

## FCO Services

# Annual Report and Accounts 2015/16

(for the year ended March 2016)







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Presented to Parliament pursuant to section 4(6)  
of the Government Trading Funds Act 1973 as amended  
by the Government Trading Act 1990

Ordered by the House of Commons  
to be printed 20 July 2016



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Print ISBN 9781474134217

Web ISBN 9781474134224

ID SGD0012353 07/16

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office





# FCO Services

Annual Report and Accounts 2015/2016

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An aerial photograph of London, England, featuring the River Thames, the Houses of Parliament, and the Elizabeth Tower (Big Ben). The image is partially covered by a semi-transparent green overlay. At the top of the overlay, the text '1 Overview' is displayed in white. At the bottom of the overlay, a white box contains a table of contents with the following items: '10 Foreword by Minister', '11 Foreword by CEO', '12 Performance Report', '12 Who we are, how we are organised and what we do', and '14 What we aim to achieve and our priorities for the future'.

# 1 Overview

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## Foreword by James Duddridge MP

Minister for Africa, the Overseas Territories and the Caribbean

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

As a government, we have identified a clear set of priorities to support the continuation of a strong economic recovery in the UK, with protecting the economy and national security remaining key objectives. The 2015 Spending Review settlement reflected this, tasking government departments to make further budget efficiencies that contribute to reducing the country's deficit, while bolstering the security capabilities of government. While the FCO's budget was protected - a testament to the importance of its global network and diplomatic service - it must still make efficiencies within challenging financial boundaries to remove unnecessary administrative burdens and focus on frontline diplomacy. This work is underpinned by FCO Services, who play a pivotal role in supporting the FCO to achieve its aims.

Many other government departments did not enjoy the same protection from the Spending Review. Operating from a unique position within government, FCO Services understands the pressures, challenges and priorities of its customers; balancing reduced finances and increasing efficiency, while continuing to deliver effective public

services. The organisation has built on its already strong relationships with its government partners, identifying how it can add value, making savings in the UK and overseas and supporting the One HMG agenda. One example of this has been its support to the Home Office's UK Visas and Immigration (UKVI) unit in New Delhi in relocating staff into one building, expanding office

Services structural engineers arrived to commence seismic strengthening assessment work, contributing directly to the recovery programme.

These examples, of planned work and reaction to crises, demonstrate FCO Services' capability to effectively support the mission and purpose of the FCO and One HMG, in protecting

“ This work is underpinned by FCO Services, who play a pivotal role in supporting the FCO to achieve its aims ”

space and saving UKVI running costs. Throughout the project, the running of one of the largest visa operations in the world remained unaffected.

Through my extensive travel I am aware of the often hostile, difficult and disparate environments in which the organisation operates. Following the devastating earthquake in Nepal and terrorist attacks in Tunisia and Egypt last year, its experience in crisis situations came to the fore as they deployed technical experts and accompanying equipment providing vital communications and support to the FCO's rapid deployment teams. Within 24 hours of the Nepal earthquake, FCO

and leading British interests overseas. I have every confidence that, with its committed staff and proactive approach, FCO Services will continue to be successful in supporting government initiatives this coming year.

**James Duddridge MP**  
*Minister for Africa, the Overseas Territories and the Caribbean*



# Foreword by Danny Payne

FCO Services Chief Executive

**It is a privilege to lead FCO Services, a successful business that I am proud to have been part of since 2008. During my first year as Chief Executive Officer I have concentrated on sharpening our purpose to become a trusted global services business, while we consistently deliver critical services for our customers worldwide.**

A key achievement has been to strengthen our relationships with the FCO, across Whitehall and more widely, enhancing our understanding of our customers' drivers. We have adapted our approach to be more effective in responding to their key priorities; emphasising our role as the FCO's global strategic partner of choice.

I'm pleased to report strong business results. We've significantly strengthened our balance sheet; tripled our targeted surplus; and achieved our highest recorded customer satisfaction level. I'm proud of these accomplishments, which are down to the support and loyalty of our customers, and our ability to serve their needs through our dedicated teams worldwide. I'm delighted to announce that September saw us earn our £1 billionth pound since we became a Trading Fund. Also, in November we paid off all our start up and working capital loans to the FCO. These achievements must be viewed against a backdrop of a demanding year, in which our key customers had to make efficiencies following the 2015 Spending Review. We too faced challenges, and had to reduce our headcount by 10 per cent, and make significant savings to our operating costs.

This report demonstrates the range of our capability and expertise both in delivering day to day planned work and in responding to rapidly changing customer needs and crises such as natural disasters or acts of terrorism. It contains the examples that show how we effectively support the mission and purpose of our customers in protecting and leading British interests overseas.

In support of our owner, the FCO, our provision of services has spanned the globe. Examples include building and refurbishing more than 26 embassies, high commissions and residences; plus a further 297 projects in 146 global locations. Additionally, we completed a building condition analysis and seismic study of 5500 properties in 291 locations across the network, with a programme of upgrades and strategic maintenance aligned to the results.

We supported UK based organisations which operate on a global scale, such as the Home Office's UK Visas and Immigration service. We modernised and improved the management of visa applications by upgrading the Biometric Visa System which processes, at peak, up to 14,000 applications per day. We also supported the national security agenda, providing the National Crime Agency with high classification mobile cloud solutions overseas, so they can communicate and share intelligence anywhere in the world.

We have continued to grow international operations supporting and implementing critical infrastructure for the governments of Australia, New Zealand, and Canada.

We have also entered into an agreement with the State of Qatar to support the delivery of a pioneering technology feasibility study.

Co-location projects have continued to maximise space within missions overseas. A recent example was to provide a shared mission for the European External Action Service within the FCO High Commission in Colombo, Sri Lanka.

The 2015 Strategic Defence and Security Review brought with it the decision that there will be a single vetting organisation for the whole of government, aligned under the Ministry of Defence. This will be in place by October 2016. This decision was not a reflection of our National Security Vetting team's performance; the team has been consistently successful and high performing, as this report demonstrates. We wish them every success in the combined vetting operation.

Sound principles of innovation, shared resources, commercial excellence and efficiency continue to drive FCO Services. Key developments in digital, estates and logistics capabilities, and a widening of offerings in physical, technical and cyber security, will contribute to a stronger presence in the global market and play a key role in supporting One HMG.

Our ambitions are high, but they are matched by the capability of our staff. We are proud to be part of the FCO family and I am proud to lead a talented and committed workforce. It is their dedication, collaborative working and expertise that give us our competitive edge and ability to deliver worldwide.

**Danny Payne**  
*FCO Services Chief Executive*



# Performance Report

## Who we are, how we are organised and what we do

FCO Services is uniquely placed in the heart of government. We deliver secure services and technical systems that underpin the work of the government in the areas of diplomacy, consular aid, counter-terrorism and security, and prosperity; both within the UK and overseas. By developing close customer relationships at all levels, reacting to and anticipating their changing needs, and delivering services that offer excellent public value, we aim to be the trusted partner to government overseas.

### Who we are

We are a trusted, global supplier to governments. Our roots as the Diplomatic Wireless Service date back to World War II and we are part of the Foreign and Commonwealth Office (FCO). Since 2008, we have delivered more than £1bn of secure products and services to our UK government customers. We also provide services to foreign governments and international organisations closely linked to the UK. Our status as a Trading Fund has enabled us to innovate, operate commercially and invest in capability to strengthen our organisation; firmly establishing ourselves in the market place as a high quality provider, endorsed by the excellent customer feedback we receive.

Operating worldwide, our security-cleared people design and deliver secure services in more than 250 embassies, high commissions and other critical government facilities across 160 countries. We design and build government facilities, including diplomatic premises, servicing their technological and logistical needs anywhere in the world. These services we provide include protective security, estates and construction, cloud computing, communications and monitoring, logistics, vetting and translation and interpreting. We are also the UK National Authority for Counter Eavesdropping (UK NACE), helping protect UK assets from physical, electronic and cyber attack.

### How we are organised

We continually develop and improve as an organisation, focusing on providing a global service, and on winning overseas services to support One HMG (29 government departments that operate on the FCO global platform). Over the next 12 months we aim to improve our commercial edge, strengthen our relationship with the FCO and continually look at ways to deliver a more effective service to all our customers. Our ambitions will require organisational change to ensure that both the service delivery groups and the corporate functions are able to meet the needs of our new global services strategy.

In February 2016, Network Services Group (NSG) and Security and Property Group (SPG) combined to form Secure Global Services (SGS). This merger is designed to provide delivery synergies in region and make us more responsive to our customers. This builds upon the success of the Regional Technical Support Service (RTSS), and its high levels of customer satisfaction, and the increasing requests to meet local requirements.

#### Our Vision:

To be the trusted partner to government overseas

#### Our Mission:

To be the global delivery partner providing value, innovation and operational excellence to the FCO and wider government

## What we do

Our teams and our suppliers work together across a global network, to provide secure working environments that protect our customers' people, assets and information. Each of our strategies supports delivery of our overall strategy in the following key areas:

### *Secure Global Services: Supporting diplomatic excellence, security and the network*

Secure Global Services builds upon the success of Network Services Group and Security and Property Group in becoming the recognised expert at providing overseas technical security, IT support, logistics, specialist and crises support services. It continues to design, build and maintain embassies, residential properties and secure compounds around the world as the partner of choice for the FCO, One HMG and Friendly Foreign Governments (FFG).

Our multi-disciplinary capabilities enable us to provide the buildings for government staff to work and live in, as well as the physical and technical security systems that keep people and information safe and secure. FCO Services expert teams deliver for our clients in complex and hostile environments, even where local supply chains are ineffective or unavailable.

### *Global Digital Technology: Transforming, growing and driving innovation*

Global Digital Technology delivers secure Information, Communication and Technology (ICT) services that support the implementation of the UK government's Digital Strategy and enable the FCO, One HMG and other government customers to communicate and collaborate securely anywhere in the world.

We develop and manage solutions and services, and provide the security monitoring and networks that protect government assets up to high security levels.

We also offer specialist technical security assurance and advice capabilities, acting as the UK National Authority for Counter Eavesdropping (UK NACE).

## What we aim to achieve and our priorities for the future

### What we aim to achieve

We support the FCO and One HMG global platform. We aim to enhance and increase the services we provide, by adding value and reducing cost, and allowing the FCO to focus on the provision of its aims: protecting people, projecting global influence and promoting prosperity, while we deliver excellent global services on the platform. We will support the implementation of the recommendations of the Future FCO Review.

To do this, we are building a closer more strategic relationship with One HMG customers, moving from being a supplier in a transaction-based relationship to a valued strategic

delivery partner. Getting closer to our owner and primary customer, the FCO, effective stakeholder management and the building of trust will be essential. We will develop greater regional management and delivery capability across the overseas platform, which will enable us to meet the requirements of our customers in the most cost effective way.

As part of a wider engagement, we are working with FCO colleagues to revise and simplify the Terms of Business Agreement, which regulates our arrangements with the FCO. In addition, we are engaged with the FCO, as part of its 'Diplomacy 20:20' initiative, in determining options for future operating models for the world class platform.

To make sure we have products and services with an edge, we'll take stock of our organisation, carrying on doing what we do well and giving attention to the things that we don't. We'll invest in our future by creating different products and services that support our existing customers better and attract new customers.





## Our priorities for 2016/17:

### Secure Global Services

We will seek to respond to the demands of clients whenever they need us, aspiring to provide an expert quality service which offers transparency and value for money. We aim to ensure our people have the skills and autonomy to work in all areas of secure government facilities, in any country in the world. We strive to ensure we work as one team across FCO Services and drive continuous improvement to enhance value.

#### To achieve this we will:

- Further develop the Regional Technical Support Service into a 'one stop shop' service for the benefit of all customers - developing our presence in the overseas network and further expanding our service offering through the Extend and Optimise programme within RTSS
- Improve our customer service – by listening and responding to our customers and shaping a positive view of FCO Services through the consolidation and improvement of our high performing customer satisfaction ratings
- Continue to invest in training and skills development to ensure we maintain our flexibility and capability, achieve higher levels of utilisation and create excellent succession through leadership and talent development
- Create a business our customers truly value with products and services they need
- Establish regional directorates with extended services based in Africa and MENA, Americas, Europe and Asia Pacific

### Global Digital Technology

Our primary objective is to grow our business with the FCO by supporting their IT needs on both Tier 2 and Tier 1 (Official) platforms. Additionally we will expand our global business across our customer base, using our GSAE, Cirrus 360 and Ironbridge platforms to offer secure cloud solutions and by expanding our WiFi and Secure Operations Centre (SOC) capabilities. We have commenced plans to launch a Transformation Hub at our secure Hanslope site, creating an engine to drive innovation, and generating access to innovative IT solutions from the UK Small and Medium-sized Enterprise (SME) base. In 2016 we will move towards a Dev Ops model, bringing modernised approaches to programmes, development and service management capabilities.





## 2 Delivering For Our Customers

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# Secure Global Services

## Performance Overview

**On 22 February 2016 SPG and NSG came together under the one organisational name of Secure Global Services and we will continue to build this organisation throughout 2016/17. We will implement a unified delivery operation, the primary focus of which is to simplify the way our customers work with us, improving our efficiency and our customers' experience of working with FCO Services.**

We will further strengthen our Regional Overseas Network by enhancing our leadership structure overseas and increasing autonomy and local decision making to respond faster to our customers and end users of our services and expanding the services we offer, scaling up our business to support a wider customer base.

### **Estates, Security and Property overview**

*Last year we said we would strengthen our existing offer as a centre of excellence in the security and property space, providing valued insight and expertise to the FCO, UK government and friendly foreign governments. We also planned to support the FCO in its role as principal for the delivery across government of One HMG overseas, operating as a key project and services support group.*

We have met these aims, and our global customers continue to rely on our expert advice and capabilities in an increasingly volatile security environment.

Our estates and protective security business has continued to grow, with the FCO, HMG and other governments. We have successfully won projects and delivered innovative solutions that meet our customers' operational needs.

In line with our growth strategy we have continued to broaden our customer portfolio across UK government departments and friendly foreign governments, which we believe will lead to additional growth opportunities in the coming years.

We continue to build on our enviable partnership with the FCO with an aim to become their chosen expert partner. Our project teams have successfully delivered over 700 projects all over the world, supporting diplomatic missions, and enhancing security for overseas staff.

### **Network Services overview**

*Last year we said we would aim to become the recognised expert at providing overseas technical security, IT support, logistics and specialist support services to the network. We also said we would expand the scope and accessibility of our services to offer the FCO and One HMG a more efficient and effective service through continuous improvement.*

We have met our objectives and are widely recognised for our continued service excellence through our RTSS programme and Diplomatic Bag Logistics service. We have successfully won two multi-year programmes with friendly foreign governments and provided additional services to the FCO Network, meeting a critical need and reaffirming this capability.





United Kingdom  
Joint Delegation  
to NATO





# Security

Our expert teams of engineers and security professionals bring together surveys, design, and engineering installation of a wide range of protective security products.

## The ARGO programme

ARGO is a four-year programme, run by a dedicated team of programme and project management professionals. We work closely with the FCO Security sponsors to plan and commission work across the global FCO estate. The comprehensive programme looks at all elements of security around a mission overseas. The portfolio of products includes: a digital radio refresh programme, offering new digital technology to replace obsolete analogue radio systems; complete CCTV systems that offer flexibility and value for money; and the Secure Conference Room (SCR), an acoustically secure environment for holding sensitive meetings in protected areas.

## Supporting global security

Underpinned by a wider security Memorandum of Understanding between the Ministry of Interior of the State of Qatar and HMG, FCO Services has entered into an agreement with Qatar to support the delivery of a technology feasibility study. The study contributes to the national security of Qatar and draws upon the expertise and experience of the UK in dealing with security risks. Working with the Home Office and internationally recognised subject matter experts from partners across government, we are providing the programme management framework and corporate support to facilitate the study. Identified as being a model project for future engagement between the UK and Qatar, the first stage of the project has been completed successfully.

“Excellent co-ordination and communication. We have a working system with resilience and a way forward for further improvements.”

Overseas security manager

“In collaborating with the British government to deliver a comprehensive feasibility study, we sought to engage the subject matter expertise of the UK to help us in this process. To date the project is considered a complete success and we are confident that the joint working of the UK and Qatar will result in the outputs required to effectively inform Qatar’s decisions about this capability.”

Ministry of Interior, Qatar



## Radomes replacement programme

We were commissioned by Air Defence & Electronic Warfare Systems (ADEWS), part of the MoD, to manage a five-year programme for the replacement of 12 radomes (weatherproof shelters for radar antennae) which are nearing their life expectancy. We surveyed the first sites in the UK, Cyprus and Falkland Islands, managed procurement of a radome manufacturer, and will provide site supervision. New radomes at Mount Olympus in Cyprus and in the Outer Hebrides are on schedule for installation in summer 2016. We have also been commissioned to undertake a rolling programme of survey inspections of a separate fleet of radomes and have provided recommendations for repairs and maintenance.



# Property and Estates

We work closely with the FCO and One HMG customers to design, build and service embassies and government buildings all over the world, and combine this with a portfolio of global maintenance work that ensures accommodation is safe and secure across the global estate.

## UK delegation's offices in NATO's headquarters

We provided professional architecture and interior design, alongside technical security design and project management services, to the fit-out of the UK delegation area in NATO's new headquarters in Brussels. Practical completion was achieved in January 2016. This complex project was finished ahead of schedule and under budget.

a multi-million dollar construction contract, comprising conversion of three villas and new building construction adjacent to the existing Embassy. DFAT have also recently commissioned our design team to carry out due diligence on additional conversion properties.

We have also continued to provide expertise to the Canadian government for their Missions in Islamabad and Kabul. Projects have included security

## Supporting the FCO and One HMG

Following the successful delivery of the Global Maintenance Programme pilot for the Americas in 2014/15 the programme was extended for Americas and India for 15/16. FCO Services delivered 94 projects in America and nine in India, ranging from structural to electrical remedial works. We were responsible for the design, procurement and delivery of all projects to reduce the technical and administrative burden on posts to deliver these works.

We have also worked in collaboration with the FCO and DFID to play a pivotal role in the consolidation of the DFID overseas estate of over 500 properties with the FCO overseas estate. FCO Services has completed inspection of all residential and office properties to advise on remedial works to ensure all properties are of a similar standard of Health and Safety and equitable space and rent scales to the existing FCO Estate. Following the surveys FCO Services is now managing the remedial works programme through to completion which includes electrical, gas and asbestos works in 31 locations globally.

Additionally, we were commissioned in November 2015 to prepare proposals to install security upgrades at DFID's UK offices at 22 Whitehall.



## Collaborating globally

Last year we provided a range of services to assist the Australian Department of Foreign Affairs and Trade's (DFAT) office in Kabul to provide additional staff accommodation and amenity facilities. We are supervising

and seismic upgrades at three of their sites in the diplomatic compound in Islamabad, and a suite of security upgrades at their mission in Kabul. An FCO Services senior project manager is based full time at our client's office in Ottawa to facilitate coordination of our work with Canada.



## Case Study: Expanding and refurbishing the UK Visas and Immigration section in New Delhi



<b>Project:</b>	<i>Expanding and refurbishing office space</i>
<b>Customer:</b>	<i>UK Visas and Immigration</i>
<b>Location:</b>	<i>British High Commission, New Delhi</i>



The Home Office's UK Visas and Immigration (UKVI) section in India wanted to move their Mumbai operation to the British High Commission in New Delhi to put all their staff in one building. This meant expanding and refurbishing an existing office space to accommodate an additional 80 staff.

As one of the largest visa operations in the world, the challenge was set to complete all work while running business as usual. March to September is peak season for the office, often requiring them to increase their staff by up to 50% to process visa requests. Carrying out the work during this time was impossible so the project had a strict six month time frame, ending in March 2016, to adhere to.

Prior to the project being commissioned, FCO Services' architects and design team were asked to carry out a feasibility study to assess the practicality of

the proposed plan and an estimate of the cost to achieve it. Once agreed, we managed the whole redesign of the process on behalf of the Home Office. This included

designing the solution, tender and management of contractors onsite, co-ordinating the FCO Services installers and liaising and managing stakeholders including the High Commission security team and staff. We also worked with the Home Office and Indian Ministry of External Affairs to get blanket approval for a set amount of supplies to enter the country, stopping potential items being held at customs and delaying the work.

The project was a success, completed early and under budget. The new and modern open plan office has increased collaboration and enhanced staff morale. Having all the team under one roof has improved consistency and quality of service delivery, saved running costs through economies of scale and ultimately provided UKVI's customers with a better service.

“ The Clerk of Works was consistently on top of a complex project, superb at keeping me informed and engaged as needed, an excellent team leader and he delivered ”

**Deputy High Commissioner and Chief Operating Officer, New Delhi**



# RTSS

The Regional Technical Support Service (RTSS) provides essential technical support enabling staff in the overseas network to concentrate on delivering their key objectives. The RTSS provides a flexible, blended service delivered regionally from three overseas hubs and the UK.

## Rapid and emergency response service

RTSS provides assistance to Consular Directorate's Rapid Deployment Teams (RDT), providing technical support and assistance to the teams when they are deployed overseas. RDTs help British Nationals caught up in a crisis overseas and is regularly deployed all over the world. During 2015/16 RTSS provided technical support to RDT teams assisting with the aftermath of the earthquake in Nepal. They also provided assistance to the teams deployed to Sousse in Tunisia and Sharm-el Sheikh in Egypt following terrorist incidents.

## Responsive and flexible delivery

Working with the FCO, the RTSS agreed to reinforce the support service to posts in South Asia, the Middle East, Eastern Europe and Africa with additional resources to address a growing workload. These new resources have provided specialist technical assistance with our Universal IT system as well as carrying out additional value add tasks which have enabled frontline staff in the network to concentrate on their key objectives of diplomacy and foreign policy delivery.

## Our global network of specialist engineers

The RTSS has specialist staff based around the world who can operate in the most hostile of environments to deliver IT and technical security services to posts such as Kabul and Juba. Our regional delivery model ensures we can reach posts quickly to fix equipment failures rather than waiting for technical staff to travel out from the UK. We are also able to offer specialist advice and support from staff who know and understand the challenges faced in the overseas network.

The service provides:

- Accompanied bag services – door to door delivery of accompanied bags, including packing, unpacking and airside escort
- IT services – routine and emergency support for IT in Confidential areas
- Technical security services
- Spares management service
- Rapid and emergency response service

## Technical security

We are responsible for maintaining the security systems at our overseas posts to keep our customers' staff, information and assets safe. We are generally responsible for communications systems, alarms and radio systems, entry systems, locks and Closed-circuit Television systems (CCTV). We not only provide a scheduled maintenance service for these systems but also provide an emergency response system should any of these fail.

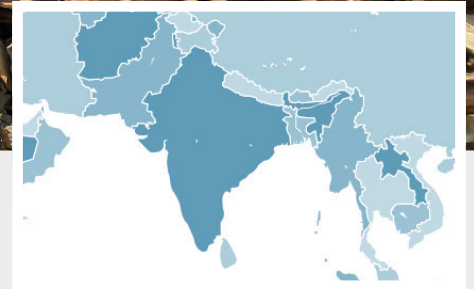
“ I have never experienced customer service like it. The five people involved made this happen for us in record time and are an absolute credit to their departments. I never thought it was possible but these guys were exceptional and the service provided to us was phenomenal. ”

British Embassy, Dubai

## Case Study: Rapid deployment after devastating earthquake in Nepal



<b>Situation:</b>	<i>Rapid response to earthquake</i>
<b>Service:</b>	<i>Technical assistance to Rapid Deployment Team</i>
<b>Location:</b>	<i>Kathmandu, Nepal</i>



As well as providing routine maintenance for ICT security systems the RTSS also provides support for emergency situations.

On 25 April 2015, Nepal was hit by a 7.8 magnitude earthquake, which caused massive damage and killed thousands. In response to this Rapid Deployment Teams (RDT) were sent to the area. The RDT teams help British Nationals caught up in crises overseas. As part of the RDT deployment one of our Secure Technical Services Officers (STSOs) posted to Islamabad and part of the RTSS team covering the Asia Pacific region, was deployed immediately to provide technical assistance to the RDT team. Our STSO was responsible for providing technical assistance to the embassy and was later joined by one of our Technical Support Officers (TSOs) from Bangkok.

The main building was out of bounds due to damage from the earthquake. Our STSO then checked the condition

of the building and made sure that ICT and secure video conferencing systems were available to the embassy in Kathmandu, so that they could remain in contact with London and the rest of the overseas network. This was essential as there were eight hourly teleconferences with

the Foreign Secretary, FCO departments and COBR (the British government's emergency response committee). Local radio communications had failed. This was one of the essential communications systems for post allowing contact with the airport. Coverage was restored following a visit to the Radisson Hotel where the repeater was located. IT terminals were also set up in the overpopulated crisis centre with the help of the locally engaged IT support officer.

Within the first 24 hours after the

earthquake, FCO Services structural engineers then arrived to commence essential seismic strengthening assessment work, contributing directly to the business recovery programme at the embassy.

“ The technical assistance and practical support provided by colleagues is an integral, and critical, part of our crisis response for which we are very grateful ”

Head of Crisis Management Department, FCO

# Logistics and Classified Shipments

The FCO Services Logistics function incorporates a number of teams managing worldwide logistics for the FCO and other government departments.

## Delivering securely - accompanied bag services

Our accompanied bag service provides an 'eyes on' service, including special project consignments, to secure customers. We ensure integrity and consistency of approach and adherence to the Vienna Convention. The accompanied bag achieved a record year moving over 519,000kg to 212 locations worldwide via our air and road courier network, utilising over 60 scheduled journeys. Our Queen's Messenger Service is the oldest established courier service in the world, and has over 800 years of experience delivering secure correspondence to British missions overseas. The service continues to be one of the leading secure courier services in the world and is highly regarded by other governments.

**862** tonnes of freight to  
**250** Posts in over  
**160** countries -  
unaccompanied freight delivered last year

## Going the extra mile – secure transportation

The unclassified diplomatic bag service and secure transportation by road section deliver front line support to 250 Posts in over 160 countries, offering a flexible and cost-effective delivery service for the FCO and other government departments. Last year we handled 862 tonnes of freight - our fleet of vehicles delivered to 33 locations and we covered 151,420 miles. Our secure disposals team provides an end-to-end disposal service of sensitive material, destroying waste safely and recycling many tonnes of scrap material each year to reduce landfill waste and support the environment. Significant work last year included the secure removal of 31 tonnes of waste from the Old Admiralty Building following the FCO's departure in October 2015.

“ they were incredibly helpful and excellent at advising on the most efficient and effective way of getting our item to and from Rio ”

Partnership manager,  
GREAT campaign

## Improving our standards

Working with the Quality Management team, Logistics demonstrated the ability to provide a consistent service that meets regulatory requirements and enhanced customer satisfaction. The team has been awarded ISO 9001:2008 for their 'goods in' processes and secure disposal of classified materials. We have evaluated our functions and will improve the process flow of goods through Hanslope Park so that it is undertaken more efficiently. We will introduce an NVQ in logistics, customer service and business administration for our teams to ensure their continuous development and enable them to deliver enhanced customer service.

**519,000** kg  
to **212**  
locations worldwide -  
accompanied freight delivered last year

**151,420**  
miles to **33**  
locations - secure transportation by road



# Government Services

We also provide a range of diverse services across the UK and worldwide that support the FCO, including Vetting, Translation and Interpreting, Overseas Vehicle Procurement, the London Car Service and Internal Messengers

## Overseas Vehicle Procurement Services

We work closely with Jaguar Land Rover (JLR) to procure official flag and fleet cars that are suitable for each individual overseas Post, factoring in country requirements, terrain and intended use. We have continued to build our relationship with JLR, negotiating extensive value for diplomatic vehicles. We have been able to pass these savings on to the FCO. We have also negotiated a “meet and greet” process with local retailers at Post. This enables good working practices between the two parties for any future contact and ongoing maintenance of the vehicle. We are working towards increasing our vehicle sales by expanding our customer base. This year we introduced a customer satisfaction survey to improve the service we offer, and have achieved positive overall satisfaction scores.

## Mails and messengers

Our Internal Messengers deliver mail to every office in the Foreign and Commonwealth Office and walk the length of the London Marathon every week.

Our External Messengers deliver mail securely across the country and drive a distance equivalent to the length of the Amazon every month.

## Translation and Interpreting

Our translation customers include the European Union, Government Legal Department, BIS, Companies House, UKTI, No 10 and the FCO. Much of our translation work is highly specialised and intended for publication to the EU, UK and international legal community. In October 2015, we provided full interpretation for the China State Visit. This included fourteen

separate events and involved the deployment of 21 interpreters in total, the principal events being the Chinese President’s ceremonial welcome with HM The Queen and the Duke of Edinburgh, his speech to the House of Lords, the Guildhall Banquet and the State Banquet.

“The messengers are seldom noticed but without their input the office would grind to a halt.”

FCO Customer

“A fantastic service run by fantastic people. If the rest of HMG ran like this, we would all be much better off.”

Government Legal Department

**667** translation assignments comprising a total of **3.2** million words

**82** interpretation assignments engaging **201** interpreters providing communication into and out of **32** languages

## Vetting

Our vetting services provide reassurance that our customers' workforces are trusted to have access to secure sites and sensitive information. Our range of market leading services are tailor-made to meet the needs of UK government departments, agencies and partners in the private sector. We always aim for the quickest turnaround time on security clearances.

In 2015/16 we exceeded our SLA delivery target for DV clearances set at 85% and achieved 97% within, or before, the 60 day targeted turnaround. We also exceeded the 80% Ministerial target for customer satisfaction. The vetting team exceeded its challenging target of delivering an increase in revenue and net contribution primarily through efficiencies identified in the business.

## The future of vetting

In 2015 the SDSR announced the decision to create a new, single vetting provider to government, merging FCO Services' vetting provision with the MOD vetting provider. This transition will take place from Autumn 2016 and the new service will be called UK Security Vetting (UKSV), providing a professional and customer-centric vetting organisation. During this period FCO Services vetting team will continue to deliver business as usual and meet all customers SLAs, mitigating any transitional risk to its customers.



“ I would like to pass on our gratitude for the helpful and supportive way a high profile and urgent case was taken forward. The Vetting Officer was extremely supportive and handled the case extremely quickly with no compromise on quality. Our business has been immensely assisted by the speed and quality of the delivery. ”

Whitehall customer



## Case Study: A Jaguar for Grand Cayman



<b>Project:</b>	<i>Overseas vehicle procurement</i>
<b>Customer:</b>	<i>Governor's Office, Grand Cayman</i>
<b>Location:</b>	<i>Grand Cayman</i>

When Grand Cayman needed to replace their flag car, the Governor's office in Grand Cayman was keen to promote the UK. The office needed to demonstrate that buying British was not just a choice based on quality but value for money too. They engaged with the Overseas Vehicle Procurement Service (OVPS) within FCO Services which was able to guide them through the procurement of a Jaguar XJ.

Transporting the vehicle to Post was the biggest challenge to this procurement as Grand Cayman has no shipping docks. We were aware that a Royal Fleet Auxiliary ship would be departing from the UK to arrive in the Cayman Islands in mid July. We worked with the Grand Cayman government and the

“Considering the quality of the vehicle, the package of spare parts and confirmation that the warranty and maintenance schedule could be honored meant that using FCO Services was definitely worth it and saved the Cayman Islands Government money. I found working with FCO Services to be a straightforward process. The instructions and advice received were timely and appropriate and I felt well prepared to make the order.”

**Head of the Governor's Office, Grand Cayman**

regional Defence Advisor based in Kingston, Jamaica to find a cost effective solution. The vehicle was packaged in an ocean ready container and the ship's disaster relief team took the opportunity to practise their disembarking and transportation contingency plans using their internal dock. A 'mexefloat' raft was used to carefully float the car from ship to shore safely where it was removed on to the port side. This is a great example of what can be achieved when teams from the FCO, FCO Services and MOD work collaboratively to deliver quality products while maintaining value for money. This meant that the Grand Cayman government were able to buy a brand new British made vehicle for the same budget that they had expected to spend on a second hand vehicle from the USA.





# Global Digital Technology

## Performance Overview

*On 22 February 2016 our Technology Group changed its name to Global Digital Technology (GDT).*

**Last year we said we would balance our primary objective of supporting the FCO by seeking measured growth with UK government customers whose priorities are aligned with those of the FCO. In relation to our ICT services we intended to maintain focus on achieving the investment returns from our secure digital services platforms. We also planned to continue to innovate in the areas of cyber security and enhanced protective capabilities.**

We have made significant achievements in supporting the FCO this year, successfully rolling out WiFi across the UK estate in support of the Technology Overhaul programme – the FCO’s substantial upgrade of their IT infrastructure. We have strengthened our strategic relationship with our key customer, working in close collaboration across their IT functions, and supplementing their in-house expertise.

For our customers across the UK government we have continued to consolidate our business and provide bespoke business solutions. Key achievements this year include the successful delivery of a Biometrics Visa System for UKV&I, the roll out of our Next Generation Topaz secure mobile solution for the National Crime Agency (NCA), and the signing of our first police contract with the National Counter-Terrorism Police Headquarters (NCTPHQ)

To maximise return on investment we avoided diversifying our product and service set, instead exploiting our GSAE, Cirrus360, Ironbridge, SOC and WiFi capabilities. In this process we have also re-aligned asset values to reflect the impact of wider market changes in the Official tier. We have also automated our IT operations, leading to a reduced cost base. In line with government ambitions, we have developed the idea of a Transformation Hub to explore leading edge cyber security and digital innovation capability for the FCO and One HMG customers. We have investigated the viability and business opportunities with a range of stakeholders and SMEs and received positive feedback. We will develop the Hub further with a view to launching in 2016/17.



# IT Infrastructure

We provide secure productivity, collaboration and communication tools to the FCO, other government agencies and wider market customers. Our digital offerings include a range of cloud-related products, traditional IT, cyber security and bespoke services.

## Supporting Cirrus360 for DECC and BIS

This year we continued to support two major government departments, the Department of Energy and Climate Change (DECC) and the Department for Business, Innovation and Skills (BIS), with our secure version of Microsoft Office365 public cloud offering and our Internet Gateway. We are proud to continue to work with these two departments, supporting them in their efficiency savings and developing strong relationships with both. We continue to build on our unique position of understanding both government supplier and customer, and we work hard with both departments to innovate in a mutually beneficial manner. We are seeking to establish a new services contract with BIS that broadens our partnership and services.

## Biometric Visa System (BVS) upgrade

In April 2016 FCO Services, in collaboration with its third party supplier, deployed the major technical refresh of the Home Office's Biometric Visa System (BVS) consisting of the upgrade to three main component parts (the current product suite, a number of bespoke applications and, as a consequence, the hosting platform). The Biometrics System processes UK Visa applications from foreign non-European Union (EU) nationals and FCO Services provides a managed service to ensure operational efficacy on behalf of UK Visas and Immigration (UKVI). BVS currently processes in the region of 14,000 applications per day during the peak season for visa applications.

## Transforming mobile technology for worldwide crime fighters

In the latter part of last year, we successfully migrated the next generation of our Tier 2 secure mobile technology 'Topaz' to National Crime Agency (NCA) officers overseas. Offering a unique capability within UK law enforcement agencies, the mobility of Topaz allows officers to deploy to new locations at short notice often in response to internationally reported events. This ability to respond to intelligence 'on the go' has proved vital in several threat to life and kidnap situations within the initial 'golden hour' of investigation. The ability to communicate and share intelligence securely using the video messaging Lync service has been cited as one of the most valuable tools available to the NCA officers.

“The Biometric Visa System is a great success. The team achieved the almost impossible through commitment, dedication and professionalism.”

Technical Architect, Home Office Technology

“The ability to communicate securely between posts and the UK regional desks is not something we have had before – it's an absolute 'God send'”

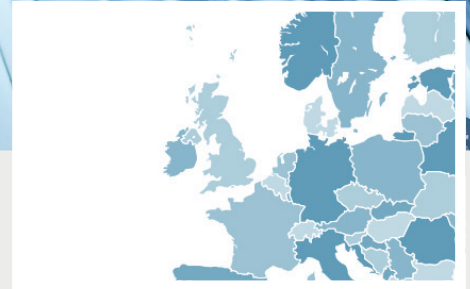
NCA Topaz user overseas



# Case Study: Combining FCO Services' trusted infrastructure with SME's innovative software



<b>Project:</b>	<i>Collaboration with SME</i>
<b>Customer:</b>	<i>Government departments</i>
<b>Location:</b>	<i>UK</i>



Through our collaboration with Invotra - a supplier of intranets and digital workplaces to government - we provide several government departments with the latest secure and scalable cloud technology contributing to their digital transformation agendas. As a result we now have in excess of 120,000 users across government accessing the service.

The primary customer requested a product to build, host and service their intranet. This required a virtual cloud infrastructure that could rapidly expand and be scaled to tens of thousands of users, a service which had to be cost-effective as the service grew; and, primarily, a service that required enhanced security.

All parties brought their needs to the fore, tailoring a service to fit the provider and consumer, giving all the security and flexibility required. Through effective collaboration, together we

now deliver an infrastructure that runs on FCO Services' Platform as a Service (PaaS) secure cloud and is accessed by government customers; a fully managed

solution handling services such as anti-virus, patch management and monitoring; a bespoke service wrap, manual data drops, reporting and service levels; security accreditation processes across government departments; a support for platform enabling Invotra to maintain their service level agreements; architectural guidance and support on infrastructure and scaling; process and procedural development and documentation; secure remote access and onsite visits; monthly reporting and weekly reviews; efficient change management; and, efficient onboarding process

via the Government Secure Application Environment (GSAE) process, led by strong individual efforts.

“FCO Services' reputation amongst government departments is second to none. Since our initial engagement with FCO Services we have added other central government customers to our portfolio, they've opted to drive their internal digital transformations with us, hosted and supported by FCO Services. This expansion is a testament to FCO Services, who are clearly trusted by central government customers to deliver.”

**Invotra**

# IT Innovation Service

Smarter use of technology has been crucial to improve service delivery to the public, to reduce costs and to reduce carbon footprints – all of which are high priority objectives for government. The IT Innovation service provides our customers with expert advice, solutions and support to deliver their technology strategies.

## Collaboration and shared working

By providing experienced technical staff and embedding them in the customer's organisation, we can use our experience to inform customer strategies and procurements. This year we have embedded staff into DECC, BIS and the FCO. By providing or identifying technology solutions to business problems, we use our position in government to respond to complex, often conflicting customer priorities, offering the right solution for the customer, whether that is an FCO Services technology platform or not. By providing a pool of skilled operational and support staff, coupled with a high quality service management team and mature processes, we can provide the essential customised services often missing in modern commodity based solutions.

## Cirrus360 and smartphone pilots

While developing the business cases for its Technology Overhaul programme, the FCO needed to understand the potential benefits of using modern Cloud IT technology, while keeping the costs of a trial to a minimum. We designed a three month pilot, focusing on the core technologies – modern devices (tablets, laptops and smartphones), and cloud collaboration technologies such as desktop VTC, modern SharePoint and WebApps. The successful pilot grew in scope considerably, both in time and scale, with FCO Services underpinning a global pilot. The lessons learned as part of the pilot have driven the FCO's business case, and the pilot positively influenced many senior stakeholders within the FCO as to the value of leveraging modern technology to enable working differently.

## Disaster Recovery capability renewal

The FCO was faced with a Disaster Recovery capability which was approaching end of life. Over time this was causing increasing business risk to the FCO's data. Increasing budgetary pressure within government, coupled with increasing costs had meant that the FCO had to risk manage its disaster recovery capability. This could, in the event of a disaster recovery scenario, have led to the loss of data. FCO Services is enabling the shutdown of the FCO's Watford Data Centre through the DR Options project. Our solution will enable the FCO to better protect their business critical data, facilitating the shutdown of the existing data centre and therefore saving costs. Our solution has been designed with an eye on the future IT solution, and will be reusable investment in support of the FCO's future IT Cloud strategy.





## Case Study: WiFi for the FCO



<b>Project:</b>	<i>Enabling WiFi</i>
<b>Customer:</b>	<i>FCO</i>
<b>Location:</b>	<i>UK</i>



Technology plays a key role in enabling the FCO to achieve its future ambitions. With much of its IT coming to the end of its supportable life and being in need of modernisation they embarked on a Technology Overhaul programme of work to give staff the tools and capability they needed to do their jobs effectively.

The FCO has a skilled team of over 14,000 people in nearly 270 diplomatic offices across the world. WiFi technology was seen as a priority during the IT refresh programme to enable the FCO's team to work efficiently and effectively together. Its benefits including, ease of communication, increased mobility and flexibility and its use of collaboration were seen as vital to carrying out the important work of the Foreign Office. With a proven track record in providing WiFi pilots to sections of our UK office, we were asked to supply our next WiFi solution to the FCO. WiFi is a method for devices such as laptops and

smartphones to connect wirelessly to the internet using radio waves. The perception of using such a method in buildings that deal with secure information was challenging and controversial. Our solution required our experts to use innovative ways to overcome these challenges and through

collaborative working with key stakeholders, an approach was formulated to ensure WiFi could be rolled out safely and securely.

The WiFi project commenced in October 2015 and continues through to early next year. The benefits are now reaching users within the UK, with rollout to a significant number of global posts due to commence later in 2016 into 2017.

By embracing modern technologies and giving users a seamless user experience of mobile/desktop devices, we are enhancing

the FCO's communications and connectivity helping to make it a modern business.

“ The FCO Services / Knowledge and Technology Directorate (KTD) partnership and joint approach to secure mobility, WiFi and Disaster Recovery, are helping to ensure that KTD achieves the Technology Overhaul of its IT system, and realises key 'Diplomacy 20:20' ambitions for the FCO. ”

**Chief Information Officer, Knowledge and Technology Directorate, FCO**

# UKNACE and Cyber Convergence Centre

The UK National Authority for Counter Eavesdropping (UK NACE) is a recognised National Technical Authority working alongside the Centre for the Protection of National Infrastructure (CPNI) and (National Technical Authority for Information Assurance) CESG to help protect UK assets from physical, electronic and cyber attack.

## UK National Authority responsibilities

UK NACE helps government organisations manage the risk of hostile technical attack. They provide assurance that assets are protected through staff education, technical security inspections, cyber forensic investigations, advice on security weaknesses and recommendations for appropriate mitigation and protection. We identify vulnerabilities in wireless connectivity and remain at the forefront of radio countermeasures advancement.

## Cyber Convergence capability

We operate a Converged Security Operations Centre (CSOC) which has the ability to monitor and analyse both protective security and IT security systems. Knowledge and experience in this new field is rapidly expanding and provides both a layered security approach to protecting assets and a rich picture of events in and around sensitive locations and activities. Over the past year our competence and potential has been demonstrated to very senior FCO leaders.

## Cyber forensics

UK NACE provides the highest standards of forensic investigation and analysis against compromised networks and end user IT devices. By reviewing and analysing potentially compromised assets, UK NACE is able to provide tailored cyber forensic services to meet the bespoke requirements of customers. In 2015/16 we have provided services in the areas of forensic triage and analysis, criminal misconduct analysis and investigation, advanced malware identification, containment and analysis, network and wireless packet capture, cyber device base lining, physical and x-ray inspection, and data recovery.

## Technical training

We provide security cleared government technical security countermeasures teams with training in technical security inspections and investigation techniques and fundamental awareness training for new staff. Our training school has bespoke facilities designed to replicate real life working environments. The FCO Services Regional Technical Support Service and the Ministry of Defence (MOD) remain our two biggest customers. In 2015 UK NACE was successful in winning CESG-funded TEMPEST training and will roll out a national training programme in late 2016.



**NWCE**



UK NATIONAL AUTHORITY

FOR COUNTER-EAVESDROPP







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# Corporate Information

## Our People

**We aim to create a dynamic, diverse and safe high performing organisation. This year we have introduced Culture 2020, an initiative which, alongside our people strategy will support FCO Services' strategy to transform the business. Culture 2020 will promote accountability, performance management, management and leadership capability, safe working, innovation, diversity and empowerment to develop a more engaged workforce delivering operational excellence to our customers. We expect that this and other initiatives will improve staff engagement and support the growth of the business through better delivery and customer service.**

### Workforce planning and recruitment

We are continuously improving our recruitment processes to attract a strong, diverse pool of candidates. Anonymised recruitment (where personal details of candidates are withheld from recruiting managers up until interviews) was recently implemented and the default now is to advertise all vacancies with flexible working. We try to attract a wide range of candidates by working with schools, using social media and targeting job adverts towards under-

represented groups, and we have commissioned our recruitment agency to recommend further measures we can introduce in 2016/17.

Developing a more flexible, agile and responsive workforce will underpin delivery of FCO Services' vision, particularly in increasing our global presence and delivery capability. Reviewing terms and conditions, reward policies and implementing medium-term workforce planning are priorities and work on these will start in 2016/17 as part of the Culture 2020 programme. We will also identify strategic workforce issues and develop plans to address these, including building on the improvements and controls we have already implemented to ensure better management of contractors and to deliver efficiencies.

### Diversity

Promoting wider diversity in our workforce continues to be a priority and our CEO is our Board diversity champion. In addition to the measures we have applied to promote diversity through recruitment, we launched the Women's Association and initiatives to promote wellbeing at work. FCO Services is reviewing its diversity strategy in line with the Civil Service talent strategy, with the aim of increasing the employee representation of female, BME and people with a disability. We

are engaging with organisations to learn how they approach diversity, including diversity of thought.

### Staff engagement and leadership

We have recently agreed new organisational people values and these will be embedded by integrating them into key people management policies and through other initiatives. We have also worked on describing the culture we want to create and are finalising a three year implementation plan. This will integrate with other business transformation work streams that also impact on culture, such as developing the internal IT strategy and improving business processes.

At the heart of culture change and engaging our people is developing leadership and management capability. We implemented a One Team Inspiring Leadership Programme in 2015/16. Following an evaluation, we have developed a broader leadership strategy as part of Culture 2020 and will be launching an updated leadership and management development programme (LMDP) in mid 2016/17 alongside a new management system to make learning and development more accessible, including to overseas staff. The LMDP is being designed around our four strategic themes and aims to strengthen



people, performance and commercial management across the business. It will be integrated with our talent management scheme aimed at high potential future leaders and managers. All parts of the business are committed to making FCO Services a better place to work and to engaging our people. Each group owns and maintains its own staff engagement action plan that addresses specific team issues and these are monitored monthly through the Operational Management Board.

As part of our new approach to change management, we are managing our business transformation through a steering group, underpinned by employee voice initiatives including a 'Think Tank' of volunteers, community discussion forums and feedback sessions.

## Performance management and skills

We have been developing our performance management framework to create a clearer line of sight between the Corporate Plan, Ministerial targets, other strategic priorities and individual objectives, by using tools to cascade priorities. Having implemented a new Personal Development Review process at the start of 2014/15, the focus in the next year will be on improving the quality of objective setting, personal development plans and feedback.

We continue to make a significant investment in all our employees to help them improve their performance, fulfil their potential and to maximise promotion and career development opportunities. Our corporate

learning plan delivers development on core business and people skills and health and safety. This is supplemented by devolved learning budgets which for the first time in 2016/17, are based on a detailed analysis of learning and development requirements in each business group. We also keep engineering capability up-to-date through our in-house technical training team.

FCO Services' award winning apprenticeship scheme is another key component of developing the right skills. We are taking on another 13 engineering and technical apprentices this year and are also looking to recruit into other professions to meet future workforce capability requirements and as part of the government's initiative to increase the overall number of apprenticeships.



## Our Corporate Areas

Our corporate functions underpin all our successful delivery, having a significant impact on the experience our customers have while doing business with us. It is critical that we have a close understanding of our customers' needs, reduce the bureaucracy that they encounter and deliver the best possible value for money.

### Customer satisfaction

We continue to put our customers at the heart of everything we do and to focus on delivering excellent customer service. This year we exceeded our customer satisfaction ministerial target of 80%. Our Customer Satisfaction Programme is supporting our delivery teams by providing increased customer insight and feedback, enabling them to act in response to our customers needs and wants with greater understanding and effectiveness.

The Customer Satisfaction Programme has been a real success, reaching greater numbers of customers and gaining increased customer participation, rising from 35 to 50%. The choice of survey types (face to face, telephone, and online survey) has provided both customers and delivery teams' choice in how we engage with requests for insight.

### Procurement and supply chain

This has been a good year of operation for the Supply Chain Services and Commercial Contracts teams within the Commercial and Supply Chain Group (CSCG). Over this period we have updated supply chain strategies to support the delivery of individual group business plans. This has involved working closely with the business groups to help shape the 'Make or Buy' decisions and put in place suitable supply chains to support the services or projects for our customers. This work will continue over the next few years as we strive to deliver a comprehensive set of frameworks and suppliers to support our business.

#### In addition to these achievements we have:

- completed an Official Journal of the European Community (OJEU) procurement for a number of framework contracts to provide a range of professional building services to support our worldwide construction and works projects
- exceeded our target in delivering cost savings
- continued to make extensive use of existing government framework contracts, saving our staff time and exploiting economies of scale for price
- drafted new government-to-government Memorandums of Understanding (MOU) with friendly foreign governments and Service Level Agreements (SLA) with other government departments
- managed the procurement of a range of goods and services to support the FCO's Technology Refresh programme
- continued to develop a new commercial process within FCO Services
- Been awarded the Chartered Institute of Procurement and Supply Corporate Ethical Mark as confirmation that we have adopted ethical values in the way we source and manage suppliers, that we are committed to accountability and self governance, and that our staff are trained in ethical sourcing and supplier management.

### Publicity and advertising

As a commercial organisation it is vital our customers, stakeholders, influencers and those we seek to work with, understand what we do, how we do it and why. Our corporate communications Team balances this necessity with the knowledge that our offerings and services are not available to all on the open market. The team's specialist audience insight and targeted campaign plans ensure FCO Services remains niche in its field.

Publicity is achieved through a range of channels including; exhibiting at specialist targeted events and leveraging the opportunities afforded such as speaking opportunities; producing bespoke marketing collateral to enhance particular offerings; and through our dedicated website. Messaging is targeted, timely and cognisant of the organisation's ambitions.

Due to the nature of our business our marketing approach is not overtly direct, but one of relationship building to ensure suitability of the customer and the offering. Raising our profile, promoting specific products within the realm of the wider organisation, and creating opportunities to sell, underpins our approach. Our work is supported, and as necessary influenced, by the FCO communications team.



## Security and information assurance

Security and information assurance lies at the heart of all that we do and has done so since our formation as an Executive Agency in 2006. We deliver security advice and technical and physical security solutions for the FCO throughout the world and increasingly, for key government partners (principally Australia, Canada and New Zealand). Security is thus core to our brand and our organisational values. The conduct of our people and their compliance with security policies and best practice is vital to the organisation.

Security falls under the governance of the Executive Board and certain matters are delegated for the oversight of the Information Assurance and Security Committee (IASC) and Risk Oversight Committee, chaired by the Senior Information Risk Owner (SIRO). The IASC and Risk Oversight Committees are responsible for providing assurance to the SIRO that security and information assurance risks have been identified and are effectively managed across the business. Close working arrangements are in place between FCO Services and FCO's Estate and Security Directorate with regard to security matters at home and abroad.

The Corporate Knowledge and Security Group (CKS) provides IT governance and assurance; sets standards, policy and procedures; embeds awareness; ensures that remedial action plans are in place where required with appropriate follow ups, enabling business to succeed in the face of ongoing cyber and wider security threats. This is being achieved through the delivery of a work programme to enhance the current culture and by working with the business to develop standards further and to manage and exploit information, while enabling the business to operate in a safe and secure environment.

## Business continuity management

Business Continuity remains an integral part of our business, and following the BSI compliance visit in June 2014, the BSI auditors recommended a full transition from the Business Continuity British Standard BS25999 to the International Standard ISO 22301. This recommendation was subsequently approved by United Kingdom Accreditation Services (UKAS). A certificate of registration was issued in June 2014 with an expiry date of 25 May 2017. To maintain this high standard the British Standard Institution (BSI) auditors undertake annual compliance reviews. The main requirement of this standard is ensuring we have plans and procedures in place to manage a co-ordinated incident response.

### The benefits of retaining this prestigious certification include:

- Confidence across government and other customers
- Evidence of a proven robust, resilient Business Continuity management system
- Protection of FCO Services' brand, image and reputation
- An ability to demonstrate good corporate governance and satisfy audit requirements
- Proof of a managed risk
- Increased potential bid opportunities. FCO Services is able to document this as a Business Continuity achievement in tender response documentation.

## Public Interest Matters

### 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 do 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.

During the year we have promoted our FCO Services' Ethical Code and our joint FCO and FCO Services Raising Concerns policy. We have also taken steps to raise awareness about our nominated officers to whom individuals can speak in confidence if they have concerns relating to the Civil Service Code. The nominated officers enable individuals to receive impartial advice from someone outside their management chain. We also have three further FCO Services' contacts for staff wishing to raise a concern over fraud and theft, data handling and conduct.

### Health and safety

We acknowledge and fulfil our health and safety duties through the provision of an effective operating framework and the continuous development of a proactive safety culture, ensuring the health, safety and welfare of our employees, contractors and customers.

The governance of health and safety is managed through a safety committee structure led by members of the Executive Board. It is here that local ownership of safety is embraced and the identification and management of operational safety risks are championed. Innovation in safety has been demonstrated by the design and implementation of a near miss report and rectification process which originated within Secure Global Services and which has been adopted across the organisation. This new process encourages the identification and management of situations and activities which if not addressed could have resulted in an accident. This is an excellent example of the proactive identification and management of risk in order to facilitate safe and healthy working practices and environments.

Through a programme of inspections and audits, we undertake continuous review of our operations to ensure safe working environments and management. The focus during 2015/16 has been on ensuring statutory compliance and this has led to marked improvement in the management of risks particularly within our workshop and production environments.

We have adopted the changes to the Construction, Design and Management Regulations, with extensive briefing provided to duty holders, and an ongoing programme of work including training, revision of documentation and processes and audit.

We view co-operation and collaboration across disciplines as essential in continuous improvement of our management of health and safety. In addition, a strong working relationship with customers and contractors has strengthened duty of care arrangements and operational safety.

### Correspondence from the public

During the 2015/16 financial year we received twenty-five FOI requests, all of which were answered within statutory deadlines (including issuing extensions if required)

### Payment of suppliers

FCO Services supports the government target of paying 80% of supplier invoices within five working days of receipt of a valid invoice, actually achieving 88% in the financial year ending March 2016.



# Sustainability Report

This report, for the year ended 31 March 2016, is produced in line with public sector reporting requirements and FCO Services obligation to the Greening Government Commitments (GGC). Sustainability performance is monitored regularly on an ongoing basis, and is reported on to senior management. It is a key part of demonstrating that commitment, as well as increasing the transparency, and accountability of our performance against government targets and related expenditure. Where possible, FCO Services aims to reduce costs and make efficiencies.

## Strategy and Governance

1. We are only reporting on buildings and assets which are either wholly or partially within our control:
  2. The Government's commitment to sustainable development, the sustainability agenda and specifically the Greening Government Commitments (GGC) target of a 25% reduction in Greenhouse gas emissions means that FCO Services recognises the importance of reducing its own environmental impact and the role it plays in meeting these targets.
  3. The GGC targets apply to the FCO's UK operations only, but also cover the sustainability impact of FCO Services (as well as Wilton Park Conference Centre). FCO Services continues to work with the FCO towards the achievement of the GGC target, and performance against these targets is monitored in conjunction with the FCO, through collaborative working groups.
  4. As tenants of the FCO, FCO Services is committed to aligning to these targets, and supporting the FCO by meeting its contribution to these targets. The methodology for the split has been fully agreed with the FCO and uses headcount as a basis for calculating the respective elements and to apportion the effects accordingly.
  5. The FCO manages its environmental impacts and regulatory compliance through an Environmental Management System (EMS). In September 2014, the FCO's EMS was externally re-certified by Lloyds Register Quality Assurance (LRQA) to international standard ISO14001. FCO staff are trained in environmental auditing, audit data collection methods and controls, and sustainable design best practice annually.
- impacts). The number of domestic flights remained at 29 for the year. Waste arising has increased by 11% (due to consolidation and refurbishment of the FCO's London estate) and office paper procurement decreased by 7%. Water consumption increased by 20%, to levels not seen for many years, this is in-part attributable to an increase in IT infrastructure at Hanslope Park and the associated increase in use of the water-based cooling system and also increases across our technical workshops. We are working hard to identify and deliver innovative water efficiency solutions to reduce our impact and improve our performance. Measures to enhance biodiversity continue at our Hanslope Park site.

## Summary of performance

1. This report covers the environmental impacts within the scope of the GGC targets and carbon emissions.
2. The GGC data applies to FCO Services UK operations only, and non-wider market impacts.
3. All sustainability performance figures in this report relate to FCO Services only. This performance measurement is also normalised to allow comparison against the baseline, between years and across departments and other public bodies. Financial figures relate to FCO Services' proportionate share, related impact as well as expenditure in some areas.
4. FCO Services continues to make good progress in meeting its contributory share of the FCO's targets, although certain areas continue to be a challenge. Greenhouse Gas Emissions rose by less than 1% in 2015/16 (after adjustments for the wider market
5. This is the third operating year for the Containerised Data Centre (CDC); the considerable performance credentials it has (a maximum PUE = 1.3, which equates to very efficient), as well as utilisation of free air cooling 95% of the time). means it has played a key part in supporting the organisation's performance data
6. As a registered participant in the EU Code of Conduct for Data Centres; the acquisition of our 'green' data centre reinforces our commitment to the Greening ICT Programme that aligns to the government's ICT Greening Strategy. In addition to the long term energy and cost savings, the rigorous reporting and compliance requirements give the relevant assurances to our customers, stakeholders, suppliers and employees.
7. The FCO Services fleet is the other main source of travel emissions within FCO Services. However, through the continued investment in our fleet, we aim to reduce the

environmental impact of road travel. We have increased a number of our secure fleet services across Europe and the UK, providing a bespoke secure service to meet our customers' needs and expectations. We have introduced a scheduled timetable, servicing over 50 Posts and missions. However, this has led to an increase in road mileage, fuel consumption and maintenance. We are currently investigating a number of replacement HGV-class1 vehicles to complement our HGV freight fleet at Hanslope Park.

All vehicles purchased will meet or exceed the current Euro emission classification of Euro Standard VI.

8. The GGC targets for Greenhouse Gas Emissions, paper, and waste reduction for FCO Services contribution has been documented.. The three scope area for GHG emissions are:

**Scope 1** – Direct Greenhouse Gas Emissions(including gas usage, fuel oil, LPG and fuel from vehicles owned and operated by FCO Services

**Scope 2** – Energy Indirect Emissions (usage of electricity supplied to FCO Services)

**Scope 3** – Other Indirect Emissions(includes business travel by air, rail, and hire/ private car use)

The following table provides a summarised breakdown of performance in these key areas::

Impact	2015-16 Performance	FCO Target for 2015-16 (unless other year stated) FCO Services contributes to these targets	On/Off track to meet target
<b>Greenhouse Gas Emissions</b>			
Greenhouse gas emissions from UK estate, vehicles and domestic train and air travel	2103 tCO2	14,426 tCO2e (a reduction of 25% on 2009-10 emissions)	Met target
Estate energy expenditure	£639,992	-	-
CRC Energy Efficiency Scheme expenditure	£30,226 (see Note 9)		
<b>Flights</b>			
No. of domestic flights	29	588 flights (a 20% reduction on 2009/10 flights by 2015)	Met target
Vehicle and domestic train and air travel expenditure	£522,644	-	-
<b>Water</b>			
Office water consumption	8.7 cubic metres per Full Time Equivalent	>6m3 per FTE = poor practice 4m3 – 6m3 per FTE = good practice <4m3 per FTE = best practice	Missed target
Office water expenditure	£13,089		
<b>Paper</b>			
Paper consumption	4,640 A4 reams equivalent	35,036 A4 reams equivalent (a reduction of 10% on 2010/11 consumption).	Met target
<b>Waste</b>			
Waste arising	142 tonnes	947 tonnes (a reduction of 25% on 2009/10 waste arising)	Met target
Total waste disposal expenditure	£17,370	-	-

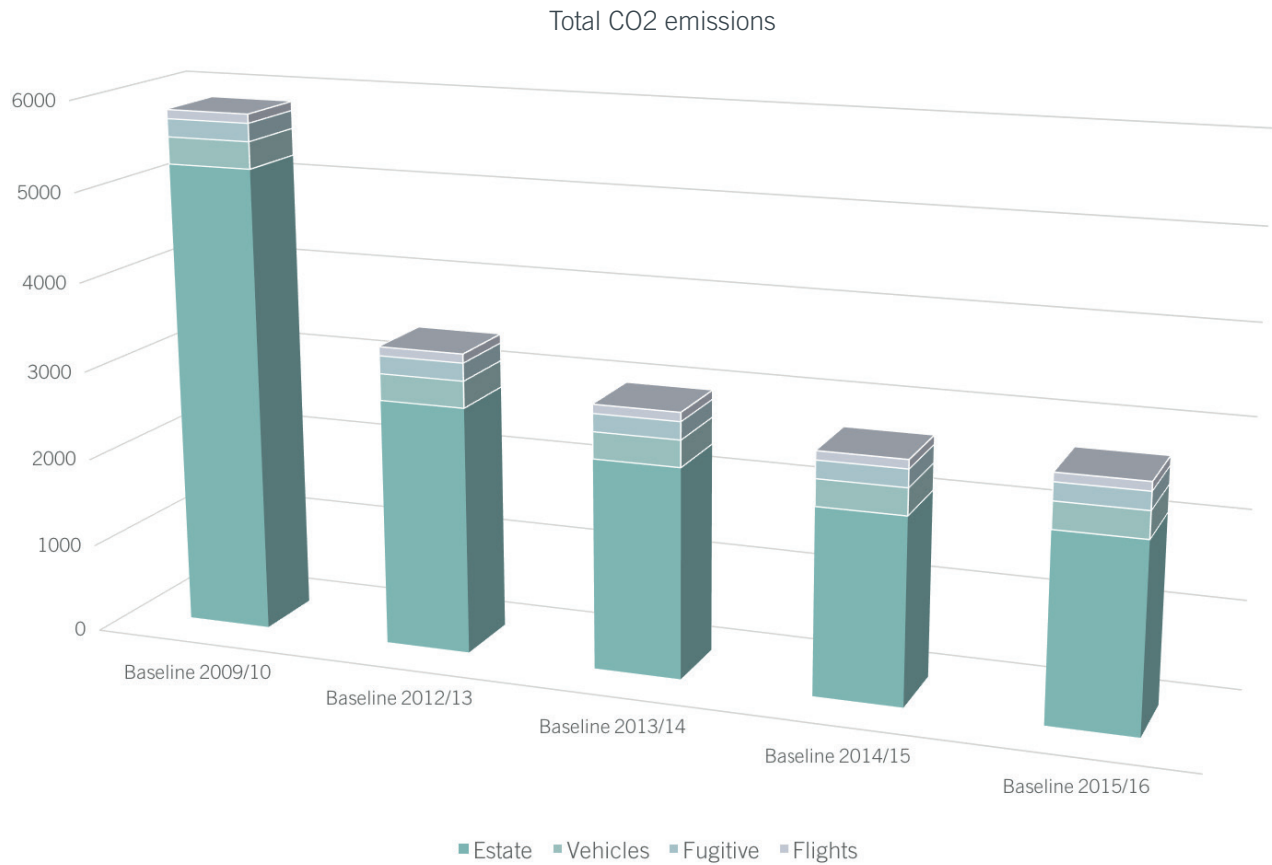


## Normalised performance

1. As a Trading Fund, FCO Services' emissions will always be predominantly driven by customer demand for its services. This may inevitably result in increased effects on the environment if customer demand drives additional activity in the future (this was addressed in the latter half of 2012/13 financial year following an exemption case (to DEFRA) which now means that these emissions are not included in our formal reporting);
2. To allow like-for-like comparison between years and organisations, all data has been re-baselined (from 2009/10). In addition, environmental impacts have been normalised by dividing consumption by headcount; this produces simple indicators of like-for-like comparison for future years.
3. The expenditure figure is derived from FCO Services total spend, excluding wider market impacts. The Full Time Equivalent (FTE) staff number, excluding wider market impacts equals 727; this includes contractors and agency personnel as well as staff working on FCO premises in the UK plus FTE visitors to UK premises.

Impact	Per full time equivalent (FTE)	Per full time equivalent (FTE) 2014/15
<b>(2015/16)</b>		
Greenhouse gas emissions	2.9 tonnes of CO <sub>2</sub> e per FTE	3.2 tonnes of CO <sub>2</sub> e per FTE
Office water consumption	8.7 cubic metres per FTE	8.6 cubic metres per FTE
Waste arising	195 kg per FTE	195 kg per FTE

Greenhouse Gas Emissions	kWh/miles/no.	tCO <sub>2</sub>	GBP (£)
Electricity (Non-Renewable)	3,487,538	1743	£468,444
Electricity (Renewable)	0	0	0
Gas	246,050	45	£3,468
Heating Oil	145,107	39	£46,076
Biodiesel	228,407	1	£22,111
Biomass	72,681	0	0
District Heating	426,047	113	£99,893
Fugitive	-	13	0
Domestic flights	5825	2	£3,573
Train	39,544	4	£22,610
Private mileage	354,888	116	£168,680
Fleet	50,320	15	£111,134
Chauffeur Service	567	1	£19,213
Car Hire	20,177	6	£9,538
Taxis	18,747	5	£187,896
<b>TOTALS:</b>	<b>4,605,830 kWh</b> <b>490,068 Miles</b>	<b>2,103</b>	<b>£1,162,636</b>



### Performance commentary (including targets)

FCO Services' Greenhouse Gas emissions rose by less than 1% in 2015/16, compared with last year. There has been a 7% decrease in the carbon factor of grid electricity.

### Controllable impacts commentary

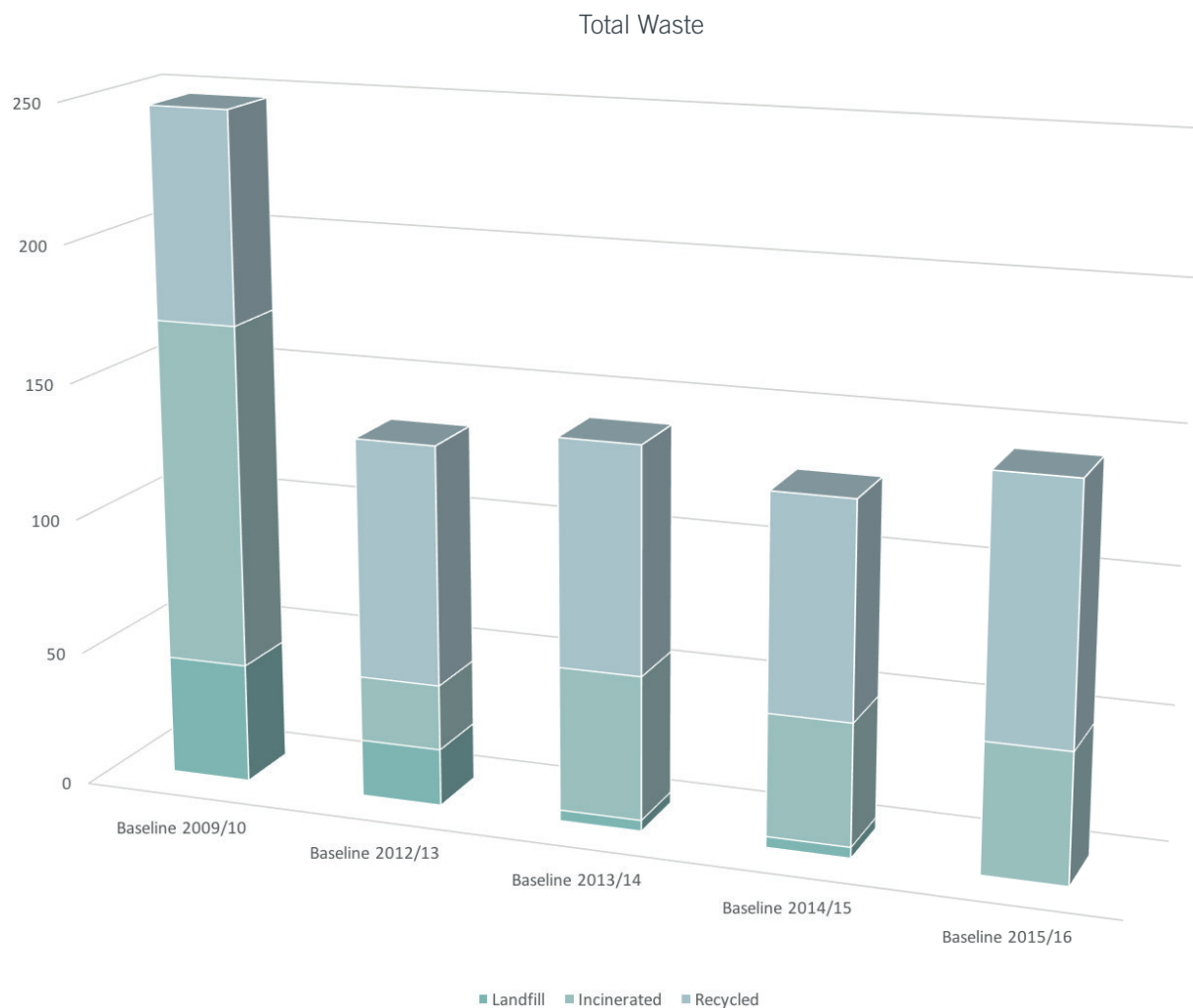
FCO Services direct impacts are mainly from fossil fuels and electricity. These are being reduced through a combination of energy efficiency measures and the heating of the Hanslope Park site with 100% biodiesel from waste and second generation oils. In addition, the continued review, investment and expansion of the hybrid fleet continues to reduce emissions. The new energy efficient containerised data centre continues to contribute to performance results.

### Future measures

The FCO is continuously reviewing possibilities for greater efficiencies. Further energy efficient equipment such as additional LED lighting and the virtualisation of their data centre will significantly cut emissions from 2016/17 onwards. Longer term renewable energy options at the Hanslope site are being explored.



Waste	2015/16	
	Tonnes	GBP (£)
Total Waste	141	19,605
Hazardous Waste	3	2,235
<b>Total waste by method of disposal</b>		
Landfill	0	0
Reused/Recycled	93	8,431
Incinerated (without energy recovery)	1	2,235
Incinerated (with energy recovery)	47	8,939



## Performance commentary

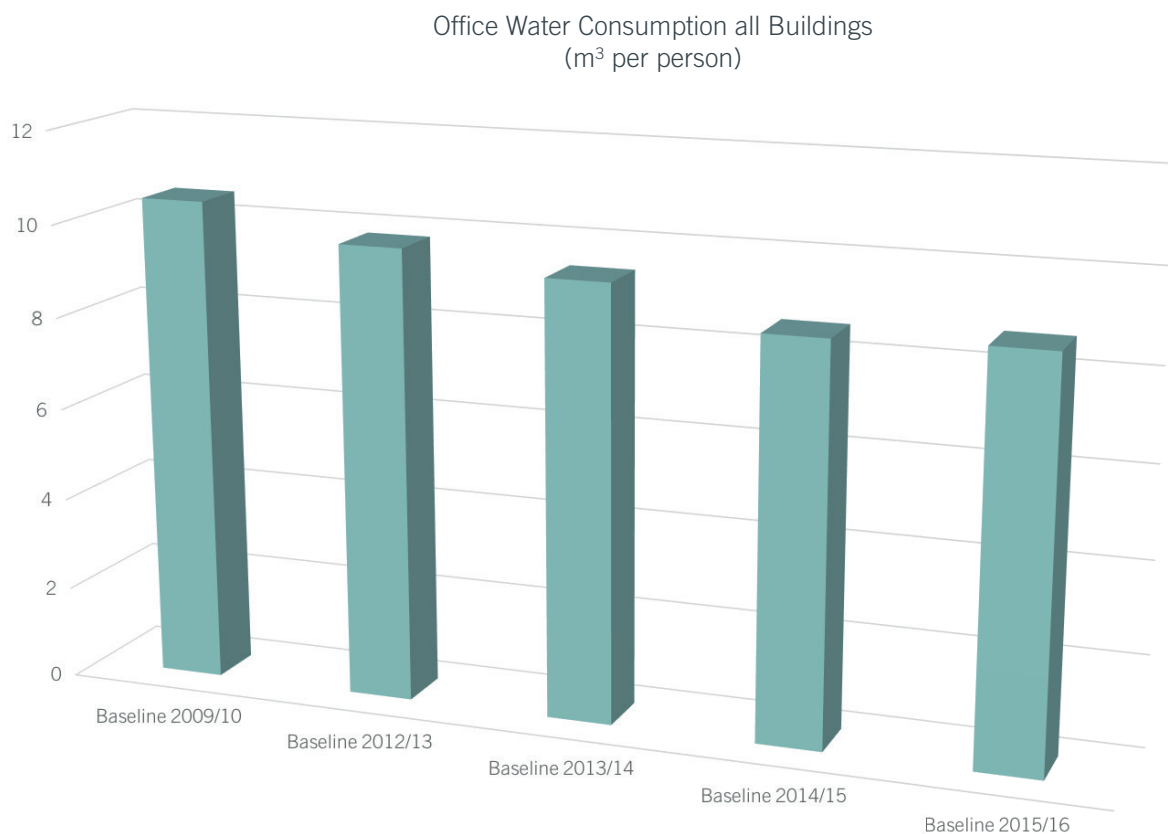
FCO Services' waste has been based on an estimation of the percentage of total FCO waste, using headcount (as stated above) to calculate total FCO Services' waste.

## Controllable impacts commentary

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

FCO Services (Secure Disposals) make arrangements for printer cartridges to be recycled and during 2015/16, 4800 printer cartridges have been saved from landfill.

Finite resource consumption – water (supplied)	Cubic metres	GBP (£)
Office Water Consumption	6,318	£13,089
Non-Office Water Consumption	2,464	£5,105
Total	8,782	£18,194



### Performance commentary

Office water consumption increased from 8.6m<sup>3</sup> per FTE to 8.7m<sup>3</sup> per FTE however consumption remains high, above the target and benchmark (between 4-6m<sup>3</sup>/FTE is considered good practice).

### Controllable impacts commentary

Controllable impacts include water use in washrooms, canteens, evaporative cooling systems for data-centres as well as building cleaning. Meters have been installed in all buildings and major water consuming units within buildings and opportunities have been identified to reduce washroom water use at Hanslope Park.



## Corporate social responsibility

As a responsible organisation, we respect the interests of our stakeholders (the FCO), our employees, and customers. FCO Services takes its responsibilities seriously; the activities and performance improvement during the year, shows not only our commitment to maintaining, but also increasing this.

Registered participant status in the EU Code of Conduct for Data Centres; the Carbon Trust Standard (for Greenhouse Gases), and the Carbon Trust Standard for Waste Management; further reinforces our resolve to making both energy and cost savings, as well as endorsing and improving the robustness of our environmental operations.

Continued collaboration with the Woodland Trust in the Carbon Mitigation Programme to promote and participation in their tree planting initiative events at Heartwood Forest, the largest new native forest in England, reinforce not only our commitment to targets but the wider green agenda.

## Biodiversity and the natural environment

FCO Services' environmental impacts are managed under the FCO's Environmental Management System (EMS), which is formally accredited to the ISO 14001 standard, through Lloyds.

FCO Services has no direct influence on the estate, as tenants. However, there are some points worthy of noting; the FCO's improved commitment to biodiversity in 2015/16 through a positive management approach to existing habitats, species and landscaping at its Hanslope Park site. There is active vegetation management with designated areas for wild flowers; in addition, an arboriculture survey is conducted annually. Tree maintenance is an ongoing activity, and ecological surveys are carried out prior to any works on site. The FCO Services on site nursery continues to promote habitats for birds and insects, and staff in the wood workshops are actively involved in building bird feeding tables on site. This year the workshops diversified into Bee Hotels, and these too will help enhance the immediate environment.

The Biodiversity Plan for Hanslope Park is reviewed annually. Potential impacts on existing habitats and species are factored into the management and landscaping of the Hanslope Park site and where possible, wildlife corridors and natural habitats have been enhanced.

In particular, the following biodiversity actions have been implemented in 2015/16:

- Improved pond management, with plant trimming and reed reduction
- Demolition of an old gym and conversion of the site into a dedicated wild flower meadow
- 18 new hornbeam trees have been planted across the site

It has been identified that we have:

- Cowslips and wild orchids on the site
- Mallard duck nesting areas
- Bat nesting sites - an ecologist has advised on management of bats on site to ensure their protection and management

## Sustainable procurement

FCO Services adopts UK government best practice in sustainable procurement. FCO Services also contributes to the FCO Greening Government Commitments for Sustainable Procurement; wherever possible, products are sourced via government framework contracts, which place up to date sustainability obligations upon our suppliers.

The sustainability credentials of our suppliers are examined and reviewed rigorously in the selection process. FCO Services also 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. The emissions of our freight and private hire contractors are regularly reviewed as part of our ongoing contract management activity. Where bespoke contracts are placed, UK Buying Standards and government sustainability terms and conditions are incorporated.

FCO Services Sustainable Procurement Policy reflects the strategic direction, as well as the commitment to change and improvement in this area. The initiation and implementation of key activities reinforces this; including:

- The move from a sustainability compliance approach to a sustainability performance approach with supply chain partners
- A Sustainability Action Plan against the DEFRA flexible framework to set targets for sustainable procurement has also been developed

- Sustainability risk in the supply chain will be identified through the addition of sustainability impact areas to contract risk registers and managed through the Supplier Relationship Management process
- Training on ethical and sustainable procurement has been identified and will be rolled out to key staff over 2015/16. All procurement staff will be required to undertake the Chartered Institute of Procurement and Supply (CIPS) ethic examination with the aim of being awarded the CIPS Corporate Ethical Mark during 2016.
- A Sustainable Procurement Checklist is being embedded within existing procurement guidance to ensure sustainability is considered throughout the procurement cycle

As well as delivering sustainability through contracts, sustainable procurement is also about making opportunities accessible to a wide range of suppliers; particularly small and medium enterprises. FCO Services supply base is over 25% SME suppliers; exceeding the Government's 2015 target.

## People and Initiatives

Staff awareness communications through the various channels are used to promote activities periodically and inform staff on performance.

An annual budget is allocated for the management of our carbon footprint, and to help the organisation understand the costs and benefits of managing it.

FCO Services staff also form part of the FCO's Environmental Volunteers.

## 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 14% after allowing for wider market impacts.
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. Some emissions from official train and underground, bus or coach travel have 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 greenhouse gas emission figures are non-weather corrected.
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 £39.9m.
9. Under CRC Energy Efficiency Scheme rules, the FCO must purchase CRC allowances for all CRC qualifying emissions on its estate, including the emissions of its tenants. As a tenant FCO Services has made an accrual to reimburse the FCO £30,226 for 2015/16 (plus £29,991 accrued for 2014/15 CRC allowance costs).







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# Review of Financial Performance

In its eighth year as a Trading Fund, FCO Services has had another year of strong delivery and financial performance, exceeding both of its financial Ministerial targets. This result has been achieved despite the uncertain trading conditions at the start of the year, which were driven by both the General Election in May 2015, and the government Spending Review (SR15) and impacted on our customers' ability to award work to us. Our healthy financial results were driven by an exceptionally successful performance in the second half of the year, and particularly in the final quarter, and additionally by a robust ongoing efficiency programme which generated savings of £8.6m in the year.

## Financial outturn 2015/16

Total revenue delivered in 2015/16 was £135.8m, which was £21.5m lower than revenues reported in the previous year of £157.3m. The main reason for this reduction was the transfer of an IT service management contract to the Home Office at the end of the previous financial year.

Improved revenue performances were generated by Estates and Property projects, reflecting contract gains with the FCO, together with higher volume Diplomatic Bag and Vetting services supplied to a range of government customers.

In 2015/16 there was nil 'Other Income' which in 2014/15 was reported at £0.4m. This related to contract termination charges levied in that year.

On a year on year comparison, the revenue associated with our services delivered to the FCO has increased by £4.6m (a 5.1% increase on last year's revenue), while non-FCO business has reduced by £26.2m (a 15.3% reduction normalised for the impact of the contract transfer).

FCO Services achieved a gross surplus before operating expenses of £37.0m, a return of 27.3% on revenue. This compares with a gross surplus last year of £32.1m, a return of 20.4%. The improvement of £4.9m to last year reflects the beneficial impact of savings derived from the 2014/15 Voluntary Exit Scheme (VES) programme, improved cost controls within major projects, a strong efficiency savings programme, and a more beneficial sales/product mix.

Operating expenses of £26.0m show a reduction of £1.7m from the previous year and represent 19.2% (2014/15 17.7%) of revenue. Given underlying inflationary pressures this is a good performance and continues to reflect the focus on cost control and reduction.

Overall FCO Services achieved an operating surplus, before financing and VES cost, for 2015/16 of £11.0m, a return of 8.1% on revenue. This compares with a surplus before financing and VES for 2014/15 of £4.7m, a return of 3.0%.

As part of an ongoing efficiency exercise, FCO Services ran a VES programme, which resulted in 38 agreed departures from the business, at a cost of £2.1m, with anticipated sustainable savings of £1.3m. This follows a similar VES programme undertaken in 2014/15 under which there were 33 agreed departures. Overall the 2015/16 performance is underpinned by savings of £8.6m, attributable to a reduction of 132 permanent and interim staff.

The segmental performance analysis in note 3 to the Accounts indicates the performance of our service delivery groups.

The Security and Property Group generated revenue of £50.3m in the current year, being at a similar level to 2014/15. Notwithstanding the relatively static revenues, the operating surplus performance of £5.0m compares to an operating loss of £0.7m in the previous year – an improvement of £5.7m. This result was driven by a number of factors: more effective project cost and change control; careful risk management which reduced the cost of required mitigations; the realisation of the benefits of the restructuring in 2014/15; and a higher gross margin revenue mix.

Global Digital Technology Group revenue decreased by £22.9m mainly as a result of the transfer of an IT service management contract, and the loss of some legacy IT projects. As a consequence of the revenue reduction, together with asset impairment costs of £0.9m relating to cloud technology assets, an operating loss of £2.6m is reported for 2015/16. This is £1.9m higher than the £0.7m loss recorded for 2014/15.

Network Services Group delivered another strong trading performance with £0.5m improvement on the previous year's revenue. This was underpinned by higher volumes of Bag services to both FCO and non-FCO customers and improved revenues from Vetting Services. The improvement in margin is primarily due to the improved revenue performance, and beneficial changes in service mix.

## Financing income and costs

Interest of £72k was earned in the year from cash on deposit with the Government Banking Service, compared to £63k in 2014/15.

Financing costs of £41k (2014/15 £84k) relate to interest on loans from the FCO, and also includes finance lease charges of £22k (2014/15 £27k). The year on year reduction arises from the repayments of the Vesting Day Loan.

The resulting net finance income is £31k, compared to a net finance charge of £21k in 2014/15.

## Surplus for the year

After taking into account the net financing income and VES cost, FCO Services produced a surplus before dividend of £8.9m, (2014/15 £2.9m), a return of 6.5% (2014/15 1.8%) on revenue. After deduction of the statutory dividend of £1.3m (2014/15 £1.1m) there was a retained surplus for the financial year of £7.6m (2014/15 £1.8m surplus). No discretionary dividend was paid in this financial year (2014/15 £nil).

## Net assets

At 31 March 2016, FCO Services' Statement of Financial Position showed total net assets of £40.1m against an opening year position of £32.4m. This positive movement of £7.7m is driven by the retained surplus of £7.6m for this financial year.

The net assets comprise: non-current assets £11.1m (2014/15 £14.7m); inventories £0.5m (2014/15 £1.0m); cash and cash equivalents £24.7m (2014/15 £15.2m); and other net assets of £3.8m (2014/15 £1.5m).

## Cash generation

The level of cash of £24.7m at 31 March 2016 is an increase of £9.5m from the end of the previous financial year. This increase in cash, inclusive of the cash inflow generated from the surplus and other non-cash items of £13.6m, funded a net investment in net current assets of £1.0m; a net investment in non-current assets of £1.0m; repayment of £1.0m of FCO loans; and the payment of a statutory dividend of £1.1m.

## Cash management

While effective credit management of customers has remained a focus for FCO Services throughout the year, debtor days outstanding increased by 14 days to 36 days at the end of March 2016 (March 2015 22 days). This was mainly a consequence of the unusually high level of billing in March 2016 following higher level of activity in that month than in the previous year.

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 from receipt. For 2015/16, FCO Services achieved an average success rate in meeting this target of 88% (2014/15 86%).

Effective cash management ensured that liquidity remained strong, with a quick ratio of 2.6 at the end of March (2014/15 1.7).

## Financial Performance targets

FCO Services' financial performance in 2015/16 has again been measured against two key financial performance indicators: In year surplus before interest, and Return on Capital Employed (ROCE).

### In year surplus: Target exceeded

FCO Services has exceeded its formal target of a surplus of between 1 and 5% of revenue, achieving an actual result of 6.5% (2014/15 1.8%).

### 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 25.3% (2014/15 9.2%) 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 (other than in Technology Group), ROCE is likely to remain higher than 3.5%.



## Non Financial Performance targets

### Customer satisfaction: Target achieved

Our customer satisfaction rating is targeted at an achievement of at least 80%. We actually achieved 88.5%, reflecting our continued focus on customer service, and our positive and prompt response to customer feedback. Our diverse business areas select a wide surveying package, which incorporates face to face or telephone interviews and online surveys.

### Efficiency of corporate functions: Target achieved

The target cost of FCO Service's corporate functions as being no more than 6% of revenue has been achieved, with the cost of corporate areas representing 5.2% of revenue in 2015/16.

### Utilisation rate: Target achieved

Our utilisation rate target of a rate of at least 75% has been met, with an average over the year of 79% utilisation being achieved by revenue earning staff. This is an improvement from 76% in 2014/15, resulting from better time-recording and more accurate forward planning of work force requirements.

### Employee engagement: Target not achieved

Our engagement score decreased by 1% from the previous year to 57%, and was 2% below our Ministerial target of 59%, which was disappointing. The fact that staff feedback was fairly consistent with recent years is prompting us to take a different approach to driving improved engagement scores.

## Pensions

Information regarding pensions is provided in the Remuneration and Staff Reports

## Events after the reporting period

There have been no significant events after the reporting period, which need to be noted in these Accounts, except for that disclosed in Note 25 to the Accounts, which appears on page 114.

These Accounts have been audited by the Comptroller and Auditor General whose certificate and report appears on page 85. The total audit fee for 2015/16 is £99k (2014/15 £95k).

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

**Danny Payne**  
*Chief Executive and Accounting Officer*

28 June 2016

## Performance against Formal Ministerial Targets

Long term goal	Short term Objective	Key Performance Indicator	Target 2015/16	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%	6.5%
		Return on Capital Employed	A Return on Capital Employed of at least 3.5% (weighted average)	25.3%
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 internal surveying package	Customer satisfaction rating of at least 80%	88.5%
Processes, efficiency and effectiveness	To be an efficient organisation committed to continuous improvement in operational efficiency	Cost of Corporate functions will be controlled in line with revenue	Cost of Corporate functions as a percentage of revenue of no more than 6%	5.2%
	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)	A utilisation rate for revenue earning staff of at least 75%	79%
People	To continually invest in staff to build a high performance, customer focussed and innovative culture	Employee engagement in FCO Services using Civil Service survey	Achieve a staff survey employee engagement score of more than 59%	57%





# Corporate Governance Report

## Lead Non-Executive Director's Report

Sir Richard Stagg, Chair of the FCO Services Board

The last year saw the first change in Chief Executive since FCO Services became a Trading Fund in 2008. It was a tribute to the organisation's maturity that the successful candidate to replace Chris Moxey was one of FCO Services' own Directors – Danny Payne. I am personally delighted by this outcome.

The new CEO inherited a challenging agenda, with the 2015 Spending Review and the Fletcher Review of the FCO at the top of the list. The FCO's decisions on how to deliver its spending review commitments and implement the recommendations of the Review will shape much of our work over the coming four years. I believe FCO Services is well placed to help the FCO to develop a more cost-effective global platform, responsive to the needs of modern diplomacy and designed to meet the requirements of the whole UK government.

As this Annual Report makes clear, our new Chief Executive has put a premium on strengthening our relationship with the FCO. This is strongly supported by the Board. Our aspiration is to make a reality of the vision of FCO Services as a trusted partner, to which the FCO naturally turns to seek solutions for the practical problems it faces around the world. I believe we have made clear progress over the last twelve months.

All that said, the financial environment in which we operate has remained extremely challenging. Across the UK government there is continuing pressure to reduce costs and deliver efficiencies. It is a reflection of the quality of our

new CEO and his executive team that they managed to achieve a surplus before dividend of £8.9m in 2015/2016, despite a reduction in overall sales of £21.6m. This owed much to tight resource management and successful anticipation of the likely scale of the squeeze on our business.

The demanding public expenditure context was exacerbated, for FCO Services, by changes in the government's approach to IT and information security. The push towards much greater use of unclassified systems, with the obvious practical benefits they bring, has made it more difficult to market some of our secure systems to traditional customers. The organisation is adjusting well to the evolving environment. Nevertheless in the course of the coming year, FCO Services will inevitably require a further rethink of its Global Digital Technology Strategy and the areas where it enjoys comparative advantage.

More positively, FCO Services has been able to strengthen its relationship with both key partners in Whitehall and friendly foreign governments. I particularly commend the work which Danny Payne and his senior colleagues have done with the governments of Australia, Canada and New Zealand. I believe the last year has laid the foundations for a mutually beneficial partnership in the future.

As I have said, 2015/16 saw the departure of Chris Moxey as CEO after nine years. I hope he feels real pride in what he and FCO Services achieved during this period – and I wish him well

for his new life in Australia. The new CEO has reshaped his executive team; he is now joined on the Board by his Chief Operating Officer, Chief Finance Officer and Technology Director. I would like to thank Andy Collier and Phil Worthington for their contribution to the Board. Joy Hutcheon, Director General for the Corporate Performance Group at the Department for International Development has become a Non-Executive Director. I'm delighted Joy has agreed to join the Board, to which she will bring both her extensive knowledge of running a global organisation and the specific perspectives of a major user of HMG's global platform. In addition, to ensure the Board is contributing as much as it should, I have commissioned a short external review of how we work. This will report in the summer.

In conclusion, I believe the results for 2015/16 show how far FCO Services has come as an increasingly flexible and resilient service provider. We can look to the future with confidence, based on the talent and commitment of FCO Services' staff; on the opportunities which the FCO's review of its organisation will create, and on the increasing commitment across HMG to create a single global platform to support Britain's international work.

**Sir Richard Stagg**  
*Chair of the FCO Services Board*

# Annual Governance Statement and Risk Assessment

## 1. Scope of responsibility

As Chief Executive of FCO Services, I have ultimate responsibility for the day-to-day management of our organisation and 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.

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 and Risk Assurance 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.

## 2. 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 & Commonwealth Affairs, the FCO and FCO Services. First published in 2008 (when FCO Services became a Trading Fund), the Framework Document was reviewed in April 2014, and remains the overarching statement of the Trading Fund's governing principles, from which stems all agreements and arrangements between 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 3 below) - the design of which has drawn upon the guiding principles

published in the Audit and Risk Assurance Committee Handbook (HM Treasury, 2016). The document is reviewed on an annual basis and has been internally assessed by the Board Secretary against the Corporate governance in central government departments - code of good practice, published in July 2011 and Managing Public Money published in July 2013 (Annexes updated 2015). This assessment concluded that FCO Services' corporate governance complied with all relevant aspects of the code.

## 3. 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 FCO Services' Board is responsible for the strategic management of the business. It is chaired by Non-Executive Director, Sir Richard Stagg and comprises the Chief Executive, the Chief Finance Officer, the Chief Operating Officer, the Global Digital Technology Director 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 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.

The Board oversees and agrees upon the FCO Services' strategic aims and the broad allocation of resources to achieve them. It scrutinises the practices in place maintaining a transparent system of prudent and effective controls alongside the management of and the assessment of risk, thus overseeing organisational performance and encouraging innovation.

It receives regular comprehensive reports detailing financial performance, sales and marketing plans, HR statistics and service delivery issues, ensuring that it is 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 and Risk Assurance 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 information received enables the effective operation of the Board.

Under the direction of the Chair, the Board has determined to bring in external reviewers to assess its performance and to make recommendations for improvement. They will report in summer 2016.

The quality of the information presented to the Board is under regular review. The corporate risk report has been refreshed to provide a concise overview of the status of each of our thirteen risk categories, highlighting both current and emerging risks and issues.

The Audit and Risk Assurance Committee supports the Board and Chief Executive in the management of risk, internal control, assurance and governance. Meetings are held at least four times per year. There are five members, of which three have recent and relevant financial experience. The membership consists of four Non-Executive Directors, three of whom are also Board members, one serving as Chair, and a Finance representative from the FCO. Those in the following roles have a standing invitation to attend: FCO Head of Internal Audit; the National Audit Office; the Chief Finance Officer; the Accounting Officer; all Non-Executive Directors formally appointed to the Board and the Chair of the Board. Members of the Executive Board attend by invitation as required.

The Executive Board meets monthly; it consists of myself (in the role of Chief Executive) and the Executive Directors. Its primary purpose is to support the Chief Executive by taking ownership of our day-to-day management and performance against our agreed business plan. The Board manages resources and delivery of our performance targets set out in our business plan and any key delivery and strategic risks.

In addition to this, monthly Sales and Commercial Boards (chaired by myself) and Operational Management Boards (chaired by the Chief Operating Officer), have been in place since September 2015.

Owner and Customer Boards meet quarterly and are chaired by the FCO's Chief Operating Officer and Commercial Director respectively, with the FCO Services Accounting Officer also in attendance. This layer of governance is continuing to improve the partnership between the two organisations, enabling them to support each other's strategic aims as effectively as possible.

## FCO Services' Board Attendance (April 2015 to March 2016 inclusive)

Board Member	Possible Board Attendance 2015/16	Actual Board Attendance 2015/16
Sir Richard Stagg KCMG, <i>Non-Executive Director and Chair</i>	7	7
Stephen Barrett, <i>Non-Executive Director</i>	7	6
Hugh Elliott, <i>Non-Executive Director</i>	7	6
Stephen Hawker CB, <i>Non-Executive Director</i>	7	6
Joy Hutcheon, <i>Non-Executive Director</i> (from 1 March 2016)	1	1
Glyn Smith, <i>Non-Executive Director</i>	7	6
Danny Payne, <i>Chief Executive and Accounting Officer</i> (from 1 July 2015) <i>Security and Property Group Director</i> (until 30 June 2015)	7	7
Sarah Cevro, <i>Human Resources Director</i> (until 31 May 2015) *	1	1
Andrew Coller, ** <i>CSCG Director</i>	5	4
Rob Eason, <i>Global Digital Technology Director</i> (from 20 July 2015) (known as <i>Technology Group Director</i> until 21st February 2016)	5	5
Steven Horder, <i>Chief Operating Officer.</i> (from 1 December 2015) Also, <i>Network Services Group Director</i> (from 7 April 2015)	7	7
Ian Metcalfe, <i>Interim Security and Property Group Director</i> (from 1 July 2015 to 31 December 2015)	3	2
Chris Moxey, <i>Chief Executive, Accounting Officer and acting Technology Group Director</i> (Until 31 May 2015)	1	1
Phil Spall <i>Interim Finance Director</i> (from 1 June to 19 July 2015)	1	1
Helen Sullivan, <i>Chief Finance Officer</i> (from 1 February 2016) <i>Finance Director</i> (until 31 May 2015 and from 20 July 2015 to 31 January 2016) <i>Acting Technology Director</i> (from 1 June to 19 July 2015) <i>Interim Chief Executive and Accounting officer</i> (from 1 June to 30 June 2015)	7	7
Phil Worthington, ** <i>Human Resources Director</i> (from 1 April 2015)*	5	5

\* A transition period from 1 April to 31 May 2015, during which time shared executive oversight, was recognised.

\*\* Role remains Executive, however not part of the Board membership from December 2015.

## Audit and Risk Assurance Committee attendance (1 April 2015 to 31 March 2016)

Audit and Risk Assurance Committee Member	Possible Audit and Risk Assurance Committee Attendance 2015/16 *	Actual Audit and Risk Assurance Committee Attendance 2015/16
Glyn Smith <i>Chair and Non-Executive Director</i>	5	5
Stephen Hawker CB, <i>Non-Executive Director</i>	5	4
Stephen Barrett, <i>Non-Executive Director</i>	5	3
Michael Attenborough-Cox <i>Non-Executive Member</i>	5	5
Susan Graham, <i>FCO Deputy Finance Director (FCO Finance representative)</i>	5	4

\* (Attendance record includes attendance at the scheduled June 2015 extraordinary meeting)

### 4. 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 the system of control include:

#### 4.1 Boards and Committees:

Meetings	Frequency	Purpose
FCO Services Board	Bi-monthly	Responsible for agreeing our strategic agenda, setting corporate policy and monitoring corporate performance. It meets six times a year. Supports the Chief Executive in developing our strategic objectives, agreeing the broad allocation of resources, establishing key standards, managing risk and overseeing the change process.
Executive Board: *	Monthly	Supports the Chief Executive in developing our vision and strategy, and by taking ownership of our day-to-day management and performance against our agreed business plan. Agreeing strategic aims, objectives and key policies and leading the delivery of the performance targets set out in our business plan and any key delivery risks.
Audit & Risk Assurance Committee (ARAC)	Quarterly	Provides independent advice to the Board and Accounting Officer on issues of risk, controls, governance and assurance. Provides advice on strategic processes for control and governance, on accounting policies, our effectiveness in managing risk and our internal and external audits.
Risk Oversight Committee (ROC)**	Monthly	The ROC oversees and advises the Executive Board on matters pertaining to internal control and risk. It provides a control mechanism within the corporate risk management process ensuring that risks are appropriately recommended for escalation to the corporate risk report. The committee Members are nominated by the Executive and made up of the Senior Leadership cadre. The Accounting Officer and Executive Directors retain accountability for the management of risk within FCO Services.
Sales and Commercial Board (SCB)	Monthly	The SCB monitors the sustainability of the business. Revenue growth is overseen by ensuring that all commercial interests, processes and new business opportunities are strategically aligned, appropriately resourced and effectively managed. The SCB provides oversight of the customer relationships, both within the FCO and across the wider market, and approves any significant commercial decisions and investment undertaken by FCO Services.
Operational Management Board (OMB)	Monthly	The OMB ensures the consistency of performance reporting of the Service Delivery Groups in the reporting month and over a period of time. It provides oversight of corrective action when targets are not being met and the conduit to drive performance improvements and develop best practice initiatives. Reporting falls into four distinct quadrants: Financial; Customer; People; Operational Delivery.

\*The Executive Board replaced the Executive Committee in September 2015.

\*\*The ROC replaced the Executive Risk Review meetings and Joint Risk Review Management Panel meetings. The first meeting was held in October 2015.



## 4.2 Process:

Process	Frequency	Purpose
Corporate Plan	Annual	An outline of the future direction of FCO Services, strategy and governance. Target and budget setting are made through its the Corporate Plan process, covering both operational and capital investment requirements.
Revised Annual Plan (RAP)	Quarterly	Base-lining of the annual plan against the present known business position.
Monthly Management Accounts	Monthly	A financial report providing timely information to the business. The information is used by management to control costs, monitor cash flow, compare budgets and forecasts, and review seasonal differences.

## 4.3 Assurance:

Assurance	Frequency	Purpose
Executive team letters of assurance	Annual	Uniform, mandatory documents intended to clearly identify the responsibilities of key individuals. These letters are supported by documented assurances from senior managers and information asset managers, confirming compliance with operational risk management and internal control responsibilities, identifying and any perceived weaknesses and actions to address these.
Annual programme of internal audits	Annual	Delivered by independent auditors, to Government Internal Audit Standards, providing regular reports and an overall annual opinion on risk management, control and governance within FCO Services.
NAO external audit	Annual	Providing internal control comments in its management letters and audit of the financial statements.
Investors in People (IiP)	Annual	A standard for better people management. The Standard defines what it takes to lead, support and manage people well for sustainable results.
Business Continuity Management Steering Group (BCMSG)	Quarterly	Assurance to the Executive Board that plans are robust, resilient and effective against a range of disruptive scenarios, ensuring all work is on track to maintain compliance with the International standard ISO 22301. A key driver to implement changes and monitor delivery, thus ensuring that the business's plans and procedures individually and collectively are fit for purpose.
Occupational Safety and Health Committee (OSH Committee)	Quarterly	The OSH Committee provides direction to the organisation on matters of health and safety. Its purpose is to lead and influence FCO Services in the proactive delivery of the health and safety management system. Significant changes to OSH policies are considered and ratified. The Committee reviews recommendations and proposals to Senior Management on changes to policies, procedures, training, buildings and equipment which it believe will lead to higher standards. Also considered are accident statistics, analysis of trends, safety policies and Safe Systems of Work.
Health and Safety internal audits	Periodically (Throughout the reporting period)	Statutory and policy compliance from within the business.
The Information Assurance and Security Committee (IASC)	Quarterly	The prime forum for all security and information assurance matters within FCO Services. It sets and maintains the strategic direction and ensures the effective management of security and information assurance across the organisation. Appropriate matters are escalated to the Executive Board.
British Standards Institute (BSI) ISO 9001 certification	Periodically (Throughout the reporting period)	A total of twenty-one processes across our key operational and functional areas are now formally recognised for their effectiveness.
Corporate Risk Report	Bi-monthly	A consolidated report of identified risks to FCO Services from across the business and corporate groups.
Risk Assurance Map	Quarterly	Risk Assurance is an evidence-based process incorporating the three Lines of Defence model. It provides the Accounting Officer and the Board assurance on the management of risks that potentially threaten the successful achievement of the business objectives.
Cascaded delegations for capital and revenue expenditure	As appropriate	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.
Executive approval of capital expenditure projects	As appropriate	Individual approval of capital (including research and development) expenditure projects, supported by appropriate business cases, by the Executive.

## 5. The risk and control framework

### Capacity to identify and manage internal and external risk

FCO Services has a documented risk approach that 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 risks are managed within the business, enabling recognised ownership at group level and shared accountability at corporate level. Risk management policies and guidance are freely available to staff through our intranet.

The business risks are reviewed regularly by the Executive Board, the FCO Services Board and the Audit and Risk Assurance Committee. This is to ensure that they are relevant, that controls are strengthened in areas of greatest exposure, and that risk management processes are operating effectively.

There is an overarching statement of appetite which is approved by the Board. This is underpinned by defined appetites across each of the corporate risk categories.

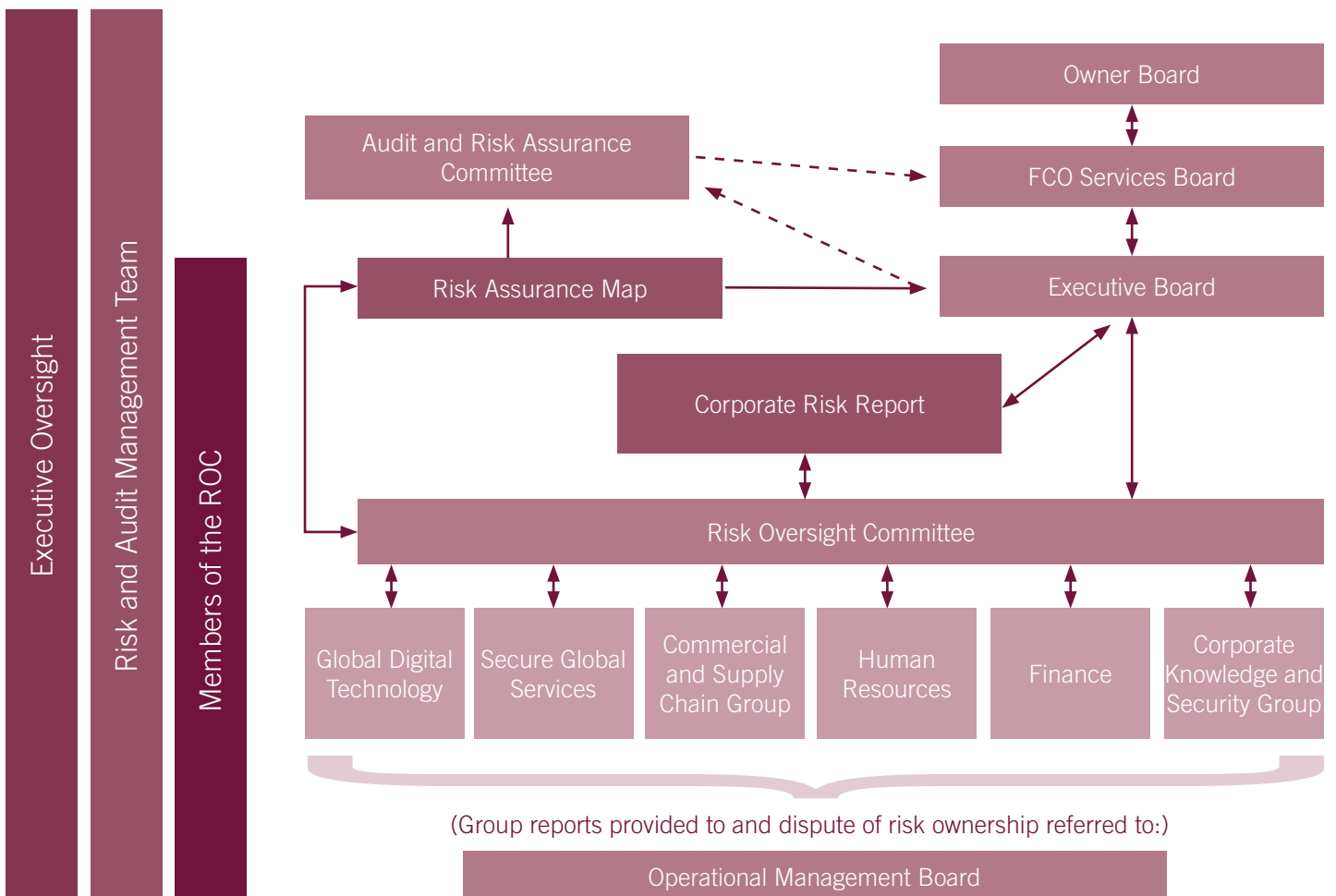
Internal Audit provides me, as Accounting Officer, with an objective evaluation of, and opinions on, the effectiveness of our risk management, internal control, and governance arrangements. Their programme of work is planned to enable them to assess and advise me on our capacity to manage risk.

### 5.1 Risk management framework

A Risk Oversight Committee, chaired by the Chief Finance Officer, has been established. This provides oversight and scrutiny to Operational and Strategic risk reporting on behalf of the Executive. Our risk management strategy and policy is owned and driven by our Executive Board. Clearly defined responsibilities within our risk management framework ensure that a consistent risk and control framework is recognised throughout the organisation.

To ensure the consistency and quality of our risk data, we have developed a set of processes to standardise the approach we take to manage business risk. This approach ensures that:

- risk management policy and process are implemented consistently across the business
- FCO Services and its constituent Directorates, programmes and projects, manages 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 Board, the Audit and Risk Assurance Committee and the 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; and
- there is compliance 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.

Detailed assurance information, in line with HM Treasury guidelines, is available to the Internal Auditors. This has been taken into account along with assurance provided by other review and inspection functions and monitoring activity within FCO Services. 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 & Risk Assurance Committee and myself as the Chief Executive.

I am not aware of any evidence to suggest major deficiencies in our risk management process. We have addressed the early issues attributed to moving the organisation to Service and Corporate delivery groups. Overall, we continue to strengthen and embed our processes around management of risk, and expect to see these continue to mature.

### 5.2 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 Board 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 provides a monthly oversight report to the Executive Board on information risk management activities.

The FCO Services Board is updated on the risk to the management of information through the Corporate Risk Register which identifies Security and Information Management as a separate risk category. The Audit and Risk Assurance Committee receives regular quarterly SIRO reports on the activities underway to manage information risk.

Executive Directors, as Information Asset Owners, have been issued with Terms of Reference for their role and made accountable through quarterly reporting for their Information Assets.

SIRO oversight of the Information Asset Registers and quarterly exception reports has been improved through the implementation of a quarterly Information Asset reporting committee with a membership of IAOs.

An Information Assurance and Security Committee has been formed. The Committee, chaired by the SIRO and with senior level business group representation is designed to provide a forum for all business units to raise concerns over information assurance and other security matters.

All staff and contractors are required to complete the mandatory e-learning 'Responsible for Information' course provided by Civil Service Learning.

All systems or services are subject to an accreditation process where FCO Services undertakes an appropriate

and proportionate risk management approach. Changes to the reporting regime on accreditation status have ensured that the Executive Board has an improved and more in-depth understanding of the risks and accreditation status of systems and services.

The Chief Information Security Officer is developing a business wide Information Assurance and Cyber Security strategy for FCO Services. The strategy will be underpinned by a strong education and training focus on all aspects of information security designed to raise awareness and understanding of roles and responsibilities throughout 2016.

In anticipation of the new Data Protection Act regulations due to come into force in 2016, a briefing has been given to the Executive Board. A campaign to bring the changes to the attention of all staff and particularly those in roles who deal regularly with personal data is being planned.

Priorities for 2016 include measuring the information assurance and security culture of FCO Services using the CPNI accredited Secure 3 Survey tool. The outputs from the tool will enable us to benchmark against other organisations and to undertake a trend analysis of our cultural maturity.

## 6. Report of the Audit and Risk Assurance Committee

The role of the Audit and Risk Assurance Committee is, in summary:

- to ensure that an appropriate framework of internal controls exists 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 an 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 Anti Fraud and Corruption Unit (AFCU)
- to monitor progress against management action plans; and
- to review the annual accounts and recommend adoption to the Board.

The Committee considers that it has the appropriate skills to perform its role. It is recognised that three members of the Committee have recent and relevant financial experience, and are qualified accountants.

The Committee met five times in the year. The Board is provided with a both a written report and a verbal update by the Chair, summarising each meeting.

When assessing the year end accounts, the Committee considered in detail areas subject to management judgement



and the notes to the accounts, setting out the methodology and key assumptions. There were no material discrepancies between management and the external auditor.

FCO Services continues to enjoy a strong relationship with the National Audit Office (NAO). Close working relations were maintained formally, through the Audit and Risk Assurance Committee and at Executive working level. The Committee oversaw the development of the Annual Governance Statement and was grateful for the guidance and advice of the NAO. In accordance with the governance model the Committee reviewed its performance over the previous year at the February meeting. The Committee determined that the Audit & Risk Assurance Committee was a well run and effective Committee and that the main focus of review was on seeking continuous improvement.

During 2015/16 eleven new internal audit reports have been published. Of these, four returned Substantial (Green) audit opinions and seven returned Moderate (Amber) audit opinions. The Head of Internal Audit has advised that, in his opinion, this represents an improvement in risk management and control for the year, compared with the previous year, with an overall opinion of 'moderate'.

FCO Services adopts a model of annual audit planning. The annual plan is supported with a mid-year review to confirm the business and assurance requirements. These reviews are conducted and led by the Head of Internal Audit.

The Anti Fraud and Corruption Unit (AFCU) has provided the Committee with reports and advice on matters relating to the investigation and prevention of fraud and continued to represent FCO Services on the Government's 'Counter-Fraud Champions' Network. There have been no new investigations undertaken by AFCU on behalf of FCO Services during this period. The two investigations, which were outstanding from the previous reporting cycle, have been concluded by the AFCU to my satisfaction.

The change in organisational leadership and structure has resulted in some changes to the Risk Management framework, which are described elsewhere in this report. The Committee is confident that the Executive has demonstrated that the new risk management framework is in line with the high standard of risk management and control demanded of a Government Trading Fund.

## **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 regular risk assessments throughout the year.

I have set out below the key risks that have been identified, and which have been (or are still being) addressed throughout the year.

### **7.1 Staff engagement**

Engaging with our staff continues to be an underlying risk, high on the agenda at Executive level within FCO Services. As a people led service organisation the future success of our organisation relies heavily upon a committed and motivated workforce. Our engagement survey (Your Say) scores continue to be consistently around the median for the civil service; however during FY2015/16 we fell just short of our Ministerial target, in particular during a year of significant change our ability to demonstrate leadership and manage change more effectively has been a real challenge.

The fact that staff feedback was fairly consistent with recent years is prompting us to take a different approach to driving improved engagement scores. Improving staff engagement is a key objective of the new people strategy "Culture 2020". This has a number of themes to create a dynamic, diverse and safe high performing business; including improving leadership and management capability, clear accountability, promoting diversity and safe working. We are developing a global learning management system so development is accessible to all our people and will be launching our first management development programme in 2016.

We are committed to improving our internal communications and aligning our strategic goals to individual objectives and personal development.

### **7.2 Capacity and capability**

Where necessary, we will continue to supplement our permanent workforce with contractors, provide both flexibility and incremental skill set where efficient and effective to do so.

During 2015/16, HM Treasury has changed its approach to IR35, particularly within the Public Sector. This is giving rise to a risk around our use of contractors, which is being mitigated by more focused management of long term contractors (i.e. those with more than 2 years' service). With the ability to recruit permanent staff constrained by several factors (such as pay, and levels of security clearance ) FCO Services could be at risk of losing key resource, putting pressure not only on the provision of current services but also on our ability to deliver our future growth strategy.

We recognise the inherent risk associated with utilising a significant number of interim staff in the delivery of our broad range of services and continue to manage this proactively. In line with the previous year's trends, in

2015/16 the number of contractors once again reduced significantly, particularly in the area of IT services.

We will continue to develop our approach to workforce planning, identifying and addressing the issues affecting our future business. This will include defining 3 to 5 year workforce plans. This year we have improved our process to identify the learning requirements of our current staff and have agreed plans for 2016/17 based on a detailed needs analysis. This has been used to set devolved learning budgets so training can be focused where it is most required.

Next year we will be launching a management development programme, and implementing an updated leadership strategy to improve capability in these areas. The talent management and succession planning policy introduced in FY2014/15 will continue to evolve so that it is more targeted towards future capacity and capability.

### 7.3 Commercial strategy

In last year's Governance Statement we highlighted our concern around the potential impact of the 2015 spending review on our major customers' budgets and their ability to deliver key programmes of work. This is core work for FCO Services on which it relies to provide a sustainable business. During this period of uncertainty, we managed the risk by engaging closely with all our key government customers, ensuring we could respond to customer needs as flexibly as possible, and managing a significant end of year increase in demand. As a result we outperformed our revenue targets, and delivered all our customer requirements.

There has however been an impact on FCO Services within its IT product base, in particular the longevity and continued viability to our customers of bespoke legacy services at higher tier security. This is due to the accelerated pace across Government departments to adopt low-cost digital solutions at a lower level of security i.e. public cloud hosting.

As a consequence, the need to find alternative sources of revenue to replace the legacy streams of technology business has been recognised as a significant risk. In response we have revised our business strategy, repositioned our 'go to market' proposition, and challenged our cost base and the way we deliver services within the newly created the Global Digital Technology Group. The success of this strategy will be closely managed and monitored across the forthcoming trading period.

The effective management of our organisation's revenue pipeline is important. The identification of gaps in commercial capability has resulted in a review of how the Customer Relationship Management software may be improved and has identified the need for additional resources to lead on marketing.

### 7.4 Loss of business - Vetting unit

The Strategic Defence and Security Review in November 2015 committed to establish a single vetting provider, vested in the MOD, by December 2016. We will be transitioning the current Vetting business, including staff and contracts,

under the Cabinet Office Statement of Practice to the MoD during 2016. The target transfer date is 30 September 2016. The transfer of this business will result in the loss of six months revenue in 2016/17 for which we will need to compensate. Additionally, we need to mitigate the potential risk of reputational and financial damage, if the transition project is not well managed. It therefore continues to be under appropriate management scrutiny.

We are committed to ensuring that our service levels are not adversely impacted during the transition. The concern that we might lose skilled staff during this period of uncertainty has been largely addressed, as both the MOD and the FCO have agreed to retain vetting operations at Hanslope Park, minimising disruption to the existing team.

Once the Vetting service has transferred to the new provider, we will need to manage the further risk that the new service could be more costly and have a longer delivery period. The latter could affect our ability to recruit staff along current timescales.

### 7.5 Internal IT and business tools

We have recognised in our Corporate Plan that investment is needed in internal IT systems to bring them up to appropriate standards and to provide the tools and functionality needed to support a changing business. A comprehensive review is being undertaken across all areas to prioritise Internal IT requirements, and this work is being closely linked to our parent department's Technical Overhaul programme.

We recognise the importance of having the right tools to deliver management information and support performance management. In addition, the adoption of enterprise wide business tools, enabling LEAN process mechanisms, is needed to drive further business efficiency. The Internal IT Strategy is at an advanced stage and will align activities with end to end core processes. This will allow us, in line with best practice, to determine the road map of appropriate future business applications and processes.

### 7.6 External relationship, stakeholder and reputation management

We recognise the inherent risk associated with delivering our services to both our parent the FCO and across the wider one HMG departments in terms of the potential impact of financial and reputational damage. We have aligned our corporate risk appetite to the FCO's, and are defining an approval process to escalate any opportunities which carry a higher risk profile.

We have been supporting the FCO with the delivery of their strategic programmes, such as the installation of WIFI and the wider Technology Overhaul Programme. We continue to support Partners across Government (PAGs), with IT services showing increased customer satisfaction. This has given PAGs the confidence to award us further work streams.

We have refreshed our customer/stakeholder engagement plan, with each member of the Executive having key relationships to develop and maintain.

## 7.7 Remaining competitive

A joint initiative has been implemented by the Chief Finance Officer and the Chief Engineer to reassess our approach to competitive advantage. The basis of the initiative is to concentrate on holistic product lifecycle financial analysis, which will create a much greater understanding of the businesses operating costs for each product and services line, while progressively moving away from programme based financial reporting.

By concentrating on each of the top level items in the lifecycle; account management, design, procurement, enabling works, transportation, training, installation, commissioning, client acceptance, maintenance and disposal, the business will be able to assess each item's fitness, risk profile, financial performance and react appropriately to ensure delivery of the Corporate Plan.

As this initiative will involve the restructuring of the existing account codes and new processes on the recording of product / services data, the initiative will be implemented as a change programme and managed accordingly.

## 8. Overall summary

There has been renewed focus on the Risk Management Framework within FCO Services this year. The establishment of the Risk Oversight Committee has strengthened the risk management process, and has provided a forum for senior managers to discuss both strategic and operational risk from a cross organisational perspective, and to highlight these to the Executive Board every month.

The underlying risks remain consistent to those identified last year and high on the Executive watch: staff engagement; customer relationships; and our revenue pipeline. In addition, we have recognised that if we are to meet our customer's future needs, we need to invest in new products and services, and at the same time enhance our internal business tools so as to operate as efficiently and cost effectively as possible.

I am pleased to note that the Head of Internal Audit has reported an improvement in risk management and control compared with the previous year, with an overall level of assurance of 'moderate'. I will continue to work closely with our internal audit colleagues to identify areas of potential risk, and to seek assurance from both the Audit and Risk Assurance Committee, and the National Audit Office, that our systems of internal controls are working effectively and in accordance with our risk appetite.

**Danny Payne**

*Chief Executive and Accounting Officer*

28 June 2016



# 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;
- 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 *Managing Public Money* published by the HM Treasury.

**Danny Payne**

*Chief Executive and Accounting Officer*

28 June 2016

# 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 2016. 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 SLA and contractual agreements;
- the requirement to meet agreed efficiency or headcount targets; and
- individual performance, capability and competence as demonstrated through delivery.

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

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

At the end of the performance year, jobholders assess their own performance against the objectives. Their Reporting Officers then discuss their performance, summarise the result and make recommendations regarding the appropriate performance groups to the FCO's 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 FCO Services Board are civil servants and hold appointments as follows:

**Sarah Cevro** (Human Resources Director) held an open-ended appointment until retirement. Sarah left under Voluntary Exit terms on 31 May 2015.

**Andrew Collier** (Commercial and Supply Chain Director) holds an open-ended appointment until retirement. On 30 November 2015 Andrew stood down from the Board due to a business re-organisation, he remained a member of the Executive Board.

**Robert Eason** (Global Digital Technology Director) was appointed on 20 July 2015 as Technology Group Director; he holds an open-ended appointment until retirement. On 22 February 2016 Technology Group changed its name to Global Digital Technology.

**George Hickerton** (Chief Engineer) was appointed to the Executive Board only on 1 December 2015.

**Steven Horder** (Chief Operating Officer) holds an open-ended appointment until retirement. Steven joined FCO Services as Network Services Group Director on 7 April 2015; he assumed the role of Chief Operating Officer on 1 December 2015 whilst remaining Network Services Group Director. From 1 January 2016 he also assumed the role as Security and Property Group Director. On 22 February 2016 both Network Services Group and Security and Property Group combined together to form Secure Global Services.

**Nigel Morris** (Government Services Director) took partial retirement from 24 October 2014 and stood down from the Board on 30 September 2014. Nigel stood down as a member of the Executive Board on 1 June 2015.

**Christopher Moxey** (Chief Executive and Accounting Officer). His appointment was extended on 6 February 2014. From 24 January 2015 he also assumed the role of Interim Technology Group Director. He left under Voluntary Exit terms on 31 May 2015.

**Danny Payne** (Chief Executive and Accounting Officer) Daniel was appointed Chief Executive and Accounting Officer on 1 July 2015 on a four year fixed-term contract. Prior to this date he held the position of Security and Property Group Director.

**Helen Sullivan** (Chief Finance Officer) holds an open-ended appointment until retirement. Appointed Interim Chief Executive and Accounting Officer and also Interim Technology Group Director on 1 June 2015 until permanent appointments were made on 1 July 2015 and 20 July 2015 respectively.

**Philip Worthington** (Human Resources Director) was appointed on 1 April 2015; he holds an open-ended appointment until retirement. On 30 November 2015 Philip stood down from the Board due to a business re-organisation, he remained a member of the Executive Board.

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.

#### **Employment contracts for Executive Directors who are not civil servants**

**Ian Metcalfe** (Interim Security and Property Group Director) was appointed on 1 July 2015 for six months; he stepped down from both the Board and the Executive Board on 31 December 2015. Badenoch and Clark provided the services of Ian Metcalfe during this period.

**Philip Spall** (Interim Finance Director) was appointed on 1 June 2015. He stepped down from both the Board and the Executive Board on 20 July 2015. Badenoch and Clark provided the services of Philip Spall during this period.

No compensation is payable for early termination



# Executive Members' and Key Management Personnel Remuneration and Pensions

	Salary £000		Performance Related payment £000		Pension Benefits (to nearest £000) (Note 1)		Total £000	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Sarah Cevro (until 31 May 2015) (Note 2)	<b>15-20</b> <b>(100-105 full year equivalent)</b>	100-105	<b>Nil</b>	Nil	<b>9</b>	32	<b>25-30</b> <b>(105-110 full year equivalent)</b>	130-135
Andrew Coller (Note 3)	<b>100-105</b>	95-100	<b>Nil</b>	Nil	<b>31</b>	30	<b>130-135</b>	125-130
Robert Eason (from 20 July 2015)	<b>65-70</b> <b>(95-100 full year equivalent)</b>	N/A	<b>Nil</b>	N/A	<b>201</b>	N/A	<b>270-275</b> <b>(295-300 full year equivalent)</b>	N/A
George Hickerton (from 1 December 2015)	<b>30-35</b> <b>(100-105 full year equivalent)</b>	N/A	<b>Nil</b>	N/A	<b>9</b>	N/A	<b>40-45</b> <b>(105-110 full year equivalent)</b>	N/A
Steven Horder (from 7 April 2015)	<b>115-120</b> <b>(125-130 full year equivalent)</b>	N/A	<b>Nil</b>	N/A	<b>45</b>	N/A	<b>160-165</b> <b>(170-175 full year equivalent)</b>	N/A
Ian Metcalfe (from 1 July 2015 to 31 December 2015) (Note 4)	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>N/A</b>	N/A
Nigel Morris (0.6 FTE) (until 1 June 2015) (Note 5)	<b>5-10</b> <b>(45 -50 full year equivalent)</b>	65-70	<b>Nil</b>	Nil	<b>5</b>	6	<b>10-15</b> <b>(50-55 full year equivalent)</b>	70-75
Christopher Moxey (until 31 May 2015) (Note 6)	<b>30-35</b> <b>(145-150 full year equivalent)</b>	135-140	<b>15-20</b>	10-15	<b>11</b>	30	<b>60-65</b> <b>(175-180 full year equivalent)</b>	175-180
Danny Payne (Note 7)	<b>125-130</b> <b>(125-130 full year equivalent)</b>	120-125	<b>10-15</b>	5-10	<b>44</b>	41	<b>175-180</b> <b>(180-185 full year equivalent)</b>	170-175
Philip Spall (from 1 June 2015 to 20 July 2015) (Note 8)	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>N/A</b>	N/A	<b>N/A</b>	N/A
Helen Sullivan (Note 9)	<b>95-100</b>	95-100	<b>10-15</b>	Nil	<b>92</b>	18	<b>195-200</b>	110-115
Philip Worthington	<b>95-100</b>	N/A	<b>0-5</b>	N/A	<b>93</b>	N/A	<b>190-195</b>	N/A
	<b>2015-16</b>				<b>2014-15</b>			
Band of Highest Paid Director's Total Remuneration (£'000)	<b>200-205</b>				185-190			
Median Total Remuneration £	<b>34,294</b>				35,900			
Ratio (Note 10)	<b>5.9</b>				5.2			

## Compensation for loss of office

Christopher Moxey left under Voluntary Exit terms on 31 May 2015. Christopher received a compensation payment of £100k-£105k and compensation in lieu of notice of £40k-£45k.

Sarah Cevro left under Voluntary Exit terms on 31 May 2015. Sarah received a compensation payment of £70k-£75k and compensation in lieu of notice of £30k-£35k.

**Note 1.** The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

**Note 2.** Benefits in kind were received by Sarah Cevro to the value of £248 for Salary Sacrifice Child Care vouchers. (2014/15 benefits in kind were received by Sarah Cevro to the value of £1,488 for Salary Sacrifice Child Care vouchers). The values for Salary Sacrifice Child Care vouchers are already included in her remuneration value for both financial years.

**Note 3.** Pension benefit values for Andrew Collier include a preserved award.

**Note 4.** Badenoch and Clark provided the services of Ian Metcalfe in the role as Interim Security and Property Group Director. Ian was appointed on 1 July 2015 until 31 December 2015. The total fees paid amounted to £95k-£100k which would equate to £210k-£215k for a full year. The total fees stated here includes the additional element relating to the agency fees paid to Badenoch and Clark, producing the variance from the band used in the ratio calculation in the table above for the total remuneration paid to the director.

**Note 5.** Nigel Morris partially retired on 30 September 2014 and stood down from the Board. He continued in the role of Government Services Director and was a member of the Executive Board until 1 June 2015 when he stood down.

**Note 6.** Pension benefit values for Christopher Moxey include a preserved award.

**Note 7.** Danny Payne was appointed Chief Executive and Accounting Officer on 1 July 2015. The full year equivalent salary band reflects his salary as Chief Executive and Accounting Officer. His pension benefit value is based on his previous salary as a director.

**Note 8.** Badenoch and Clark provided the services of Philip Spall in the role as Interim Finance Director. Philip was appointed on 1 June 2015 until 20 July 2015. The total fees paid amounted to £25k-£30k which would equate to £160k-£165k for a full year.

**Note 9.** Helen Sullivan's salary in 2015/16 includes £0-5k for the duration when Helen was Interim Chief Executive and Accounting Officer.

**Note 10.** FCO Services is required to disclose the relationship between the remuneration of the highest paid director in the organisation and the median remuneration of the organisation's workforce. The basis for the median pay calculation for both financial years is based on the requirements specified in the Hutton Review of Fair Pay – Implementation Guidance. The guidance requires the calculation to be based on the pay of full-time equivalent staff (including contractors in line positions and excluding the highest paid director) of FCO Services, at the reporting end date, on an annualised basis. The annualised remuneration of staff includes, salary, non-consolidated performance-related pay, benefits in kind, allowances etc. matching the remuneration report disclosures for the directors. The median pay ratio has increased by 0.7 to 5.9. This is due to the median of total remuneration of officers reducing by £1,606 (4.5%) attributable to a reduction in the ratio of contractors in line positions to staff across the two financial years. In addition the midpoint of the highest paid director increased by £15k (8%).

The above table and notes have been subject to audit.

## Salary

'Salary' includes gross base salary; overtime, 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

SMS staff appraisals are validated for both base pay and performance related pay. They are subject to validation in line with Cabinet Office guidance.

For base pay, staff are validated across three ratings with the following forced distribution (with 1 being the highest): 1 – 25%; 2 – 65%; 3 – 10%. The criteria for assessment are:

- i. The quality of leadership provided by the jobholder - taking account of what the jobholder's team has achieved and how it has been done. For this line managers are asked to consult SMS leadership competence behaviours including valuing diversity;
- ii. Ability to learn and develop - taking account of competence growth through improved skills rather than volume of development activity;
- iii. Corporate contribution.

For performance related pay, line managers are asked for a judgement about the jobholder's delivery of clear, stretching and specific outcomes in year. They should take into account factors like stretch, complexity, challenging environment and availability and quality of resources. Following validation, 25% of SMS staff can be allocated a bonus. The levels of bonuses awarded to the top 25% are set as £9,600 (SMS 1), £11,250 (SMS 2), £13,500 (SMS 3).

The table above shows the performance related payments paid in 2015/16.

## Benefits in kind

The monetary value of benefits in kind covers any taxable benefits not given to the individual as cash. Other than detailed above, no other executive member or key management personnel received any benefits in kind in 2015/16. (For 2014/15 no other executive member or key management personnel received any benefits in kind).

## Executive members' and key management personnel pension benefits

	Accrued pension at pension age as at 31/03/16 and related lump sum (Note 1)	Real increase in pension and related lump sum at pension age	CETV at 31/03/16 (Note 1 and 2)	CETV at 31/03/15 (Note 1)	Real increase in CETV (Note 1)	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Sarah Cevro (until 31 May 2015)	15-20 plus a lump sum of nil	0-2.5 plus a lump sum of nil	257	245	7	-
Andrew Coller (Note 3)	15-20 plus a lump sum of nil	0-2.5 plus a lump sum of nil	300	248	26	-
Robert Eason (from 20 July 2015)	30-35 plus a lump sum of 90-95	7.5-10 plus a lump sum of 25-27.5	605	408	167	-
George Hickerton (from 1 December 2015)	0-5 plus a lump sum of nil	0-2.5 plus a lump sum of nil	21	15	5	-
Steven Horder (from 7 April 2015)	0-5 plus a lump sum of nil	2.5-5 plus a lump sum of nil	25	Nil	16	-
Nigel Morris (until 1 June 2015) (Note 4)	30-35 plus a lump sum of 100-105	0-2.5 plus a lump sum of 0-2.5	731	736	5	-
Christopher Moxey (until 31 May 2015) (Note 5)	20-25 plus a lump sum of nil	0-2.5 plus a lump sum of nil	417	399	11	-
Danny Payne (Note 6)	15-20 plus a lump sum of nil	2.5-5 plus a lump sum of nil	183	143	13	-
Helen Sullivan	15-20 plus a lump sum of nil	2.5-5 plus a lump sum of nil	342	256	86	-
Philip Worthington	30-35 plus a lump sum of nil	2.5-5 plus a lump sum of nil	571	460	75	-

**Note 1.** Where officers have transferred during 2015/16 from the PCSPS scheme to Alpha, the two values for each of accrued pension, real increase in CETV and opening and closing CETV values have been combined together in the table above.

**Note 2.** The factors used to calculate the CETV were reviewed by the scheme actuary in 2015, so the tables of factors used to calculate the CETV in 2015 are not the same as those used to calculate the CETV in 2016.

**Note 3.** The pension disclosure for Andrew Coller includes a preserved award.

**Note 4.** Both the total opening and closing balances are inclusive of the partial retirement benefits taken by Nigel Morris on 26 October 2014

**Note 5.** The pension disclosure for Christopher Moxey includes a preserved award.

**Note 6.** Danny Payne was a career average member of nuvos at the start of this period and he transferred to Alpha on 1 April 2015. There is no increase in pension in real terms for the nuvos element and the real increase in CETV is negative. Overall, after taking into account the alpha element, the total real increase in CETV is positive.

The above table has been subject to audit.



## Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

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, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) 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 salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. 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 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. 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% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of 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 up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 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, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website: [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)

## Cash Equivalent Transfer Values

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

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 calculated 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), are appointed by the FCO Services Chief Executive in his capacity as Accounting Officer on fixed appointments. The FCO as sponsor, appoints the Chair. 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 or civil servants, except for Hugh Elliott and Joy Hutcheon, and are not members of the Principal Civil Service Pension Scheme.

No pay or pension costs are included in FCO Services' accounts in respect of Hugh Elliott or Joy Hutcheon, who are civil servants employed by the Foreign and Commonwealth Office and Department for International Development respectively. Travel expenses may be payable by FCO Services for Joy Hutcheon's attendance at Hanslope Park meetings.

The Non-Executive Directors, (excluding Hugh Elliott and Joy Hutcheon), are paid through the FCO Services payroll.

### The following have been Non-Executive Members of the FCO Services Board during the year:

**Stephen Barrett**, appointed on a three year contract as a Non-Executive Director on 1 November 2014.

**Hugh Elliott**, appointed on a three year contract as a Non-Executive Director on 1 March 2015.

**Stephen Hawker CB**, appointed on a three year contract commencing on 1 September 2009 as a Non-Executive Director which has been extended to 31 August 2016.

**Joy Hutcheon**, appointed on a three year one month contract as a Non-Executive Director on 1 March 2016.

**Glyn Smith** (Chair of the Audit and Risk Assurance Committee), appointed on a three year contract as a Non-Executive Director on 1 September 2014. He was appointed as Chair of the Audit and Risk Assurance Committee on 1 January 2015.

**Sir Richard Stagg KCMG** (Non-Executive Chair), appointed on a three year contract commencing on 1 June 2007 which has been extended to 31 October 2016.

### Non-Executive Director who is not a member of the FCO Services Board:

**Michael Attenborough-Cox**, appointed on a three year contract on 1 August 2013 as a Non-Executive Director, attending the Audit and Risk Assurance Committee only.

Member of the Audit and Risk Assurance Committee who is not a Non-Executive Director:

**Susan Graham**, (FCO's Deputy Finance Director), attends the Audit and Risk Assurance Committee, and is not a Non-Executive Director. No pay or pension costs are included in FCO Services' accounts in respect of Susan Graham who is a civil servant employed by the Foreign and Commonwealth Office.

## Remuneration payments to Non-Executive Directors

	2015/16	2014/15
	£000	£000
Michael Attenborough-Cox	5-10	5-10
Stephen Barrett	15-20	5-10 (15-20 full year equivalent)
Hugh Elliott (Note 1)	-	-
Stephen Hawker CB (Note 2)	15-20	15-20
Joy Hutcheon (Note 1)	-	N/A
Glyn Smith	15-20	5-10 (15-20 full year equivalent)
Sir Richard Stagg KCMG (Note 1)	25-30 (30-35 full year equivalent)	-

**Note 1.** No pay or pension costs are included in FCO Services' accounts in respect of Hugh Elliott or Joy Hutcheon, who are civil servants employed by the Foreign and Commonwealth Office and Department for International Development respectively. (2014/15 No pay or pension costs are included in FCO Services' accounts in respect of Sir Richard Stagg or Hugh Elliott who, during this period, were civil servants employed by the Foreign and Commonwealth Office).

**Note 2.** During 2015/16 Stephen Hawker also took part in recruitment of the Chief Executive and Accounting Officer; his fees in respect of this amounted to £0k-£5k. (During 2014/15 Stephen Hawker also took part in director recruitment; his fees in respect of this amounted to £0k to £5k).

The above table and notes have been subject to audit.

**Danny Payne**  
Chief Executive and Accounting Officer

28 June 2016



# Staff Report

## Number of senior civil service staff (or equivalent) by band:

As at 31 March 2016 the number of senior civil service staff and their pay ranges are:

Pay Band	Number of Senior Civil Service Staff	Minimum (£)	Maximum (£)
SMS2	1	£86,000	£162,500
SMS1	6	£63,000	£117,800

The above table has been subject to audit.

## Staff numbers and costs

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

2015/16	Permanent	Other*	Total
Service Delivery	793	206	999
Sales & Marketing**	-	-	-
Corporate Services	108	18	126
Total Staff Numbers	901	224	1,125
Capitalised Staff***	-	(2)	(2)
Net Staff Numbers	901	222	1,123

2014/15	Permanent	Other*	Total
Service Delivery	828	268	1,096
Sales & Marketing**	1	6	7
Corporate Services	116	29	145
Total Staff Numbers	945	303	1,248
Capitalised Staff***	(3)	(6)	(9)
Net Staff Numbers	942	297	1,239

\*Other comprises agency staff and fee paid officers.

\*\*The Sales & Marketing staff have been absorbed into the Service Delivery Group areas, therefore, there is no direct comparison to 2014/15.

\*\*\* No single resource is dedicated to working on capital projects. The figures for capitalised staff are whole-time equivalent for the hours of labour charged to capital projects

The above table has been subject to audit.

## Staff costs (for the above persons)

2015/16	Permanent** £000	Other* £000	Total £000
Salaries / agency staff and fee paid officers	38,898	20,180	59,078
Social security costs	2,864	18	2,882
Other pension costs	6,179	12	6,191
Total staff costs	47,941	20,210	68,151
Capitalised staff costs	(23)	(210)	(233)
Total net staff costs	47,918	20,000	67,918

2014/15	Permanent** £000	Other* £000	Total £000
Salaries / agency staff and fee paid officers	40,676	28,568	69,244
Social security costs	2,993	21	3,014
Other pension costs	5,814	11	5,825
Total staff costs	49,483	28,600	78,083
Capitalised staff costs	(135)	(628)	(763)
Total net staff costs	49,348	27,972	77,320

\*Other comprises agency staff and fee paid officers.

\*\* Inward Seconded Staff costs have been included in agency staff cost.

The above table has been subject to audit.

## Pensions

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) - known as "alpha" are unfunded multi-employer defined benefit schemes 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 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservicepensionscheme.org.uk/about-us/resource-accounts](http://www.civilservicepensionscheme.org.uk/about-us/resource-accounts)).

For 2015/16, employers' contributions of £6,161,237 were payable to the PCSPS (2014/15 £5,816,136) at one of four rates in the range 20% to 24.5% of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015/16 to be paid when the member retires and not the benefits paid during this period to existing pensioners. Pension contributions for Inward Seconded Staff have been included in agency staff costs.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £28,431(2014/15 £19,601) 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 earnings up to 30 September 2015 and from 8% to 14.75% of pensionable earning from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £970 (2014/15 £1,070), 0.8% of pensionable pay up to 30 September 2015 and 0.5% of pensionable pay from 1 October 2015, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Pension contributions for Inward Seconded Staff have been included in agency staff costs.

Contributions due to the partnership pension providers at the Statement of Financial Position date were £nil (2014/15 £nil). Contributions prepaid at that date were £nil (2014/15 £nil).

In the 12 months to March 2016 no individual (2014/15 one individual) retired early on ill health grounds; the total additional accrued pension liability in the year amounted to £nil (2014/15 £2,710).

### Staff composition

As at 31 March 2016:

- Directors: 14.29% were female
- Delegated Grades A-D: 25.31% were female

Despite our efforts to attract more women to work for FCO Services, our low female representation has remained largely static since forming as a Trading Fund in 2008. This is mainly attributed to the fact that we are a technical organisation and many of our roles are seen as non-traditional female roles.

### Sickness absence data

The average number of working days lost per employee due to sickness absence was 4.0 in 2015/16. This compared to 4.5 days in 2014/15 and 7.6 days across the public sector. The improvement reflects robust management of absence and, in particular, a focus on stress-related and long-term absences.

### Staff policies applied during the financial year

For giving full and fair consideration to applications for employment by the company made by disabled persons, having regard to their particular aptitudes and abilities;

- FCO Services is committed to providing an accessible website for all of its users. Our site has been created to comply with the World Wide Web Consortium's Web Content Accessibility Guidelines 2.0 (WCAG2.0) in accordance with the Equality Act 2010. The pages comply with level one of these guidelines (A).
- Applicants are asked on their application form to disclose whether they have a disability and if so, advise if they require any reasonable adjustments for the interview or assessment(s), access to the venue etc.
- There is a guaranteed interview scheme (GIS) for candidates with disabilities who meet the minimum selection criteria.

For continuing the employment of, and for arranging appropriate training for, employees of the company who have become disabled persons during the period when they were employed by the company;

- If staff become disabled during the course of their employment we will refer them to our Occupational Health provider who can provide workstation assessments or advice on reasonable adjustments for the workplace. We can also refer them to OH Assist through the DWP contract, who can undertake psychological assessments for learning differences e.g. dyslexia.

Otherwise for the training, career development and promotion of disabled persons employed by the company;

- We work in close partnership with the Civil Service Workplace Adjustment Service and promote of the use of the single disability passport forms which capture reasonable adjustment plans and support staff moving between PAG's.
- New starters and hiring managers are mandated to undertake the unconscious bias e-learning on CSL.



## Expenditure on consultancy:

FCO Services' expenditure on consultancy during 2015/16 was £nil

## Off-payroll engagements

**Table 1: For all off-payroll engagements as of 31 March 2016 for more than £220 per day and that last longer than six months.**

	FCO Services
No. of existing engagements as of 31 March 2016	210
<b>Of which...</b>	
No. that have existed for less than one year at time of reporting.	57
No. that have existed for between one and two years at time of reporting.	44
No. that have existed for between two and three years at time of reporting.	32
No. that have existed for between three and four years at time of reporting.	26
No. that have existed for four or more years at time of reporting.	51

**Table 2: For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months**

	FCO Services
No. of new engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016	147
No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	147
No. for whom assurance has been requested	147
<b>Of which...</b>	
No. for whom assurance has been received	147
No. for whom assurance has not been received	0
No. that have been terminated as a result of assurance not being received.	0

All of the above appointments have been subject to a risk based assessment regarding the payment of correct tax.

The above tables have been subject to audit.

FCO Services ran Civil Service compensation schemes during 2015/16:

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	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
<£10,000	-	-	-	-	-	-
£10,000 - £25,000	-	-	8	7	8	7
£25,000 - £50,000	-	-	12	10	12	10
£50,000 - £100,000	-	-	17	12	17	12
£100,000 - £150,000	-	-	-	4	-	4
£150,000 - £200,000	-	-	1	-	1	-
Total number of exit packages by Type	-	-	38	33	38	33
Total resource cost (£'000)	-	-	2,100	1,791	2,100	1,791

The above table has been subject to audit.

The value on the statement of comprehensive income of £2,140k includes £41k of payments which related to 2014/15.

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 that departure was agreed. 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.

**Danny Payne**  
*Chief Executive and Accounting Officer*

28 June 2016

# Parliamentary Accountability and Audit Report

We do not have any individual losses or special payments over £300,000 in 2015/16. Refer to note 23 of the financial statements for full disclosure. We do not have any remote contingent liabilities.

## 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 2016 under the Government Trading Funds Act 1973. The financial statements comprise: the Statement of Comprehensive Income, the Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayer's 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 and Staff 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 Officer's Responsibilities, the Chief Executive, as Accounting Officer, is 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 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 and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2016 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 parts of the Remuneration and Staff Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in the Performance Report and Accountability 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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff 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.

**Sir Amyas C E Morse**  
*Comptroller and Auditor General*

29 June 2016

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



## 5 Financial Statements

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# Statement of Comprehensive Income

for the year ended 31 March 2016

	Note	2015/16 £000	2014/15 £000
Revenue	2	135,786	157,340
Cost of sales	5	(98,740)	(125,230)
<b>Gross surplus</b>		<b>37,046</b>	32,110
Other Income	2	0	348
Operating expenses	5	(26,047)	(27,789)
<b>Operating surplus</b>		<b>10,999</b>	4,669
(Loss)/profit on disposal of property, plant and equipment		(4)	17
<b>Surplus for the financial year before voluntary exit scheme</b>		<b>10,995</b>	4,686
<b>Voluntary exit scheme</b>	4(b)	<b>(2,140)</b>	(1,791)
<b>Surplus before financing</b>		<b>8,855</b>	2,895
Financing income	6	72	63
Financing costs	6	(41)	(84)
<b>Net financing</b>		<b>31</b>	(21)
<b>Surplus for the financial year</b>		<b>8,886</b>	2,874
Dividend	7	(1,292)	(1,081)
<b>Retained surplus for the financial year</b>		<b>7,594</b>	1,793
<b>Other comprehensive net income</b>			
Net gain on the revaluation of property, plant and equipment		143	85
<b>Total comprehensive income for the financial year</b>		<b>7,737</b>	1,878

All income and expenditure are derived from continuing operations.

The notes on pages 94 to 114 form part of these accounts.

# Statement of Financial Position

as at 31 March 2016

	Note	2015/16 £000	2014/15 £000
<b>Non-current assets</b>			
Intangible assets	8	1,107	455
Property, plant and equipment	9	10,005	14,204
<b>Total non-current assets</b>		<b>11,112</b>	14,659
<b>Current assets</b>			
Inventories	10	483	1,025
Trade and other receivables	11	23,474	26,462
Cash and cash equivalents	12	24,737	15,222
<b>Total current assets</b>		<b>48,694</b>	42,709
<b>Total assets</b>		<b>59,806</b>	57,368
<b>Current liabilities</b>			
Trade and other payables	13	(18,245)	(23,356)
<b>Total current liabilities</b>		<b>(18,245)</b>	(23,356)
<b>Total Assets less current liabilities</b>		<b>41,561</b>	34,012
<b>Non-current liabilities</b>			
Other Payables	14	(215)	(327)
Provisions due after one year	16	(1,200)	(1,276)
<b>Total non-current liabilities</b>		<b>(1,415)</b>	(1,603)
<b>Assets less liabilities</b>		<b>40,146</b>	32,409
<b>Taxpayers' equity</b>			
Public dividend capital		4,981	4,981
General reserve		424	332
Revaluation reserve		248	197
Income and expenditure account		34,493	26,899
<b>Total taxpayers' equity</b>		<b>40,146</b>	32,409

**Danny Payne**

Chief Executive and Accounting Officer

28 June 2016

The notes on pages 94 to 114 form part of these accounts.



# Statement of Cash Flows

for the year ended 31 March 2016

	Note	2015/16 £000	2014/15 £000
<b>Cash flows from operating activities</b>			
Surplus on ordinary activities before dividend payable		8,886	2,874
Adjustments for non-cash transactions	18	4,736	3,181
Net interest (receivable) / payable	6	(31)	21
Decrease in inventories	10	542	1,749
Decrease in trade and other receivables	11	2,988	2,519
<i>less movements in receivables relating to items not passing through the income statement</i>			
- Accrued deposit interest		5	(1)
Decrease in trade and other payables	13&14	(5,223)	(13,537)
<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		951	-
- Dividend payable		(211)	(34)
- Accrued loan interest		19	19
(Decrease)/increase in provisions	16	(76)	641
<b>Net cash inflow from operations</b>		<b>12,586</b>	<b>(2,568)</b>
<b>Cash flows from investing activities</b>			
Purchases of intangible assets	8	(182)	(194)
Purchases of property, plant and equipment	9	(868)	(5,551)
Disposals of property, plant and equipment		4	26
<b>Net cash outflow from investing activities</b>		<b>(1,046)</b>	<b>(5,719)</b>
<b>Cash flows from financing activities</b>			
Loans repaid to FCO		(951)	(951)
Interest paid		(60)	(103)
Interest received		67	64
Dividend paid		(1,081)	(1,047)
<b>Net financing</b>		<b>(2,025)</b>	<b>(2,037)</b>
<b>Net increase / (decrease) in cash and cash equivalents in the period</b>		<b>9,515</b>	<b>(10,324)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	12	<b>15,222</b>	25,546
<b>Cash and cash equivalents at the end of the period</b>	12	<b>24,737</b>	15,222

The notes on pages 94 to 114 form part of these accounts.

# Statement of Changes in Taxpayer's Equity

for the year ended 31 March 2016

	Public Dividend Capital £000	General Reserve £000	Revaluation Reserve £000	Income and Expenditure Account £000	Total Reserves £000
Balance at 1 April 2014	4,981	253	191	25,106	30,531
<b>Changes in taxpayers' equity for 2014/15</b>					
Unrealised net surplus on revaluation of property, plant and equipment			85		85
General reserve transfer - depreciation charge difference in year on revalued cost basis compared to historic cost basis		79	(79)		-
Retained surplus for the financial year	-	-	-	1,793	1,793
Total recognised income and expense for 2014/15	-	79	6	1,793	1,878
Balance at 31 March 2015	4,981	332	197	26,899	32,409
<b>Changes in taxpayers' equity for 2015/16</b>					
Unrealised net surplus on revaluation of property, plant and equipment			143		143
General reserve transfer - depreciation charge difference in year on revalued cost basis compared to historic cost basis		92	(92)		-
Retained surplus for the financial year	-	-	-	7,594	7,594
Total recognised income and expense for 2015/16	-	92	51	7,594	7,737
<b>Balance at 31 March 2016</b>	<b>4,981</b>	<b>424</b>	<b>248</b>	<b>34,493</b>	<b>40,146</b>

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 Income and Expenditure Account is used to account for the accumulated surplus of the Trading Fund.

# Notes to the Accounts

## 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 18 December 2015, 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 2015-16 Government Financial Reporting Manual (FReM) and Trading Funds Accounts Guidance, as issued by HM Treasury.

The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM 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, 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 and construction contracts are 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 IAS11 and IAS37 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 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.

Leases are regarded as finance leases, when substantially all risks and rewards of ownership of a lease are borne by FCO Services. At the commencement of the lease term, finance leases are recognised as assets and liabilities at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate used is the higher of the real rate and rate intrinsic in the lease. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The depreciation policy for depreciable leased assets is consistent with that for owned assets and is calculated in accordance with IAS16 and IAS 38. Finance charges are recognised and expensed as a Financing Cost.

## 1.7 Inventories, Work in Progress and Contracts

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 property, plant and equipment 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 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	- 2 to 5 years
Transport equipment	- 2 to 8 years
Plant and machinery	- 5 to 20 years
Fixtures	- 10 to 25 years

All assets are revalued monthly using appropriate indices from the Office of National Statistics.

Property, plant and equipment assets are reviewed annually for impairments and any impairment is charged to the Statement of Comprehensive Income.

## 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 assets 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 amortised 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 & 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 Statement of Comprehensive Income 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 property, 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 rates in real terms (reference PES (2015) 08):

Short-term*	Between 0 and up to and including 5 years from the statement of financial position date (SOFP)	-1.55%
Medium-term*	After 5 years and up to and including 10 years from the SOFP date	-1.00%
Long-term*	Exceeding 10 years from the SOFP date	-0.80%

\* The real rate is only applied where the cash flow is in current prices, i.e. not inflated in the calculation.

## 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 Statement of Comprehensive Income.

## 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.

## 1.17 Jointly controlled assets

Jointly controlled assets are those assets which involve joint control and ownership by FCO Services and other venturers of assets contributed to or acquired for the purpose of the joint venture, without the formation of a corporation, partnership or other entity. FCO Services accounts for its share of the jointly controlled assets, its share of any liabilities jointly incurred with other ventures and its share of income and expenditure arising from these assets.

# 2. Revenue

## 2a. Total Revenue / Other Income

	2015/16 £000	2014/15 £000
Foreign and Commonwealth Office*	95,858	91,217
Other UK Government bodies and other UK and International organisations*	39,928	66,123
Other Income**	-	348
	<b>135,786</b>	<b>157,688</b>

\* Normal Trading Fund revenue

\*\* Charges relating to contract termination

## 2b. Construction Contracts

	2015/16 £000	2014/15 £000
Contract revenue recognised in the period	1,305	3,795
Costs incurred and recognised profits (less losses) to date	-	7,151
Advances received	-	-
Retentions	-	-



### 3. Segmental Reporting

FCO Services is organised on three service delivery providers, Security and Property, Global Digital Technology and Network Services:

**Security and Property Group** manages all commercial and delivery aspects of multiple, project-based programmes including installations, technical architecture and project management construction.

**Global Digital Technology Group** delivers global secure technical services, technical security and ICT operations services across the UK and internationally.

**Network Services Group** delivers the Regional Technical Support Service and Queen's Messengers services across the UK and internationally, vetting, translation and interpreting and logistics.

Technology Group changed its name to Global Digital Technology from 22 February 2016. For the duration of 2015/16 Security and Property and Network Services group traded as two independent service delivery groups. They assumed the name Secure Global Services from 22 February 2016; they will trade as one service delivery group from 1st April 2016\*

Analysis of Operating Surplus by Service Delivery Group*	Security & Property £000	Global Digital Technology £000	Network Services £000	Total £000
<b>2015/16</b>				
External revenue	50,312	37,587	47,887	135,786
Internal revenue - Charged to Security & Property	-	40	1,443	1,483
Internal revenue - Charged to Global Digital Technology	7	-	413	420
Internal revenue - Charged to Network Services	-	238	-	238
Internal revenue - Charged to Corporate Areas	-	551	30	581
Total revenue	50,319	38,416	49,773	138,508
Cost of sales	(33,230)	(27,867)	(33,349)	(94,446)
Depreciation	(67)	(2,763)	(293)	(3,123)
Amortisation	(49)	(181)	(69)	(299)
Impairments	(2)	(869)	(1)	(872)
Internal cost charges	(1,483)	(420)	(238)	(2,141)
Total cost	(34,831)	(32,100)	(33,950)	(100,881)
Gross surplus	15,488	6,316	15,823	37,627
Other Income	-	-	-	-
Operating expenses	(10,126)	(8,706)	(9,074)	(27,906)
Allocated internal cost charges	(216)	(160)	(205)	(581)
Depreciation	(101)	(76)	(96)	(273)
Amortisation	(5)	(3)	(4)	(12)
Total Operating Expenses	(10,448)	(8,945)	(9,379)	(28,772)
Surplus before financing	5,040	(2,629)	6,444	8,855

### 3. Segmental Reporting continued

Analysis of Operating Surplus by Service Delivery Group*	Security & Property	Technology	Network Services	Total
<b>2014/15</b>				
External revenue	50,430	60,706	46,204	157,340
Internal revenue - Charged to Security & Property	-	16	2,601	2,617
Internal revenue - Charged to Technology	-	-	414	414
Internal revenue - Charged to Network Services	-	117	-	117
Internal revenue - Charged to Corporate Areas	-	488	30	518
Total revenue	50,430	61,327	49,249	161,006
Cost of sales	(38,288)	(48,285)	(35,576)	(122,149)
Depreciation	(67)	(2,641)	(267)	(2,975)
Amortisation	(6)	(88)	(12)	(106)
Internal cost charges	(2,617)	(414)	(117)	(3,148)
Total cost	(40,978)	(51,428)	(35,972)	(128,378)
Gross surplus	9,452	9,899	13,277	32,628
Other Income	348	-	-	348
Operating expenses	(10,323)	(10,406)	(8,720)	(29,449)
Allocated internal cost charges	(167)	(199)	(152)	(518)
Depreciation	(15)	(17)	(13)	(45)
Amortisation	(22)	(27)	(20)	(69)
Impairments				
Total Operating Expenses	(10,179)	(10,649)	(8,905)	(29,733)
Surplus before financing	(727)	(750)	4,372	2,895

\* The name of the reportable segments have changed from 22 February 2016, this has no impact on the prior year comparison.

## 3. Segmental Reporting continued

Analysis of Assets less Liabilities by Service Delivery Group*	Security and Property £000	Global Digital Technology £000	Network Services £000	Corporate £000	Total £000
<b>2015/16</b>					
<b>Segment Assets</b>					
Intangible assets	27	704	101	93	925
Intangible additions in year**	15	90	16	61	182
Property, plant and equipment	469	6,513	864	1,291	9,137
Property, plant and equipment additions in year**	89	474	153	152	868
Inventories	170	-	313	-	483
Trade and other receivables	12,288	8,286	5,910	(3,010)	23,474
Cash and cash equivalents	-	-	-	24,737	24,737
<b>Segment Liabilities</b>					
Current liabilities	(7,062)	(3,345)	(2,893)	(4,945)	(18,245)
Non current other payables	-	(215)	-	-	(215)
Non current provisions	-	-	(1,200)	-	(1,200)
Non current financial liabilities	-	-	-	-	-
<b>Segment assets less liabilities</b>	<b>5,996</b>	<b>12,507</b>	<b>3,264</b>	<b>18,379</b>	<b>40,146</b>

## 3. Segmental Reporting continued

Analysis of Assets less Liabilities by Service Delivery Group*	Security and Property £000	Technology £000	Network Services £000	Corporate £000	Total £000
<b>2014/15</b>					
<b>Segment Assets</b>					
Intangible assets	32	59	11	160	262
Intangible additions in year**	15	155	-	23	193
Property, plant and equipment	569	7,223	816	386	8,994
Property, plant and equipment additions in year**	47	3,624	382	1,157	5,210
Inventories	236	114	675	-	1,025
Trade and other receivables	7,904	9,598	4,576	4,384	26,462
Cash and cash equivalents	-	-	-	15,222	15,222
<b>Segment Liabilities</b>					
Current liabilities	(4,710)	(4,346)	(2,445)	(11,855)	(23,356)
Non current other payables	-	(327)	-	-	(327)
Non current provisions	-	-	(1,200)	(76)	(1,276)
Non current financial liabilities	-	-	-	-	-
<b>Segment assets less liabilities</b>	<b>4,093</b>	<b>16,100</b>	<b>2,815</b>	<b>9,401</b>	<b>32,409</b>

\* The name of the reportable segments have changed from 22 February, this has no impact on the prior year comparison.

\*\*Additions in the year, for 2015/16 and 2014/15, are gross. Depreciation/amortisation related to the additions is shown on the related disclosure line.



## 4. Staff Costs and Compensation Schemes

### 4(a) Staff costs

2015/16	Permanent** £000	Other* £000	Total £000
Salaries / agency staff and fee paid officers	38,898	20,180	59,078
Social security costs	2,864	18	2,882
Other pension costs	6,179	12	6,191
Total staff costs	47,941	20,210	68,151
Capitalised staff costs	(23)	(210)	(233)
Total net staff costs	47,918	20,000	67,918

2014/15	Permanent** £000	Other* £000	Total £000
Salaries / agency staff and fee paid officers	40,676	28,568	69,244
Social security costs	2,993	21	3,014
Other pension costs	5,814	11	5,825
Total staff costs	49,483	28,600	78,083
Capitalised staff costs	(135)	(628)	(763)
Total net staff costs	49,348	27,972	77,320

\*Other comprises agency staff and fee paid officers.

\*\* Inward Seconded Staff costs have been included in agency staff cost.

### 4(b) 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	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
<£10,000	-	-	-	-	-	-
£10,000 - £25,000	-	-	8	7	8	7
£25,000 - £50,000	-	-	12	10	12	10
£50,000 - £100,000	-	-	17	12	17	12
£100,000 - £150,000	-	-	-	4	-	4
£150,000 - £200,000	-	-	1	-	1	-
Total number of exit packages by Type	-	-	38	33	38	33
Total resource cost (£'000)	-	-	2,100	1,791	2,100	1,791

The value on the statement of comprehensive income of £2,140k includes £40k of payments which related to 2014/15.

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 that departure was agreed. 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.

## 5. Cost of sales and operating expenses

	2015/16			2014/15		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
	£000	£000	£000	£000	£000	£000
Net staff costs	29,761	18,157	47,918	30,507	18,841	49,348
Net Agency staff and fee paid officers*	17,713	2,287	20,000	24,607	3,365	27,972
Training and recruitment	392	409	801	435	452	887
Travel	11,048	706	11,754	11,868	898	12,766
Professional services*	4,387	487	4,874	3,093	548	3,641
Legal Services	52	9	61	168	30	198
Communications	1,364	453	1,817	828	688	1,516
Other supplies, services & facilities management	1,838	341	2,179	2,478	186	2,664
Management charges from the FCO	1,423	179	1,602	1,853	243	2,096
IS Hardware	5,696	141	5,837	4,414	306	4,720
IS Software	1,504	126	1,630	16,007	47	16,054
Other Machinery and Equipment Under £3k	263	62	325	938	483	1,421
Security Equipment	3,382	34	3,416	8,833	61	8,894
Freight	7,792	-	7,792	7,417	-	7,417
Maintenance	6,517	409	6,926	7,862	369	8,231
Operating leases - land & buildings	0	12	12	-	18	18
Operating leases - other	(0)	38	38	(0)	3	3
Accommodation charges**	945	1,478	2,423	438	686	1,124
Loss on currency exchange	-	6	6	-	19	19
Other	-	171	171	-	253	253
Insurance	369	158	527	411	73	484
Depreciation ***	3,123	273	3,396	2,975	56	3,031
Amortisation of intangible assets	299	12	311	105	69	174
Impairment losses on PPE assets	448	-	448	-	-	-
Impairment losses on intangible assets	426	-	426	-	-	-
Revaluation (Write Back) / Charge	(2)	-	(2)	(7)	-	(7)
Auditors' remuneration and expenses (no non-audit work)	-	99	99	-	95	95
<b>Total costs</b>	<b>98,740</b>	<b>26,047</b>	<b>124,787</b>	125,230	27,789	153,019

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

\*\* Accommodation charges are payable to the FCO.

\*\*\* Includes (£4k) depreciation adjustment

The total amount of research and development expenditure recognised as an expense during the period was £112,000 (2014/15 £20,000). This includes staff costs and an appropriate recovery of overheads.

## 6. Financing income and costs

	2015/16 £000	2014/15 £000
<b>Financing income</b>		
Government Banking Service interest	72	63
	<b>72</b>	<b>63</b>
<b>Financing costs</b>		
Working Capital Loan interest	-	-
Vesting Day Loan interest	(19)	(57)
Finance Lease Charges	(22)	(27)
Other Interest Payable	-	-
	<b>(41)</b>	<b>(84)</b>
<b>Net financing</b>	<b>31</b>	<b>(21)</b>

Interest is payable at a fixed rate to the Foreign and Commonwealth Office.

## 7. Dividend

	2015/16 £000	2014/15 £000
Statutory dividend	1,292	1,081
Discretionary dividend	-	-
Dividend payable	<b>1,292</b>	<b>1,081</b>

The dividend is payable to the Foreign and Commonwealth Office.



## 8. Intangible assets

	Assets under development £000	Research and Development £000	Software licences £000	Total £000
<b>2015/16</b>				
<b>Cost or valuation</b>				
At 1 April 2015	176	827	787	1,790
Additions	19	-	163	182
Reclassification from PPE	-	-	1,207	1,207
Assets brought in to use	(154)	-	154	-
As at 31 March 2016	41	827	2,311	3,179
<b>Amortisation</b>				
At 1 April 2015	-	821	514	1,335
Provided during the year	-	2	309	311
Impairments	-	-	426	426
As at 31 March 2016	-	823	1,249	2,072
<b>Net book value</b>				
As at 31 March 2016	41	4	1,062	1,107
As at 31 March 2015	176	6	273	455
Owned as at 31 March 2016	41	4	1,062	1,107

## 8. Intangible assets continued

	"Assets under development" £000	Research and Development £000	Software licences £000	Total £000
<b>2014/15</b>				
<b>Cost or valuation</b>				
At 1 April 2014	210	827	559	1,596
Additions	170	-	24	194
Assets brought in to use	(204)	-	204	-
As at 31 March 2015	176	827	787	1,790
<b>Amortisation</b>				
At 1 April 2014	-	784	377	1,161
Provided during the year	-	37	137	174
As at 31 March 2015	-	821	514	1,335
<b>Net book value</b>				
As at 31 March 2015	176	6	273	455
At 31 March 2014	210	43	182	435
Owned as at 31 March 2015	176	6	273	455

## 9. Property, plant and equipment

	Assets under construction £000	Fixtures £000	Information technology £000	Transport equipment £000	Plant and machinery £000	Total £000
<b>2015/16</b>						
<b>Cost or valuation</b>						
At 1 April 2015	2,796	1,753	14,774	1,471	6,121	26,915
Additions	437	109	89	29	204	868
Assets brought in to use	(1,526)	4	967	2	553	-
Leased asset additions	-	-	-	-	-	-
Reclassification to Intangible Assets	(1,207)	-	-	-	-	(1,207)
Capitalisation adjustment*	(132)	-	-	(21)	-	(153)
Disposals	-	-	(368)	(22)	(366)	(756)
Revaluation	-	-	255	(12)	225	468
As at 31 March 2016	<b>368</b>	<b>1,866</b>	<b>15,717</b>	<b>1,447</b>	<b>6,737</b>	<b>26,135</b>
<b>Depreciation</b>						
At 1 April 2015	-	150	6,976	1,002	4,583	12,711
Provided during the year	-	141	2,359	113	677	3,290
Provided for leased asset during the year	-	-	110	-	-	110
Accumulated depreciation adjustment	-	-	-	(4)	-	(4)
Disposals	-	-	(368)	(22)	(358)	(748)
Impairments	-	-	448	-	-	448
Revaluation	-	-	159	(8)	172	323
As at 31 March 2016	-	<b>291</b>	<b>9,684</b>	<b>1,081</b>	<b>5,074</b>	<b>16,130</b>
<b>Net book value</b>						
As at 31 March 2016	<b>368</b>	<b>1,575</b>	<b>6,033</b>	<b>366</b>	<b>1,663</b>	<b>10,005</b>
As at 31 March 2015	<b>2,796</b>	<b>1,603</b>	<b>7,798</b>	<b>469</b>	<b>1,538</b>	<b>14,204</b>
Owned/Leased as at 31 March 2016	<b>368</b>	<b>1,575</b>	<b>6,033</b>	<b>366</b>	<b>1,663</b>	<b>10,005</b>

FCO Services operates from buildings owned by the FCO. FCO Services pay an annual sum for their use as agreed in the MOTO between FCO and FCO Services.

All assets have been revalued at 31 March 2016 using appropriate indices.

\* Previously capitalised expenditure in Assets Under Construction (£132k) written off to R&D and Operating Expenses.



## 9. Property, plant and equipment continued

	Assets under construction £000	Fixtures £000	Information technology £000	Transport equipment £000	Plant and machinery £000	Total £000
<b>2014/15</b>						
<b>Cost or valuation</b>						
At 1 April 2014	3,311	752	9,972	1,619	5,765	21,419
Additions	1,330	754	2,745	119	261	5,209
Assets brought in to use	(1,845)	247	1,598	-	-	-
Leased asset additions	-	-	342	-	-	342
Disposals	-	-	(12)	(243)	(17)	(272)
Revaluation	-	-	129	(24)	112	217
As at 31 March 2015	2,796	1,753	14,774	1,471	6,121	26,915
<b>Depreciation</b>						
At 1 April 2014	-	48	4,647	1,120	4,003	9,818
Provided during the year	-	102	2,175	134	515	2,926
Provided for leased asset during the year	-	-	104	-	-	104
Disposals	-	-	(10)	(235)	(17)	(262)
Impairments	-	-	-	-	-	-
Revaluation	-	-	60	(17)	82	125
As at 31 March 2015	-	150	6,976	1,002	4,583	12,711
<b>Net book value</b>						
As at 31 March 2015	2,796	1,603	7,798	469	1,538	14,204
As at 31 March 2014	3,311	704	5,325	499	1,762	11,601
Owned/Leased as at 31 March 2015	2,796	1,603	7,798	469	1,538	14,204

## 10. Inventories

	2015/16 £000	2014/15 £000
Raw materials and consumables	483	1,025
Work in progress	-	-
	<b>483</b>	<b>1,025</b>
Amount of inventory write down*/(back)	<b>101</b>	(4)

\* Represents the net value of inventory written off in 2015/16

## 11. Trade receivables and other current assets

### Analysis by type

	2015/16 £000	2014/15 £000
Amounts falling due within one year:		
Trade receivables	13,214	9,426
VAT	-	4,193
Other receivables	33	52
Prepayments and accrued income	10,227	12,791
	<b>23,474</b>	<b>26,462</b>

Included within prepayments and accrued income is £5,428,000 relating to the FCO (2014/15 £7,719,000).

Included within prepayments and accrued income is £217,408 relating to construction contracts (2014/15 £846,248).

## 12. Cash and cash equivalents

	2015/16 £000	2014/15 £000
Balance at 1 April	15,222	25,546
Net change in cash and cash equivalents	9,515	(10,324)
Balance at 31 March	<b>24,737</b>	<b>15,222</b>

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

## 13. Trade payables and other liabilities

### Analysis by type

	Note	2015/16 £000	2014/15 £000
<b>Amounts falling due within one year:</b>			
Trade payables		1,841	3,243
Accruals *		10,209	14,166
Payments on account **		3,890	3,244
Other payables ***		204	671
VAT		809	-
Dividends payable		1,292	1,081
Loans repayable in one year	17	-	951
		<b>18,245</b>	<b>23,356</b>

\* Included within accruals is £319,000 (2014/15 £4,619,000) due to FCO in respect of payroll.

\*\* Included within payments on account is £3,263,000 from the FCO (2014/15 £2,412,000).

\*\* Included within payments on account is £nil from construction contracts (2013/14 £nil).

\*\*\* Included in other payables is £111,000 (2014/15 £582,000) due to FCO in respect of management charges and accommodation.

\*\*\* Included in other payables is £111,324 finance lease creditor (2014/15 reported as £326,577, restated as 2014/15 £104,527)

## 14. Trade payables and non current liabilities

### Analysis by type

	2015/16 £000	2014/15 £000
<b>Amounts falling due after one year:</b>		
Finance Lease	215	327



## 15. Commitments under leases

### 15(a) Operating 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

	2015/16 £000	2014/15 £000
<b>Buildings</b>		
Not later than one year	-	4
Later than one year and not later than five years	-	-
Later than five years	-	-
	<u>-</u>	<u>4</u>
<b>Other:</b>		
Not later than one year	<b>8</b>	6
Later than one year and not later than five years	<b>16</b>	20
Later than five years	-	-
	<u><b>24</b></u>	<u>26</u>

There are no obligations under operating leases for land.

The additional operating leases in 2015/16 have been in use for several years and only recently identified as operating leases.

## 15. Commitments under leases continued

### 15(b) Finance Leases

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

Obligations under finance leases comprise:

	2015/16 £000	2014/15 £000
<b>Buildings</b>		
Not later than one year	-	-
Later than one year and not later than five years	-	-
Later than five years	-	-
Less interest element	-	-
Present Value of obligations	-	-
<b>Other</b>		
Not later than one year	127	120
Later than one year and not later than five years	200	312
Later than five years	-	-
Less interest element	16	28
Present Value of obligations	311	404

Present Value of obligations under finance leases comprise:

	2015/16 £000	2014/15 £000
<b>Buildings</b>		
Not later than one year	-	-
Later than one year and not later than five years	-	-
Later than five years	-	-
Total Present Value of obligations	-	-
<b>Other</b>		
Not later than one year	125	118
Later than one year and not later than five years	186	286
Later than five years	-	-
Total Present Value of obligations	311	404

There are no obligations under finance leases for land.

## 16. Provision for liabilities and charges

	2015/16 £000	2014/15 £000
Balance at 1 April	1,276	635
Provided in the year	-	700
Provisions not required written back	(76)	(59)
Provisions utilised in the year	-	-
Balance at 31 March*	<b>1,200</b>	<b>1,276</b>

\*The Regional Technical Support Service contract is a five year flat price agreement with the FCO. The terms of the contract are that FCO Services operate within a tolerance against contribution of +/- 2.5%. This tolerance was exceeded in the first two years of the contract generating the provision to cover the forecast commitments in years three to five of the contract.

## 17. Financial liabilities

	2015/16 £000	2014/15 £000
<b>Loans</b>		
Repayable in under a year	-	951
Repayable in one to two years	-	-
Repayable in two to five years	-	-
Repayable after five years	-	-
	<b>-</b>	<b>-</b>

FY 2014/15 the above loans were provided to the fund by the Secretary of State for Foreign and Commonwealth Affairs.

## 18. Adjustments for non-cash transactions

	Note	2015/16 £000	2014/15 £000
Loss/(profit) on disposal of property, plant and equipment		4	(17)
Amortisation	8	311	174
Depreciation	9	3,400	3,031
Capitalisation Adjustment	9	153	-
Accumulated Depreciation Adjustment	9	(4)	-
Impairment of property, plant and equipment	5 & 9	448	-
Revaluation (Write Back)/Charge	5	(2)	(7)
Impairment of intangible assets	8	426	-
		<b>4,736</b>	<b>3,181</b>

## 19. Capital commitments

Contracted capital commitments not provided in these accounts

	2015/16 £000	2014/15 £000
Property, plant and equipment	261	1,049
Intangible assets	1	13
	<b>262</b>	<b>1,061</b>

## 20. Other financial commitments

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

## 21. Contingent liabilities disclosed under IAS 37

At 31 March 2016 contingent liabilities existed in respect of employment £20,000 (2014/15 £40,000). While the outcome of these matters cannot be precisely foreseen it is anticipated the matters will be resolved within the next financial year.

## 22. 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 a robust credit management process.

### 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.

### 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.



## 23. Losses and Special Payments

### 23(a) Losses Statement

	2015/16	2014/15
Total number of losses	5	9
	<b>£000</b>	£000
Total value of losses*	<b>157</b>	343
Claims Waived / Abandoned	<b>38</b>	105
Store Losses	<b>1</b>	8
Fruitless Payments	<b>2</b>	230
Constructive Loss**	<b>116</b>	-
Other	-	-

\* There were no individual losses over £300,000 in either 2015/16 or 2014/15.

\*\* This relates to stock write down

### 23(b) Special Payments

In 2015/16 the costs falling into the category special payments was £nil (2014/15 £nil).

## 24. 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 (including UK Visas and Immigration), National Crime Agency, Department for Business Innovation and Skills and Ministry of Defence. 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.

## 25. Events after the reporting period

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General. Apart from the following there are none to report:

The result of the referendum held on 23 June was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made at this time.

The Accounting Officer authorised these Financial Statements for issue on the date on which the accounts are confirmed by the Comptroller and Auditor General.

**Danny Payne**

*Chief Executive and Accounting Officer*

28 June 2016





## FCO SERVICES

Part of the Foreign and Commonwealth Office

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FS 569603



BCMS 570215







ISBN 978-1-4741-3421-7



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