table and notes have been subject to audit.

Salary

'Salary' includes gross base salary; London location allowance; recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made to members of the FCO Services Board and key management personnel and thus recorded in these accounts.

Performance related payments

Individual non-consolidated performance related payments (PRP) are made as part of the appraisal process. The table above shows the performance related payments paid in 2011/12.

Benefits in kind

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

Executive Members' and Key Personnel Pension Benefits

	Accrued pension at pension age as at 31/03/12 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/03/12 £000	CETV at 31/03/11 (Restated) (Note 1) £000	Real increase in CETV £000	Employer contribution to partnership pension account £000
Richard Bishop	20-25 plus a lump sum of 60-65	0-2.5 plus a lump sum of 0-2.5	315	294	-4	-
Andrew Camp	0-5 plus lump sum of nil	0-2.5 plus a lump sum of nil	42	26	12	-
Sarah Cevro	5-10 plus lump sum of nil	0-2.5 plus a lump sum of nil	131	105	15	-
Nigel Morris	30-35 plus lump sum of 90-95	0-2.5 plus a lump sum of 0-2.5	708	698	-18	-
Christopher Moxey	10-15 plus lump sum of nil	0-2.5 plus a lump sum of nil	227	176	32	-
Daniel Payne	5-10 plus lump sum of nil	2.5-5 plus a lump sum of nil	44	28	11	-
Helen Sullivan	5-10 plus lump sum of nil	0-2.5 plus a lump sum of nil	161	135	13	-
David Williams	20-25 plus lump sum of nil	2.5-5 plus a lump sum of nil	243	197	28	-
Philip Worthington (until 20 November 2011)	20-25 plus lump sum of nil	0-2.5 plus a lump sum of nil	342	315	-2	-

Note 1. The actuarial factors used to calculate CETVs were changed in 2011/12. The CETVs at 31/03/11 and 31/03/12 have both been calculated using the new factors, for consistency. The CETV at 31/03/11 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

The above table and notes have been subject to audit.

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 Pensions Increase Legislation.

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

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2012. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement.

For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium.

In nuvos members build up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase Legislation. In all cases members may opt to give up (commute) 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.gov.uk/pensions.

Cash equivalent transfer values

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

A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

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

CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 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, (excluding the Chair person), are appointed by the FCO Services Chief Executive in his capacity as Accounting Officer on fixed appointments.

The FCO as sponsor, appoints the Chair following a recommendation from the Chief Executive. 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 and Andrew Mitchell, 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 or Andrew Mitchell, who are civil servants employed by the Foreign and Commonwealth Office. Travel and accommodation expenses may be payable by FCO Services for Sir Richard Stagg's attendance at FCO Services Board meetings.

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

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

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

David Kogan, was renewed on 1 March 2011 on a three year contract as a Non-Executive Director.

Neil Masom OBE (Chair of the Audit Committee), was renewed on 1 August 2011 on a two year contract as a Non-Executive Director.

Sir Richard Stagg KCMG (Non-Executive Chair), was appointed on a three year contract commencing on 1 June 2007 which has been extended to 31 March 2013.

Andrew Mitchell, was appointed on a three year contract as a Non-Executive Director on 1 September 2011.

Remuneration payments to Non-Executive Directors

	2011/12 £000	2010/11 £000
Sir Richard Stagg (note 1)	-	-
Andrew Mitchell (note 1)	-	-
Wendy Barnes	15-20	15-20
Stephen Hawker	15-20	15-20
David Kogan	15-20	15-20
Neil Masom	15-20	15-20

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

The above table and note has been subject to audit.

Christopher Moxey

Chief Executive and
Accounting Officer
29 June 2012

Annual Governance Statement

1. Scope of responsibility

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

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

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

2. The governance framework

Overall responsibility for the strategic direction of our organisation rests with the Secretary of State for Foreign and Commonwealth Affairs, who delegates these responsibilities during the year to an FCO Minister.

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

The FCO Services' Board is responsible for the strategic management of the business. Chaired by Non-Executive Director, Sir Richard Stagg and comprising the Chief Executive, his Executive Directors and part-time independent Non-Executive Directors, the Board supports the Chief Executive in maximising the organisation's performance. Meeting at least six times per year, the Board is responsible for agreeing FCO Services' strategic agenda, setting corporate policy and monitoring performance at a corporate level. All Board members are required to declare

any interests they may have to enable possible conflicts to be managed. Further, our Non-executive Directors are appointed through processes of fair and open competition. The combination of these two factors ensures the Board retains impartial and independent advice.

This includes agreeing FCO Services' strategic aims and agreeing the broad allocation of resources to achieve them, maintaining a transparent system of prudent and effective controls and the assessment and management of risk, overseeing organisational performance and encouraging innovation.

The Board receives regular comprehensive reports detailing financial performance, sales and marketing plans, HR statistics and service delivery issues, ensuring that they are comprehensively informed of the state of the organisation. The Board also receives regular reporting on risk management, health and safety and (through the work of the Audit Committee) FCO Services systems of internal control. The Board provides oversight and endorsement of the development of FCO services Corporate and Business Plans and receives regular updates throughout the year on FCO Services' major strategic programmes.

The Board, under the direction of the Chair, has established an annual performance management process to evaluate the Board's overall performance and effectiveness, as well as the performance and contribution of Board members. This self-assessment format was agreed in 2008 and measures both behaviours and processes on a numerical scale with the option for further subjective views.

The assessment found that broadly the Board was performing well but actions have been agreed to improve certain areas, notably the way in which the Board engages with the organisations staff and stakeholders. The Audit Committee has established a similar process under the direction of its Chair. The option of an external independent assessment will be considered for the next financial year.

The Audit 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 the Head of Internal Audit and the National Audit Office, as well as members of the Executive Committee.

The Executive Committee meets at least once a month and consisting of the Chief Executive, his

Executive Directors and the Head of Contracts and Supply Chain Group (formerly Procurement and Contract Management Division), focuses on managing day-to-day operations, ensuring that resources are used appropriately and that the business performs in line with its objectives.

FCO Services' Board Attendance

Board Member	Possible Board Attendance 2011/12	Actual Board Attendance 2011/12
Sir Richard Stagg KCMG, <i>Non-Executive Director and Chair</i>	7	7
Neil Masom OBE, <i>Non-Executive Director</i>	7	7
David Kogan, <i>Non-Executive Director</i>	7	5
Wendy Barnes, <i>Non-Executive Director</i>	7	7
Stephen Hawker CB, <i>Non-Executive Director</i>	7	7
Andrew Mitchell, <i>Non-Executive Director</i>	4	4
Chris Moxey, <i>Chief Executive and Accounting Officer</i>	7	6
Danny Payne, <i>Client Delivery Director</i>	7	7
David Williams, <i>Operations Director</i>	7	7
Nigel Morris, <i>Services and Logistics Director</i>	7	4
Andrew Camp, <i>Commercial Group Director</i> <i>(until 17 February 2012)</i>	6	5
Phil Colley <i>Interim Commercial Group Director</i> <i>(from 20 February 2012)</i>	1	1
Helen Sullivan, <i>Finance Director</i>	7	5
Phil Worthington, <i>Acting Human Resources Director</i> <i>(until 20 November 2011)</i>	4	4
Sarah Cevro, <i>Human Resources Director</i>	3	2

Audit Committee Attendance

Audit Committee Member	Possible Audit Committee Attendance 2011/12	Actual Audit Committee Attendance 2011/12
Neil Masom OBE, <i>Chair</i>	6	6
Wendy Barnes, <i>Non-Executive Director</i>	6	6
Stephen Hawker CB, <i>Non-Executive Director</i>	6	5
Alison Currie, * <i>FCO Finance Director</i>	6	1
David Kogan, <i>Non-Executive Director</i> <i>(Audit Committee Member until 30 September 2011)</i>	4	2

*Whilst unable to attend a number of Audit Committee meetings Alison Currie has maintained effective oversight outside of formal arrangements and has been represented at formal meetings by deputies.

The FCO review into the relationship between the FCO and FCO Services has resulted in a strengthening of the oversight by the FCO, in its role as both owner and customer of the Trading Fund. Owner and Customer Boards have been established, which meet quarterly and are chaired by the Chief Operating Officer of the FCO, with the FCO Services' Accounting Officer also in attendance.

This strengthened governance is creating a much improved partnership between the two organisations, enabling them to support each other's strategic aims as effectively as possible.

3. Report of the Audit Committee

The role of the Audit Committee is in summary:

- to ensure that an appropriate framework of internal controls exist and has been in operation throughout the year.
- to ensure that an appropriate framework for risk management is in place and has been embedded effectively throughout the organisation.
- to agree a three-year audit strategy and an annual audit plan and to monitor progress both of the audit work and management actions agreed in response to audit findings.

- to review the reports of the internal auditor and the Financial Compliance Unit (FCU) and to monitor progress against management action plans.
- to review the annual accounts and recommend adoption to the Board.

The Internal Audit plan for 2011-12 was revised during the year to focus audit resource where it could provide best value. During the 2011-12 year 15 new audits were undertaken, 5 rated FCO Services risk management and controls for the area under review as "High" levels of assurance; there were 9 "Moderate" opinions, and 1 "Limited" opinion. Appropriate management effort is underway to strengthen the controls in the weak areas.

Throughout the year FCO Services enjoyed a strong relationship with the National Audit Office and close working relations were maintained at both Audit Committee and Executive level. The Committee reviewed the findings of the September hard close and was assured that no significant issues had been identified. The Committee oversaw the development of the Annual Governance Statement and was grateful for the guidance and advice of the NAO.

The Financial Compliance Unit provided the Committee with valuable advice and reports on matters relating to the investigation and prevention of fraud, as well as on the impact

of the Bribery Act 2010 on FCO Services staff at home and overseas.

FCO Services' Risk Management has continued to mature significantly this year. The Committee was pleased with the development of FCO Services Risk Appetite Statement and Assurance Map, which is an integral part of Corporate Risk Management reporting. This work has been shared with colleagues across government and has been used as an exemplar of good practice at HMT events.

Managing Information Risk continued to receive management attention during the year. FCO Services has achieved Level 3 maturity in the CESG supported IAMM evaluation. There has been significant improvement in relation to 3rd party suppliers and their compliance with information management requirements.

The Committee was pleased with the progress made in 2011-12. FCO Services' actions have demonstrated its commitment to the high standards of risk management and control demanded of a Government Trading Fund. There are a number of areas where further progress needs to be made but the Committee is confident that there is the will and capability to deliver in the Executive.

4. Corporate governance

FCO Services operates within the terms of its Framework Document which takes primacy in determining the responsibilities and accountabilities of the Secretary of State for Foreign Affairs, the FCO and FCO Services.

In addition to this, FCO Services' Corporate Governance Document sets out the Corporate Governance applied within FCO Services (set out in section 2 above) - the design of which has drawn upon the guiding principles published in, *The Corporate Governance Code* and *The Audit Committee Handbook*. The document is reviewed on an annual basis and has been internally assessed by the Board Secretary against the Corporate Governance Code published in July 2011.

This assessment concluded that FCO Services' corporate governance complied with all relevant aspects of the code. Any departures were aspects only relevant to departmental/ministerial Boards and not applicable to the operations of FCO Services.

5. Capacity to identify and manage internal and external risk

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

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

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

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

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

6. The risk and control framework

6.1 Risk management framework

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

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

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

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

Detailed assurance information is available to the Internal Auditors who have taken this into account along with assurance provided by other review and inspection functions and monitoring activity within FCO Services. In so doing this has avoided duplication of effort and helped to provide better, more rounded coverage of the strength of risk management, control and governance for the Audit Committee and the Chief Executive.

I am not aware of any evidence to suggest major deficiencies in our risk management process. Overall, we have continued to put considerable effort into strengthening and embedding our processes around management of risk, and expect to see these continue to mature in the coming year.

6.2 System of internal control

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

- the FCO Services Board, which meets bi-monthly to support the Accounting Officer in maximising the organisation's performance, monitoring performance at corporate level, ensuring that the management and controls required to ensure effective governance and control are in place and to provide support, advice and constructive challenge to the executive team in the execution of their duties.
- the Executive Committee, which meets regularly to consider the strategic direction, assess key monitoring information and review corporate risks.
- the Audit Committee, which considers all aspects of internal control including the consideration of reports from the internal and external auditors and regular reports from Directors and senior managers on operational and financial aspects of their activities.
- the Health and Safety Committee which meets twice a year to consider all aspects of FCO Services' Health and Safety policy and performance, supported by sub-committees for the main operating divisions within the business and clear accountabilities for managers throughout the organisation.
- an annual process of target and budget setting through the Business Plan.
- monthly monitoring of key performance measures and indicators, including comprehensive financial and HR data and project reports.
- formal business reviews of operational and financial performance three times a year
- a centrally managed business improvement programme that controls and monitors progress of key business change projects.
- project management reviews and controls designed to ensure the effective management of key programmes and projects using project management methodologies and intranet-based tools.

- a system of cascaded delegations for capital and revenue expenditure and authority to contract, supported by clear mandate letters, enforced through system controls and exception reports.
- individual approval of capital (including research and development) expenditure projects, supported by appropriate business cases, by the Commercial Committee.
- annual letters of assurance provided by members of my Executive Team, supported by assurances from their senior managers and information asset managers, providing documented assurances of compliance with their operational risk management and internal control responsibilities, identifying any perceived weaknesses and actions to address these.
- a programme of internal audits delivered to Government Internal Audit Standards, providing regular reports and an overall annual opinion on risk management, control and governance within FCO Services.
- external audit provided by the National Audit Office (NAO) who provide internal control comments in their management letters and other reports.
- since January 2011, a Quality Management System covering 10 of our processes, which defines and controls the processes used to deliver services to customers, and audits them to identify continuous improvement opportunities.
- a Sustainability Committee which meets quarterly to consider all aspects of FCO Services' environmental performance, and develops and manages action plans.
- other specific risk reviews, including Health and Safety reviews and commissioned third party reviews of particular policies and processes.

6.3 Management of information risk

FCO Services is committed to protecting and using its information securely and effectively, in compliance with its legal obligations and with the standards and requirements set out by the Cabinet Office. The Executive Committee recognises its responsibility in providing leadership and promoting a culture of information security awareness throughout FCO Services. The Senior Information Risk Officer (SIRO) is a Board member and Directors have been made accountable and responsible for their information assets as Information Asset Owners. This year

the SIRO has made formal appointments for the roles of Lead Accreditor, Communication Security Officer, and Chief Technology Officer, who have specific responsibilities to assist her in the management of information risk.

During 2011/12 considerable progress has been made in developing Information Assurance capability across the organisation. The Information Assurance governance model has been strengthened, with ISM and DISM roles being re-defined. In March 2012, the organisation successfully completed a CESG supported self-assessment against the Cabinet Office Information Assurance Maturity Model, achieving the highest current level maturity in all areas – the only exceptions being Firecrest Disaster Recovery (DR) and Digital Obsolescence (i.e. the ability to access historic documents formatted in non-current software). Firecrest DR is outside FCO Services' control. The options for Digital Obsolescence will be reviewed and recommendations submitted to the FCO Services Security Committee.

FCO Services is fully compliant with the mandatory requirements on information security and assurance that are set out in the Security Policy Framework. There have been no reported personal data handling breaches during the year.

7. Annual risk assessment

As Accounting Officer I am responsible for monitoring the effectiveness of the system of internal control and carrying out and responding to risk assessments throughout the year.

A key risk we have continued to manage is that of the strength of our revenue pipeline. Revenue and pipeline reports have been reviewed by the Board at each meeting and monthly at the Executive Committee.

For the Revenue element there are ongoing stage reviews for major projects, formal management reviews (MBR) and reviews during the production of the monthly management accounts. The weaknesses highlighted in this area are around the timeliness of Project Managers updating revenue forecasts and the quality of some forecasts where some Project Managers do not follow revenue recognition policy. This is being addressed through mandatory training of Project Managers and Project Support staff.

Pipeline information is managed on a customer basis with each customer being assigned a

Senior Relationship Executive (SRE) and a named Account Manager or Sales lead. These assigned personnel have regular meetings with the customer which helps to form the view of both longer term customer aspirations and budgets alongside more immediate prospects. SREs formally report on a regular basis to the Commercial Committee. The actual prospects are entered on the P&O database with a subjective view of potential revenue, timing and chances of winning.

The weaknesses identified with this information are the subjective nature of the information leading to inconsistency of view and administrative housekeeping issues. The database itself is under technical pressure from the number of users and it has been decided that the organisation is now mature enough to look to replace this database with an off the shelf CRM system during the next financial year.

Closely aligned to maintaining our revenue pipeline, is the regular monitoring of levels of customer satisfaction through pulse tests, supported by an annual independent survey which forms the basis of a formal Ministerial target each year.

Although the target of a customer satisfaction index of 70 from the Annual Customer Survey for FY 11/12 was met, customer feedback suggested a number of areas for improvement, particularly around the ease of doing business with us. We will continue to work with customers to improve our service in some key areas around billing and pricing, and a number of workstreams are already currently underway, focusing on a range of issues, which include speeding up the time it takes to produce complex proposals, and developing a deeper awareness of and responsibility for customer relationship management throughout the organisation.

Maintenance of an uninterrupted service to our customers is clearly of great importance to us, and therefore the management of the potential impact of the London 2012 Olympic Games on service delivery has been a particular focus of attention this year.

We have carried out a review of preparedness across the organisation to ensure the effect of external Olympics preparations on FCO Services is minimised, and that it can continue to deliver its services to customers also impacted during the period of the games.

We have drawn up an over-arching document 'London 2012 Response Plan for FCO Services', prepared in February 2012, which identifies where the London Olympics will have a material effect on normal services, and highlights alternative and mitigating actions. Throughout, this careful planning has been undertaken in close consultation with the FCO London 2012 Unit. We have also tested the robustness of our plans through practical exercises.

Business continuity remains an important focus for us. We have continued to develop our plans for fallback accommodation, with attention now moving to creating plans for site fit out in order to enable rapid mobilisation.

To safeguard our future through understanding and responding to our customers changing needs, this year we have undertaken an investment programme in research and development (£2.9m). This has required the development of robust processes for approval and regular monitoring of underlying business cases. These processes are still being embedded and may require further strengthening next year to ensure appropriate governance and control.

We recognise the importance of safeguarding all the physical assets of the business (including non-current assets, inventory and tooling) and having a single process owner to cover all asset related controls. We are in the process of identifying appropriate personnel to take on this role and deliver improvements to process, policy and control over assets.

An internal IS governance process has been developed, providing procedures and guidance on the procurement, enhancement and de-commissioning of new systems/tools. A notification process has been launched to ensure change of assets and software renewals are recorded centrally. This new process has provided much improved control. An internal audit on IT Asset Management in March 2012 received a moderate assurance assessment. The recommendations are being reviewed for impact and an action plan being developed for implementation.

Following an internal audit review of VAT compliance we have identified a number of areas where we need to work with HMRC to clarify VAT treatment and strengthen compliance. We have addressed these issues by implementing a work programme to improve process and compliance

and have employed a VAT expert resource to further strengthen our controls around VAT.

The Purchase to Pay (P2P) process has been subject to two reviews and subsequent interventions this year. An internal audit of P2P resulted in a moderate assurance assessment. The most significant audit finding was that reporting of P2P process non-compliance via monthly Oracle Financials exception reports lacked depth. A new management report was subsequently developed and has now been acceptance tested and this will provide the required cross-period management information.

Reassuringly, and subsequent and separately to the internal audit of P2P the Procurement Department worked closely with Finance and representatives of the wider business to pilot the use of HM Treasury's Managing Risk of Financial Loss tool across P2P. This exercise proved valuable in identifying a small number of process enhancements. It also provided broader assurance that no major process deficiencies were present.

FCO Services adopts the FCO duty of care policy when working abroad on FCO premises, in that no distinction will be made between FCO and FCO Services staff in the event of an incident. We have recognised that our growth of non-FCO revenue streams requires an extension of this policy. An FCO Services working group has therefore been formed to rapidly develop suitable control measures to mitigate risk for likely situations that might happen in hostile conditions.

FCO Services' engagement index score from the 2011 Your Say staff survey was 54%, which is in line with the Civil Service median. The scores varied considerably between business areas, so our focus has been on the development of local action plans to address specific issues.

Corporately, we have updated our action plan and will be focusing on developing a leadership engagement strategy in 2012/13. Progress is monitored by the Staff Engagement Programme Board, which also oversees our 3-year rolling Investors in People assessment leading to re-accreditation in 2013.

The underlying risk is that staff engagement and motivation levels could adversely affect overall business performance, but the range of people management measures that FCO Services has implemented in the last 3 years have contributed towards the successful achievement of key business targets.

FCO Services continues to use a significant number of contractors and agency staff to deliver its broad range of services. Interims provide a flexible workforce, supplementing both the skill set and capacity of the permanent staff. The Procurement department continues to run an active programme of challenging prevailing rates of interim staff, with very significant savings being achieved. The vast majority of contractors and agency staff are sourced via OGC central government frameworks, which ensure value for money at market rates. We are actively reviewing the length of service of all contractors and agency staff, and are developing a formal plan to recruit permanent staff into all key roles.

8. Overall summary

The Head of Internal Audit has reported to me an improving position in relation to risk management, control and governance, based on the evidence from individual audit reviews in the current year. In 2011/12, there has been a reduction from the previous year of both the number of audits with 'Limited Assurance', and the number of 'control objectives' within those audits, rated as 'Limited Assurance'.

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

Christopher Moxey

Chief Executive and
Accounting Officer
29 June 2012

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

Under section 4 (6) of the Government Trading Funds Act 1973, HM Treasury has directed FCO Services to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Trading Fund and of its income and expenditure, changes in taxpayers' equity, and cash flows for the financial year.

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

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

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

Christopher Moxey

Chief Executive and
Accounting Officer
29 June 2012

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

I certify that I have audited the financial statements of FCO Services for the year ended 31 March 2012 under the Government Trading Funds Act 1973.

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

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

As explained more fully in the Statement of FCO Services Agency's and Accounting Officers Responsibilities, FCO Services and the Chief Executive, as Accounting Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Trading Funds Act 1973. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate to the FCO Services' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by FCO Services; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of FCO Services' affairs as at 31 March 2012 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in the 'Annual Governance Statement', the 'Review of Financial Performance' and the 'Sustainability Report' for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
4 July 2012

Statement of Comprehensive Income

for the year ended 31 March 2012

	Note	2011/12 £000	2010/11 £000
Revenue	2	128,991	102,529
Cost of sales	5	(93,745)	(68,092)
Gross surplus		35,246	34,437
Operating expenses	5	(29,076)	(27,343)
Operating surplus		6,170	7,094
Profit/(loss) on disposal of property, plant and equipment		0	(2)
Surplus for the financial year before voluntary exit scheme		6,170	7,092
Voluntary exit scheme	4(c)	(1,538)	(2,030)
Surplus before financing		4,632	5,062
Financing income	6	116	93
Financing costs	6	(293)	(393)
Net financing		(177)	(300)
Surplus for the financial year		4,455	4,762
Dividend	7	(735)	(572)
Retained surplus for the financial year		3,720	4,190
Other comprehensive income			
Net gain on the revaluation of property, plant and equipment		43	6
Total comprehensive income for the financial year		3,763	4,196

All income and expenditure are derived from continuing operations.
The notes on pages 55 to 72 form part of these accounts.

Statement of Financial Position

as at 31 March 2012

	Note	2011/12 £000	2010/11 £000
Non-current assets			
Intangible assets	8	892	779
Property, plant and equipment	9	6,637	4,925
Total non-current assets		7,529	5,704
Current assets			
Inventories	10	1,778	1,431
Trade and other receivables	11(a)	17,712	12,532
Cash and cash equivalents	12	37,636	42,070
Total current assets		57,126	56,033
Total assets		64,655	61,737
Current liabilities			
Trade and other payables	13(a)	(34,649)	(32,543)
Total current liabilities		(34,649)	(32,543)
Total assets less current liabilities		30,006	29,194
Non-current liabilities			
Financial liabilities	16	(2,852)	(5,803)
Total non-current liabilities		(2,852)	(5,803)
Assets less liabilities		27,154	23,391
Taxpayers' equity			
Public dividend capital		4,981	4,981
General reserve		56	23
Revaluation reserve		74	64
Government grant reserve		-	248
Income and expenditure account		22,043	18,075
Total taxpayers' equity		27,154	23,391

The notes on pages 55 to 72 form part of these accounts.

Christopher Moxey
Chief Executive and Accounting Officer
29 June 2012

Statement of Cash Flows

for the year ended 31 March 2012

	Note	2011/12 £000	2010/11 £000
Cash flows from operating activities			
Surplus on ordinary activities before dividend payable		4,455	4,762
Adjustments for non-cash transactions	17	1,695	1,123
Net interest payable	6	177	300
Increase in inventories		(347)	(38)
Increase in trade and other receivables		(5,180)	(496)
<i>less movements in receivables relating to items not passing through the income statement</i>			
- Accrued deposit interest		1	-
Increase in trade and other payables		2,106	3,795
<i>less movements in payables relating to items not passing through the income statement</i>			
- Working capital loan from FCO reclassified between non-current liabilities and current liabilities		-	1,049
- Dividend payable		(163)	(125)
- Accrued loan payable		59	80
Reversal of provisions		-	(316)
Net cash inflow from operations		2,803	10,134
Cash flows from investing activities			
Purchase of intangible assets	8	(575)	(522)
Purchase of property, plant and equipment	9	(2,916)	(1,791)
Proceeds of disposal of property, plant and equipment		13	19
Net cash outflow from investing activities		(3,478)	(2,294)
Cash flows from financing activities			
Loans repaid to FCO		(2,951)	(4,000)
Interest paid		(352)	(472)
Interest received		116	93
Dividend paid		(572)	(447)
Net financing		(3,759)	(4,826)
Net (decrease)/increase in cash and cash equivalents in the period		(4,434)	3,014
Cash and cash equivalents at the beginning of the period	12	42,070	39,056
Cash and cash equivalents at the end of the period	12	37,636	42,070

The notes on pages 55 to 75 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2012

	Public Dividend Capital £000	General Reserve £000	Revaluation Reserve £000	Government Grant Reserve £000	Income and Expenditure Account £000	Total Reserves £000
Balance at 1 April 2010	4,981	(36)	117	298	13,885	19,245
Changes in taxpayers' equity for 2010/11						
Unrealised net surplus on revaluation of property, plant and equipment	-	-	6	-	-	6
General reserve transfer - depreciation charge difference in year on revalued cost basis compared to historic cost basis	-	59	(59)	-	-	-
Government grant depreciation	-	-	-	(50)	-	(50)
Retained surplus for the financial year	-	-	-	-	4,190	4,190
Total recognised income and expenses for 2010/11	-	59	(53)	(50)	4,190	4,146
Balance at 31 March 2011	4,981	23	64	248	18,075	23,391
Changes in taxpayers' equity for 2011/12						
Unrealised net surplus on revaluation of property, plant and equipment	-	-	43	-	-	43
General reserve transfer - depreciation charge difference in year on revalued cost basis compared to historic cost basis	-	33	(33)	-	-	-
Release to Income and Expenditure Account of Government Grant due to change in accounting policy	-	-	-	(248)	248	-
Retained surplus for the financial year	-	-	-	-	3,720	3,720
Total recognised income and expenses for 2011/12	-	33	10	(248)	3,968	3,763
Balance at 31 March 2012	4,981	56	74	-	22,043	27,154

The Public Dividend Capital Reserve records the investment made in the Trading Fund by the Secretary of State for Foreign and Commonwealth Affairs. The General Reserve is used to account for movements on reserves which do not pass through the income and expenditure account. The Revaluation Reserve records the unrealised profit on the cumulative indexation and revaluation adjustments to non-current assets. The Government Grant Reserve relates to property plant and equipment. Due to a change in accounting policy to reflect IPSAS 23 (Revenue from Non-Exchange Transactions) the reserve has been released in full to the Income and Expenditure Account. Prior year restatement was not considered necessary as the impact was not material to the Financial Statements. The Income and Expenditure Account is used to account for the accumulated surplus of the Trading Fund. The notes on pages 55 to 72 form part of these accounts.

Notes to the Accounts

2011/12

1. Accounting policies

1.1 Basis of accounting

These financial statements have been prepared in accordance with the Accounts Direction issued by HM Treasury on 20 December 2011, pursuant to 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 2011-12 Government Financial Reporting Manual (FRoM) and Trading Funds Accounts Guidance, as issued by HM Treasury.

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

1.2 Accounting convention

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

1.3 Revenue

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

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

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

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

1.4 Dividend

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

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

1.5 Value added tax

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

1.6 Operating leases

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

1.7 Inventories

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

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

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

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

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

1.8 Property, plant and equipment

Property, plant and equipment are stated at fair value at the Statement of Financial Position date using appropriate indices or at valuation. Depreciation is restated proportionately with any change in the gross carrying amount so that the carrying amount after revaluation equals its revalued amount.

The minimum level for capitalisation of a single tangible asset is £3,000, subject to grouping conventions where appropriate. Furniture and fittings are not capitalised. Fixtures are defined as substantial modifications to buildings occupied by FCO Services which enhance the economic usefulness of the building.

On initial recognition property, plant and equipment are measured at cost including any costs such as installation directly attributable to bringing them into working condition. Assets are included in the accounts at the valuation applicable at the Statement of Financial Position date; any movements in valuation during the year are taken to the revaluation reserve or treated as impairments where appropriate.

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

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

Asset lives have been set in the following ranges:
Information technology – up to 8 years
Transport equipment – 2 to 8 years
Plant and machinery – 5 to 20 years
Fixtures – 25 years

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

1.9 Intangible assets

Intangible assets are valued initially at cost and subsequently at fair value using the revaluation model.

Where an active market does not exist, income generating assets are valued at the lower of depreciated replacement cost and value in use.

This valuation method is considered to be a proxy for fair value.

Future economic benefit has been used as the criteria in assessing whether an intangible asset meets the definition and recognition criteria of IAS 38 where assets do not generate income. IAS 38 defines future economic benefit as, 'revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity.'

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

Intangible assets are 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 development are not depreciated or revalued until the asset is brought into use.

Asset lives have been set in the following range:
Software licences – 3 to 5 years
Research and Development – 3 to 5 years

Intangible assets are reviewed annually for impairments and any impairment is charged to the Statement of Comprehensive Income.

1.10 Research and development

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

Such capitalised costs are amortised over the forecast period of sales resulting from the development (taken to be 3-5 years). All other research and development costs are expensed to the income statement in the period in which they are incurred. If the research phase cannot be clearly distinguished from the development phase, the respective project-related costs are treated as if they were incurred in the research phase only and expensed.

1.11 Government grants

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

1.12 Bad debts provision

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

1.13 Provisions

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

1.14 Pension costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (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 Statement of Financial Position date are translated at the rates ruling at that date. These translation differences are dealt with in the income statement.

1.16 Contingent liabilities

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

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

2. Revenue

	2011/12 £000	2010/11 £000
Foreign and Commonwealth Office	82,215	78,200
Other UK Government bodies and other UK and International organisations	46,776	24,329
	128,991	102,529

3. Segmental Reporting

FCO Services is organised into 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.

Analysis of Operating Surplus by Service Delivery Group	Client Delivery £000	Operations £000	Services & Logistics £000	Total £000
2011/12				
External revenue	36,839	66,688	25,464	128,991
Internal revenue	1	-	1,585	1,586
Total revenue	36,840	66,688	27,049	130,577
Cost of sales	(25,351)	(49,341)	(19,053)	(93,745)
Internal cost	(1,448)	(138)	-	(1,586)
Total cost	(26,799)	(49,479)	(19,053)	(95,331)
Gross surplus/(deficit)	10,041	17,209	7,996	35,246
Operating expenses	(10,764)	(13,605)	(6,245)	(30,614)
Surplus/(deficit) before financing	(723)	3,604	1,751	4,632
2010/11				
External revenue	38,059	44,465	20,005	102,529
Internal revenue	-	-	2,534	2,534
Total revenue	38,059	44,465	22,539	105,063
Cost of sales	(22,700)	(27,346)	(18,046)	(68,092)
Internal cost	(2,008)	(526)	-	(2,534)
Total cost	(24,708)	(27,872)	(18,046)	(70,626)
Gross surplus/(deficit)	13,351	16,593	4,493	34,437
Operating expenses	(11,985)	(12,575)	(4,815)	(29,375)
Surplus/(deficit) before financing	1,366	4,018	(322)	5,062

3. Segmental Reporting (continued)

Analysis of Assets less Liabilities by Service Delivery Group	Client Delivery £000	Operations £000	Services & Logistics £000	Corporate £000	Total £000
2011/12					
Segment assets					
Intangible assets	126	712	41	13	892
Property, plant and equipment	422	5,196	1,010	9	6,637
Inventories	974	317	487	-	1,778
Trade and other receivables	7,524	4,207	5,434	547	17,712
Cash and cash equivalents	-	-	-	37,636	37,636
Segment liabilities					
Current liabilities	(9,592)	(5,403)	(2,841)	(16,813)	(34,649)
Non current financial liabilities	-	-	-	(2,852)	(2,852)
Segment assets less liabilities	(546)	5,029	4,131	18,540	27,154
2010/11					
Segment assets					
Intangible assets	126	288	95	270	779
Property, plant and equipment	453	3,379	1,078	15	4,925
Inventories	757	360	314	-	1,431
Trade and other receivables	5,552	3,537	3,098	345	12,532
Cash and cash equivalents	-	-	-	42,070	42,070
Segment liabilities					
Current liabilities	(9,970)	(4,550)	(1,755)	(16,268)	(32,543)
Non current financial liabilities	-	-	-	(5,803)	(5,803)
Segment assets less liabilities	(3,082)	3,014	2,830	20,629	23,391

4. Staff numbers and costs

4(a) Staff numbers

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

Staff Numbers	Permanent	Other*	Total
2011/12			
Service Delivery	741	185	926
Sales and Marketing	30	12	42
Corporate Services	85	18	103
	856	215	1,071
2010/11			
Service Delivery	819	152	971
Sales and Marketing	30	12	42
Corporate Services	92	24	116
	941	188	1,129

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

	Permanent £000	Other* £000	Total £000
2011/12			
Salaries/agency staff and fee paid officers	34,220	17,800	52,020
Social security costs	2,497	41	2,538
Other pension costs	5,091	-	5,091
Total staff costs	41,808	17,841	59,649
Capitalised staff costs	(137)	(1,239)	(1,376)
Total net staff costs	41,671	16,602	58,273
2010/11			
Salaries/agency staff and fee paid officers	35,898	15,995	51,893
Social security costs	2,452	38	2,490
Other pension costs	5,547	-	5,547
Total staff costs	43,897	16,033	59,930
Capitalised staff costs	(270)	(166)	(436)
Total net staff costs	43,627	15,867	59,494

*Other comprises agency staff and fee paid officers.

4(c) Reporting of Civil Service and other compensation schemes – exit packages

The table below provides details of exit packages included within the financial statements:

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
<£10,000	-	-	-	-	-	-
£10,000 - £25,000	-	-	10	11	10	11
£25,000 - £50,000	-	-	8	16	8	16
£50,000 - £100,000	-	-	8	12	8	12
£100,000 - £150,000	-	-	3	2	3	2
£150,000 - £200,000	-	-	-	1	-	1
Total number of packages by type	-	-	29	42	29	42
Total resource cost (£000)	-	-	1,433	2,030	1,433	2,030

The value on the statement of financial position of £1,538k includes £105k of payments which related to 2010/11.

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service Pension Scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

4(d) 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. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/my-civil-service/pensions).

For 2011/12, employers' contributions of £5,072,000 were payable to the PCSPS (2010/11 £5,526,000) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme actuary reviews employer contributions every four years following a full scheme valuation.

The contribution rates are set to meet the cost of the benefits accruing during 2011/12 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £19,322 (2010/11 £18,715) 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 £1,060 (2010/11 £1,109), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the Statement of Financial Position date were £nil (2010/11 £nil). Contributions prepaid at that date were £nil (2010/11 £nil).

In the 12 months to March 2012 no individuals (2010/11 no individuals) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2010/11 £nil).

5. Cost of sales and operating expenses

	2011/12			2010/11		
	Cost of sales £000	Operating expenses £000	Total £000	Cost of sales £000	Operating expenses £000	Total £000
Net staff costs	25,503	16,168	41,671	25,368	18,259	43,627
Agency staff and fee paid officers*	13,559	3,043	16,602	14,070	1,797	15,867
Training and recruitment	437	453	890	433	450	883
Travel	9,190	875	10,065	7,705	716	8,421
Consultancy	2	-	2	-	876	876
Professional services*	1,445	401	1,846	2,242	181	2,423
Communications	1,511	398	1,909	1,311	308	1,619
Supplies, services and facilities management**	31,227	4,803	36,030	8,064	2,596	10,660
Work in progress decrease	-	-	-	351	-	351
Freight	6,252	-	6,252	4,463	-	4,463
Maintenance	2,959	1,112	4,071	2,695	903	3,598
Operating leases - land and buildings	-	-	-	-	18	18
Operating leases - other	-	8	8	-	18	18
Accommodation charges***	478	747	1,225	351	549	900
Loss/(profit) on currency exchange	-	7	7	-	(3)	(3)
Other	-	727	727	-	486	486
Depreciation	1,087	51	1,138	1,033	15	1,048
Amortisation of grant income	-	-	-	(50)	-	(50)
Amortisation of intangible assets	-	183	183	-	67	67
Impairment losses on fixed assets	95	-	95	56	-	56
Auditors' remuneration and expenses (no non-audit work)	-	100	100	-	107	107
Total costs	93,745	29,076	122,821	68,092	27,343	95,435

*Agency staff, fee paid officers, and professional services charged to cost of sales are fee earning.

** Includes £2,076,000 in respect of management charges from the FCO (2010/11 £2,648,000).

***Accommodation charges are payable to the FCO.

The total amount of research and development expenditure recognised as an expense during the period was £917,000 (2010/11 £550,000). This includes staff costs and an appropriate recovery of overheads.

6. Financing income and costs

	2011/12 £000	2010/11 £000
Financing income		
Government Banking Service interest	116	93
	116	93
Financing costs		
Working Capital Loan interest	(121)	(201)
Vesting Day Loan interest	(172)	(192)
	(293)	(393)
Net financing	(177)	(300)

Interest is payable at a fixed rate to the Foreign and Commonwealth Office (see note 16).

7. Dividend

	2011/12 £000	2010/11 £000
Statutory dividend	735	572
Dividend payable	735	572

The dividend is payable to the Foreign and Commonwealth Office.

8. Intangible assets

	Assets under development £000	Research & development £000	Software licences £000	Total £000
2011/12				
Cost or valuation				
At 1 April 2011	672	-	237	909
Additions	6	569	-	575
Assets brought in to use	(267)	258	9	-
Adjustments to prior year cost*	(279)	-	-	(279)
As at 31 March 2012	132	827	246	1,205
Amortisation				
At 1 April 2011	-	-	130	130
Provided during the year	-	122	61	183
As at 31 March 2012	-	122	191	313
Net book value				
As at 31 March 2012	132	705	55	892
As at 31 March 2011	672	-	107	779
Owned as at 31 March 2012	132	705	55	892
2010/11				
Cost or valuation				
At 1 April 2010	150	-	232	382
Additions	522	-	-	522
Transferred from tangible fixed assets	26	-	-	26
Assets brought in to use	(26)	-	26	-
Disposals	-	-	(21)	(21)
As at 31 March 2011	672	-	237	909
Amortisation				
At 1 April 2010	-	-	74	74
Provided during the year	-	-	67	67
Disposals	-	-	(11)	(11)
As at 31 March 2011	-	-	130	130
Net book value				
As at 31 March 2011	672	-	107	779
As at 31 March 2010	150	-	158	308
Owned as at 31 March 2011	672	-	107	779

* Prior year cost was adjusted following a review of the capitalisation policy for development expenditure. A prior year adjustment was not done as the value of the adjustment was not considered material to the financial statements.

9. Property, plant and equipment

	Assets under construction £000	Fixtures £000	Information technology £000	Transport equipment £000	Plant and machinery £000	Total £000
2011/12						
Cost or valuation						
At 1 April 2011	1,561	287	1,966	1,420	4,061	9,295
Additions	1,099	-	1,412	48	357	2,916
Assets brought in to use	(759)	-	471	-	288	-
Disposals	-	-	(46)	(47)	(43)	(136)
Revaluation	-	-	10	30	155	195
As at 31 March 2012	1,901	287	3,813	1,451	4,818	12,270
Depreciation						
At 1 April 2011	-	3	1,247	748	2,372	4,370
Provided during the year	-	11	361	202	564	1,138
Disposals	-	-	(46)	(43)	(34)	(123)
Impairments	-	-	126	-	-	126
Revaluation	-	-	6	16	100	122
As at 31 March 2012	-	14	1,694	923	3,002	5,633
Net book value						
As at 31 March 2012	1,901	273	2,119	528	1,816	6,637
As at 31 March 2011	1,561	284	719	672	1,689	4,925
Owned as at 31 March 2012	1,901	273	2,119	528	1,816	6,637

All assets have been revalued at 31 March 2012 using appropriate indices.

9. Property, plant and equipment (continued)

	Assets under construction £000	Fixtures £000	Information technology £000	Transport equipment £000	Plant and machinery £000	Total £000
2010/11						
Cost or valuation						
At 1 April 2010	768	80	1,996	1,135	3,979	7,958
Additions	1,282	207	-	130	172	1,791
Assets brought in to use	(461)	-	51	354	56	-
Transferred to intangible fixed assets	(26)	-	-	-	-	(26)
Disposals	(2)	-	(23)	(177)	(76)	(278)
Revaluation	-	-	(58)	(22)	(70)	(150)
As at 31 March 2011	1,561	287	1,966	1,420	4,061	9,295
Depreciation						
At 1 April 2010	-	-	1,022	737	1,929	3,688
Provided during the year	-	3	295	192	558	1,048
Disposals	-	-	(23)	(173)	(71)	(267)
Impairments	-	-	-	2	2	4
Revaluation	-	-	(47)	(10)	(46)	(103)
As at 31 March 2011	-	3	1,247	748	2,372	4,370
Net book value						
As at 31 March 2011	1,561	284	719	672	1,689	4,925
As at 31 March 2010	768	80	974	398	2,050	4,270
Owned as at 31 March 2011	1,561	284	719	672	1,689	4,925

10. Inventories

	2011/12 £000	2010/11 £000
Raw materials and consumables	1,778	1,431
	1,778	1,431
Amount of inventory write down/(back)	67	(3)

11. Trade receivables and other current assets

11(a) Analysis by type

	2011/12 £000	2010/11 £000
Amounts falling due within one year:		
Trade receivables	11,009	8,871
Other receivables	210	157
Prepayments and accrued income	6,493	3,504
	17,712	12,532

Included within prepayments and accrued income is £3,608,000 from the FCO (2010/11 £1,749,000).

11(b) Intra-Government balances

	2011/12 £000	2010/11 £000
Foreign and Commonwealth Office	9,544	7,521
Other central government bodies	4,906	3,086
Local authorities	57	64
Public Corporations	16	-
Subtotal: intra-government bodies	14,523	10,671
Balances with bodies external to government	3,189	1,861
Total trade receivables and other current assets	17,712	12,532

12. Cash and cash equivalents

	2011/12 £000	2010/11 £000
Balance at 1 April	42,070	39,056
Net change in cash and cash equivalents	(4,434)	3,014
Balance at 31 March	37,636	42,070

The above balances were within the Government Banking Service. FCO Services does not have any cash equivalents.

13. Trade payables and other current liabilities

13(a) Analysis by type

	Note	2011/12 £000	2010/11 £000
Amounts falling due within one year:			
Trade payables		4,854	1,096
Accruals		10,718	9,010
Payments on account*		11,657	11,646
Other payables**		1,445	6,070
VAT		2,289	1,198
Dividends payable		735	572
Loans repayable in one year	16	2,951	2,951
		34,649	32,543

* Included within payments on account is £9,577,000 from the FCO (2010/11 £10,189,000).

** Included in other payables is £624,000 (2010/11 £1,651,000) due to FCO in respect of management charges and accommodation.

13. Trade payables and other current liabilities (continued)

13(b) Intra-Government balances

	2011/12 £000	2010/11 £000
Foreign and Commonwealth Office	20,812	20,706
Other central government bodies	4,006	1,971
Local Authorities	14	-
Public Corporations	1	-
Subtotal: intra-government bodies	24,833	22,677
Balances with bodies external to government	9,816	9,866
Trade payables and other current liabilities	34,649	32,543

14. Commitments under leases

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

Obligations under operating leases comprise:

	2011/12 £000	2010/11 £000
Buildings		
Expiry within one year	-	-
Expiry after 1 year but not more than 5 years	-	-
Expiry thereafter	120	138
	120	138
Other		
Expiry within one year	4	10
Expiry after 1 year but not more than 5 years	14	29
Expiry thereafter	-	-
	18	39

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

15. Provision for liabilities and charges

	2011/12 £000	2010/11 £000
Balance at 1 April	-	316
Provision reversed in the year	-	(316)
Balance at 31 March	-	-

16. Financial liabilities

	2011/12 £000	2010/11 £000
Loans		
Repayable in under a year	2,951	2,951
Repayable in one to two years	951	2,951
Repayable in two to five years	1,901	2,852
Repayable after five years	-	-
	2,852	5,803

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

Loans comprise:

Loans	Total outstanding £000	Interest rate %	Date drawn	Due within 12 Months Note 13(a) £000	2011/12 Due after 12 Months £000
Vesting Day Loan	3,803	4.03%	01/04/2008	951	2,852
Working Capital Loan	2,000	4.01%	01/04/2008	2,000	-
	5,803			2,951	2,852

17. Adjustments for non-cash transactions

	Note	2011/12 £000	2010/11 £000
Loss on disposal of property, plant and equipment		-	2
Amortisation	8	183	67
Adjustment to prior year intangible asset cost	8	279	-
Depreciation	9	1,138	1,048
Amortisation of grant income	5	-	(50)
Impairment	5	95	56
		1,695	1,123

18. Capital commitments

Contracted capital commitments not provided in these accounts	2011/12 £000	2010/11 £000
Property, plant and equipment	180	492
Intangible assets	16	26
	196	518

19. Other financial commitments

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

20. Contingent liabilities disclosed under IAS 37

At 31 March 2012 contingent liabilities existed in respect of employment £50,000 (2010/11 £29,000) and commercial disputes £nil (2010/11 £nil). While the outcome of these matters cannot be precisely foreseen it is anticipated the matters will be resolved within the next financial year.

21. Financial instruments

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

FCO Services' financial instruments comprise cash deposits, government loans and other items such as trade debtors and trade creditors. The main purpose of the financial instruments is to finance the trading fund's continuing operations.

Credit risk

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

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.

Note 21 (continued)

Interest rate risk

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

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

Foreign currency risk

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

22. Losses and special payments

During the year, costs falling into the categories of losses and special payments were below the level, of £250,000, at which they needed to be reported separately (2010/11 below the level requiring separate disclosure).

23. Related party transactions

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

In addition, FCO Services has had various material transactions with other Government Departments and other Central Government bodies. Most of these transactions have been with the Home Office, UK Border Agency and SOCA.

Alison Currie, Finance Director of the FCO, served on the Audit Committee of FCO Services during the period.

Kerry Simmonds, Major Projects Director, is a director of Catesby Interim Ltd, which provided interim management services to FCO Services. The total value of the fees payable to Catesby Interim Ltd is shown in the Remuneration Report. At the year end there was no balance outstanding due to Catesby Interim Ltd (2010/11 £16k).

With the exception of the above, no Board member, key manager or other related party has undertaken any material transaction with FCO Services during the year.

Compensation benefits for key management personnel are detailed in the Remuneration Report.

24. Events after the reporting period

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

The Accounting Officer authorised these Financial Statements for issue on 29 June 2012.

FCO Services commentary on sustainability performance 2011/12

Sustainable performance and development

FCO Services is committed to promoting and supporting sustainability in all aspects of its activities.

This is the second year in which FCO Services has reported its sustainable operations performance and associated expenditure within the Annual Report and Accounts as a Trading Fund. This will increase transparency and accountability, by systematically reporting performance against sustainability targets (where applicable) and related expenditure, by normalising performance to allow comparison between years, and across government departments and other public bodies. Additionally, this reporting will create an incentive to demonstrate year on year performance, and any reductions in both environmental impact and related costs.

FCO Services are tenants of the FCO, and as such accommodation, facilities management, IT and a range of other support services are provided by the FCO. This report accounts for FCO Services' specific effects on the environment, the methodology for the split has been fully agreed with the FCO and uses headcount (UK based FTEs) as a basis for calculating the respective elements to apportion the effects.

At a corporate level, FCO Services has committed to integrating mandatory government commitments on sustainable development in both its operational work and procurement.

Summary of performance

The Prime Minister's target to cut carbon emissions from central Government offices by 10% in one year, ended in May 2011. FCO Services cut their carbon emissions from UK offices by 18.6%, which equates to 743 tonnes of CO₂. This contributed to the FCO's overall reduction of 18.1%; supporting them in becoming the third best performing Department in central Government.

2011/12 is the first year of reporting against the new Greener Government Commitments (GGC), which set targets for reducing greenhouse gases, water and waste by 2014/15 compared to a 2009/10 baseline. GGC also includes a target to cut central Government paper consumption by 10% in 2011/12 and requires actions to enhance biodiversity and improve sustainability through procurement.

GGC targets apply to the FCO's UK operations only, but also cover the sustainability impact from FCO Services (as well as Wilton Park Conference Centre). FCO Services is making good progress in meeting their share, contributing to the FCO's targets. In 2011/12 there has been a marked improvement in FCO Services' performance in estate carbon emissions which were cut by 1,484 tonnes of CO₂; this equates to a 28% reduction against the baseline. 46 domestic flights were taken in 2011/12 (FCO: 177); well within the 2015 target of 612. Waste arising (361 tonnes) and office water consumption (14.04m³) remain high well above the target and benchmark.

All sustainability figures in this report relate to FCO Services' performance only. Financial figures relate to FCO Services' expenditure in some areas; see note 3 on page 77.

FCO Services' performance against the GGC targets is summarised in the table on page 74.

Impact	2011/12 Performance	FCO target for 2014/15 (FCO Services contributes to these targets)
Greenhouse gas emissions from UK estate and domestic air travel	4,393 tonnes of CO ₂ equivalent (tCO ₂ e)	15,767 tCO ₂ e (a reduction of 25% on 2009/10 emissions)
Estate energy expenditure	£867,732	
Number of domestic flights	46	612 flights (a 20% reduction on 2009/10 flights by 2015)
Vehicle and domestic travel expenditure	£598,154	
CRC Energy Efficiency Scheme expenditure	£45,000 (provision made in accounts)	
Office water consumption	14.04 cubic metres per FTE	>6m ³ per FTE = poor practice 4m ³ – 6m ³ per FTE = good practice <4m ³ per FTE = best practice
Office water expenditure	£18,193	
Waste arising	361 tonnes	990 tonnes (a reduction of 25% on 2009/10 waste arising)
Total waste disposal expenditure	£436,537	
Paper consumption	9,382 A4 reams equivalent	37,609 A4 reams equivalent (a reduction of 10% on 2010/11 consumption)
Expenditure on GCOF carbon offsets	£116,910	

Normalised Performance

As a Trading Fund, FCO Services' emissions will always, to a large extent, be driven by customer demand for its services. This inevitably may result in increased effects on the environment if customer demand drives additional activity in the future.

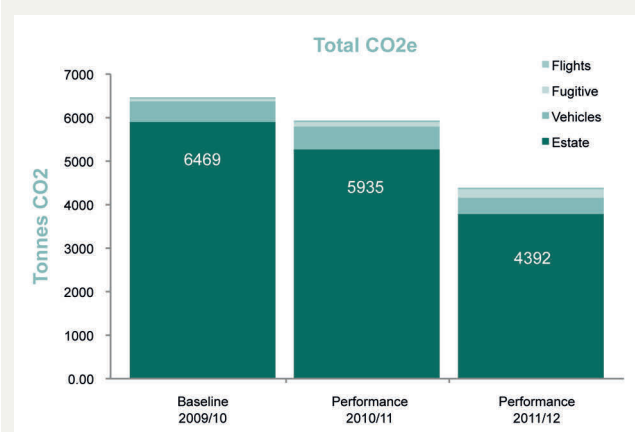
To allow like-for-like comparison between years and organisations, FCO Services' effects on the environment are normalised by dividing consumption by both headcount and revenue. This produces simple indicators of like-for-like comparison for the years ahead.

Our normalised performance figures for 2011/12

Impact	Per £ Expenditure	Per Full Time Equivalent (FTE)
Greenhouse gas emissions	7,069 gCO ₂ / £	4.51 tCO ₂ / FTE
Office water consumption	0.727 m ³ / £	141.43 m ³ / FTE
Waste arising	827 g / £	383 kg / FTE

Sustainability report for the year ended 31 March 2012

Greenhouse Gas Emissions (2011/12)		kWh/miles	tCO ₂	GBP (£)
Greenhouse gases	Electricity (Non-Renewable)	6,654,831	3491	678,666
	Electricity (Renewable)	0	0	0
	Gas	330,173	60.62	10,415
	Heating Oil	14,988	4.18	1,096
	Biodiesel	475,108	0	60,071
	District Heating	948,203	229.84	117,482
	Fugitive	-	228.85	-
	Subtotal (estates)	8,423,303	4,014	867,732
	Domestic flights	34,688	6.23	5,204
	Private mileage	483,923	106.74	115,584
	Fleet	640,584	135.32	160,740
	Hire Cars	495,579	101.42	75,212
	Taxis	181,900	27.56	241,412
	Subtotal (travel)	1,836,674	377.27	598,154
	Overall total	10,259,977	4,391.25	1,465,886



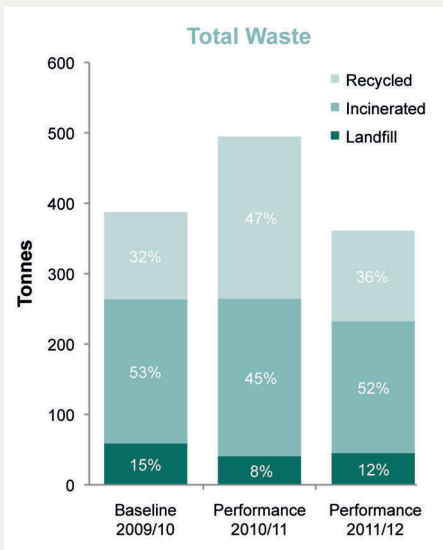
Performance commentary

Greenhouse gas emissions fell by 1,543 tCO₂e in 2011/12, compared with the previous year. Emissions were 32% below 2009/10 baseline levels compared to a (FCO) target reduction of 25% by 2014/15.

Controllable impacts commentary

The continued investment and expansion of the hybrid fleet has significantly reduced emissions this year.

Waste (2011/12)		Tonnes
Total Waste		398
Hazardous waste		36.67
Total waste (by method of disposal)	Landfill	45
	Reused/Recycled	129
	Incinerated/Energy from waste	187



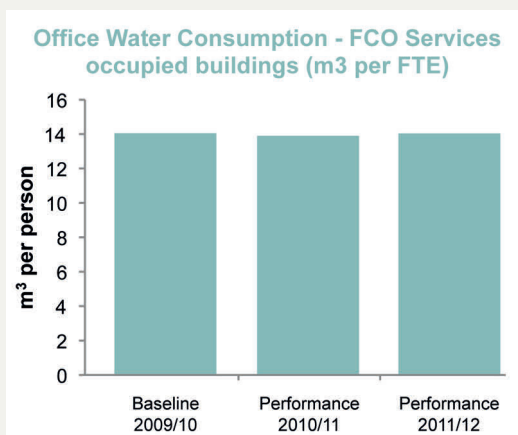
Performance Commentary

FCO Services' waste has been estimated based on a percentage of total FCO waste, using headcount as a basis; total FCO Services' waste decreased by 27% on last year (and 7% on baseline year). Increases in landfill and incinerated waste, but some reduction in recycling which is due to less production and waste to recycle.

Controllable Impacts Commentary

FCO Services has limited control over the water it uses as office accommodation is supplied by the FCO. However, it ensures, through its procurement process, the use of 100% recycled paper products, and encourages more sustainable waste solutions where possible.

Finite Resource Consumption (2011/12)		Cubic metres (m ³)	GBP (£)
Office Water Consumption	Supplied	13,229	18,193
Non-Office Water Consumption	Supplied	1,681	878.48
Total	Supplied	14,910	19,071



Performance Commentary

Office water consumption increased from 13.9m³ per FTE to 14m³ per FTE; this is substantially above the target benchmarks (where between 4-6m³/FTE is considered good practice). An evaporative cooling plant in a 'Non-Office' data-centre consumes a significant volume of water, and there are already plans to quantify the amount by sub-metering.

Controllable Impacts Commentary

Controllable impacts include water use in washrooms, canteens, evaporative cooling for a data-centre and building and vehicle cleaning. Meters are being installed in all buildings and major water consuming units within buildings to establish where water is being consumed and to identify opportunities for reduction. The FCO has conducted a water audit to identify further opportunities for water saving.

Biodiversity

FCO Services are tenants of the FCO, and as such have no direct influence in this area. However, there are some points worthy of noting in this area. The FCO have no site of special scientific interest on its estate, and therefore no formal sustainable operations in the government estate (SOGE) biodiversity target in 2011/12. The FCO has, however, improved its commitment to biodiversity in 2011/12; a Biodiversity Action Plan (2012) has been submitted for the FCO UK Estate, focusing on biodiversity in the built environment particularly at the Hanslope Park site in Buckinghamshire where there is most opportunity.

Sustainable procurement performance

FCO Services adopts UK government best practice in sustainable procurement. Products are sourced via government framework contracts, which place up to date sustainability obligations upon our suppliers. Where bespoke contracts are placed, UK government sustainability terms and conditions are incorporated.

In addition to examining the sustainability credentials of our suppliers when selecting organisations to trade with, FCO Services reviews the ongoing compliance with sustainability requirements by its suppliers. For example Forest Stewardship Council chain of custody certification in respect of timber procurement is monitored and the emissions of our freight and private hire contractors are reviewed as part of our ongoing contract management activity.

Governance

Sustainable Operations within FCO Services was overseen in 2011/12 by the Commercial Director and managed through the Sustainability Committee, with the support of key action owners and others within the business units with influence on sustainability impacts.

FCO Services manages its environmental impacts through the FCO's Environmental Management System (EMS). The FCO's EMS was externally accredited to ISO14001 in September 2011 by Lloyds Register Quality Assurance, and staff (trained in environmental auditing) audit data collection methods and controls annually.

Notes

1. FCO Services (along with Wilton Park) are included in the figures of the FCO report because they are included in the FCO's sustainability targets. The sustainability impacts of FCO Services' or the FCO's overseas operations are not included.
2. Fugitive emissions refer to the air conditioning, refrigerants and cooling systems for data centres.
3. The respective costs for energy water and some waste are not paid for by FCO Services, but form part of our tenancy with the FCO. The tables in the report reflect FCO Services' proportion of these, as well as our carbon impact; this equates to 23.73% except in the case of domestic flights where FCO Services' proportion equates to 25%.
4. The greenhouse gas figures exclude carbon emissions associated with one wider market server hosting service at the FCO's Hanslope Park site. With the agreement of Defra, DECC and OGC, responsibility for reporting those emissions were contractually passed to the customer. Estate electricity consumption includes electricity consumed in charging FCO Services owned electric vehicles. Emissions from official train, underground, bus or coach travel has not yet been base-lined or reported.
5. Defra conversion factors have been used to calculate carbon emissions. Some totals include estimates where actual readings could not be taken. The methodology and calculations for each estimate is documented.
6. The 2011/12 figures are non-weather corrected. All Government Department greenhouse gas data will be weather corrected by BRE in Autumn 2012 and Sustainability Reporting in FCO Services 2012/13 report will include the weather corrected 2011/12 data.
7. The expenditure figures relate to FCO Services' UK operations only and include VAT. FCO Services purchase fuel for the fleet (except electricity for electric vehicles).
8. The expenditure figure used for normalising the sustainability data includes all FCO Services' wider market (non FCO) revenue; this equates to £46.8m.
9. Expenditure on GCOF carbon offsets represents carbon offsets purchased to offset FCO Services' air travel originating in the UK in 2011/12. The requirement for offsets for the last quarter of 2011/12 was estimated on a straight line basis.
10. Under CRC Energy Efficiency Scheme rules, the FCO must purchase CRC allowances for all CRC qualifying emissions on its estate, including tenants' emissions. As a tenant FCO Services has made a provision to reimburse the FCO £45,000 for 2011/12 CRC allowance costs.



FCO SERVICES

Part of the Foreign and Commonwealth Office

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