



**FCO SERVICES**

Part of the Foreign and Commonwealth Office

FCO Services

# Annual Report and Accounts 2016/17

(for the year ended March 2017)

HC 107



**FCO Services**

# Annual Report and Accounts 2016/17

(for the year ended March 2017)

**FCO Services**

## **Annual Report and Accounts 2016/2017**

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 19 July 2017



© Crown copyright 2017

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated.  
To view this licence, visit [nationalarchives.gov.uk/doc/open-government-licence/version/3](http://nationalarchives.gov.uk/doc/open-government-licence/version/3)  
or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU,  
or email: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk).

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at [www.gov.uk/government/publications](http://www.gov.uk/government/publications)

Any enquiries regarding this publication should be sent to us at  
[FCOServicesCorporateCommunications@fco.gov.uk](mailto:FCOServicesCorporateCommunications@fco.gov.uk)

Print ISBN      9781474144650  
Web ISBN        9781474144667

ID P002878393      07/17

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



## Performance Report

### 1 Overview

- 10 Foreword by the Minister
- 11 Foreword by the Chair of the FCO Services Board
- 12 Foreword by Danny Payne
- 14 Performance Report
  - 14 Who we are and what we do
  - 16 What we aim to achieve

### 2 Performance Analysis

- 20 FCO Services Overview
- 22 Our Secure Global Services Teams
- 23 Our Global Digital Technology Teams

### 3 Our Highlights

- 26 Our Global Reach
- 28 Technology Overhaul - *collaborating to support the FCO's global IT refresh*
- 30 Ensuring a modern, user friendly technical environment
- 34 Delivering on a global scale
- 38 Supporting wider government and international priorities - *1HMG and other governments*
- 42 IT Infrastructure
- 46 IT Innovation
- 48 UKNACE and Cyber Convergence Centre

### 4 Our People

- 52 Year at a Glance
- 54 Our Values
- 56 Our People

### 5 Delivering for our Customers

- 59 Our Corporate Functions
- 62 Engineering, Technology and Innovation
- 63 Sustainability Report

## Accountability Report

### 6 Accountability Report

- 72 Review of financial performance
- 75 Table of performance against ministerial targets
- 76 Corporate Governance Report
  - 76 Director's report
  - 77 Statement of FCO Services Agency's and Accounting Officer's responsibilities
  - 78 Governance statement
- 87 Remuneration and Staff Report
  - 87 Remuneration report
  - 94 Staff report
- 99 Parliamentary Accountability and Audit Report
  - 100 Certificate and report of the Comptroller and Auditor General

### 7 Financial Statements

- 102 Financial Statements
  - 104 Statement of Comprehensive Income
  - 105 Statement of Financial Position
  - 106 Statement of Cash Flows
  - 107 Statement of Changes in Taxpayer's Equity
  - 108 Notes to the accounts





## 1 Overview

10 Foreword by the Minister

11 Foreword by the Chair of the FCO Services Board

12 Foreword by Danny Payne

14 Performance Report

14 Who we are and what we do

16 What we aim to achieve





## Foreword by the Rt Hon Mark Field MP

Minister of State, Asia and the Pacific

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

At a time of great change in the UK, this government is committed to providing stability, fairness and opportunity. Protecting our national security, strengthening the economy, and ensuring our leading role in the world, also remain key priorities.

Ensuring that our exit from the European Union is a success and establishing Britain as a bold, outward-looking nation is at the heart of achieving these priorities. The FCO is a key player in delivering our new, global approach and, as a member of the FCO family, FCO Services is an important partner in this. This report shows how, through its expertise and innovative approach, FCO Services is providing vital support and capability, positioning us to meet the challenges ahead successfully.

For example, in the UK, FCO Services has supported preparations for the current Brexit negotiations by delivering infrastructure required to enable the government to start talks with the EU. Following the establishment of the Department for International Trade, FCO Services rapidly renovated offices in King Charles Street to create space for the new ministers and their civil servants. And, as we look for new ways to project our influence on a global scale, FCO Services is helping promote a global Britain in a fresh and innovative way. Through interior design projects in official residences in New Delhi and Seoul, they are providing an outstanding first impression of our nation to embassy visitors and showcase British craftsmanship. I look forward to seeing some of this work firsthand during my travels throughout Asia and the Pacific.

Turning to the security situation, keeping our country and citizens safe and secure is more challenging than ever, particularly in light of recent events. Through advice and technical and physical security solutions across our overseas network, FCO Services supports our diplomats and their families in handling the changing security threats we face. FCO Services also continues to support the FCO's primary mission of protecting and leading British interests overseas by enabling diplomacy, even in the most trying of situations. For example, following the earthquake in New Zealand, FCO Services officers made a critical contribution to creating a temporary

office location for FCO colleagues to continue their crucial work whilst the building was being repaired.

Finally, by supporting the One HMG agenda, FCO Services is working with the FCO to identify better, more efficient and value for money ways of working. These are delivering savings for the taxpayer and enabling FCO staff to focus on diplomacy. The new regionalisation programme will ensure that FCO Services can respond more quickly and effectively to the needs of its customers worldwide. As I travel overseas in my new role, I look forward to hearing about the benefits this is delivering.

In my short time in the FCO so far, it has become clear to me that, given their shared understanding of purpose, FCO Services is in a unique position to support the work of the FCO and One HMG. Its dedicated and highly-skilled staff are committed to providing expertise and excellence to the FCO and I have every confidence in the continuing success of FCO Services. I look forward to getting to know the organisation better in this coming year.

**The Rt Hon Mark Field MP**  
*Minister of State, Asia and the Pacific*



## Foreword by Sir Richard Stagg

Chair of the FCO Services Board

The last year has seen substantial change in FCO Services, with two new members of the senior leadership team and a reshaping of the organisation to create a Director for Business Services, a Director for Business Development and a Director of Engineering and Technology. Two groups have been amalgamated into one (to create Secure Global Services). Despite this period of change, the business continued to develop well and delivered an impressive surplus, before dividends, of £14 million.

The Board has been more closely involved with the development of strategy in the last year and has been impressed by plans to create a genuinely global organisation. We believe there is a clear sense of direction, based on the vision of FCO Services becoming Trusted, Agile, and Global - and thus a world-class supplier of support services. This positions FCO Services well to become an even more effective partner to the FCO in managing the global network of diplomatic missions; and to support the cross-government One HMG agenda.

The Board has supported an increasing focus on business development and marketing - with the customer at the heart of everything the organisation does. We have taken a close interest in the leadership and culture of FCO Services where, staff surveys suggest, there is still room for improvement. We welcome the focus of the CEO and his senior colleagues

on this agenda - including through the introduction of a new Leadership Development Programme aimed at the top 100 in FCO Services. I hope Danny Payne will be able to draw on the extensive experience of the NEDs on the Board to support this work.

The Board itself has remained unchanged over the last year. Last summer, we brought in independent reviewers to look at the way the Board works. They made some helpful suggestions for improvement, but were generally positive about the work of the Board. Overall, I think we manage to strike a fair balance between constructive challenge and support to the Executive.

Looking back, I became Chairman of the FCO Services Board in June 2007. I will stand down at the end of September, after 10 rewarding years. When I started, the organisation was preparing to become a Trading Fund - dependent for survival on its ability to generate income from customers, not on funds voted for by Parliament. Many in FCO Services were excited by the new opportunities on offer; but many were also understandably apprehensive about sailing into uncharted waters.

Our journey over the last 10 years has not been entirely smooth. It has taken time to find the right balance between the need to provide a seamless service to the FCO (our owner and principal customer) and the benefits which flow from selling to a growing range of

outside customers. We have worked hard to combine the advantages of being part of government with those of enjoying greater commercial freedom. The result is, in my view, impressive. We have successfully navigated the 2008 crash and the subsequent 'Age of Austerity', which seriously affected all of our major customers. We have attracted new customers, both from within the UK Government and from outside (foreign governments, for example, accounted for over £9 million of revenue last year). And we have managed the financial and HR challenges of running businesses which are in competition with private sector providers - who are unconstrained by government rules on pay.

The decade of success since 2007 is a tribute to the hard work, professionalism and commitment of all those working for FCO Services, in the UK and overseas. They have adjusted to a new environment and exploited its opportunities. I wish Danny Panye, and all his colleagues, a future even better than their recent past.

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



## Foreword by Danny Payne

FCO Services Chief Executive

FCO Services has a clear vision and core ambition: to be a world-class provider of operational support services across the globe. To help us deliver this, this year we have refocused our global digital technology strategy; created a new regional hub structure, joining up and growing our overseas teams; and streamlined our corporate functions. These efforts have helped us deliver strong business results throughout 2016/17, enhancing our reputation as a trusted provider of global services.

Our business results are strong, with revenue growth achieved by responding to competitive pressures and our customers' needs, controlling our prices and driving efficiencies. The commitment and drive of our staff has been crucial to the success of the business this year. Productivity is at an all-time high and we are delivering 8% more business with 7% fewer people, which is testament to the hard work and commitment of our teams. The restructuring of the business has supported this efficiency, ensuring we have the right people in the right jobs, as we make FCO Services a great place to work.

This year we have strengthened our relationship with our owner, the Foreign and Commonwealth Office, positioning ourselves as their global strategic partner of choice and a core part of their operational delivery. We have supported the FCO's network of over 260 posts in 168 countries.

This report demonstrates the range of quality services and products we offer our customers, from planned global maintenance work to assisting on the frontline in response to crises such as natural disasters. It contains examples of how our work supports the mission and purpose of our customers in protecting and leading British interests overseas – including assisting the GREAT campaign through the designated residences projects; project managing the re-opening of The Hague embassy following a fire; designing and project managing a remodel of the Colombo High Commission which was severely infested by termites; and working with the Ministry of Defence on the Radome Replacement Programme. The success of the Global Maintenance Improvement and Seismic programmes has led to business growth as we play a critical role in the maintenance and support of the FCO estate.

To enable the FCO's Technology Overhaul Programme, we have rolled out the new WiFi system to overseas sites including Seoul, Hong Kong and Tokyo. There has been a healthy uptake of new customers to the service every month, which regularly sees 3000 concurrent connections across the FCO estate. We also look forward to the opportunities for collaboration with the FCO that will be offered by its Diplomacy 20:20 programme.

We have the flexibility and can-do attitude that supports government in

the most testing of times. Our work has made sure the newly formed Department of International Trade (DIT) was quickly able to collaborate with partners across government, which contributes to their important post-Brexit aim of promoting British trade across the world.

We continue to work across wider government and with UK-based organisations which operate on a global scale. The quality service our Service Management Integration (SMI) provides for UKVI – through commercial management, service delivery, performance and project management – has ensured that the critical systems that UKVI use to provide services to the public around the world are expertly integrated. Consequently, this year we have renegotiated our contract with UKVI for a further three years with an optional fourth.

Following our regional reorganisation, we have begun the transition to a truly global team with leadership closer to our customers and end users around the world; in parallel we have formed UK customer business teams and have received excellent feedback with evidence of improved customer confidence across our FCO, and wider customer base. Our work with the governments of Australia, New Zealand, and Canada is a good example of this. They have responded well to our new regional hub structure and recent engagement with the Australian



Department for Foreign Affairs and Trade resulted in a number of future opportunities for us to work together.

The transfer of Vetting to the MOD has been a significant activity within the year, and whilst challenging, the transition of the business has demonstrated the professionalism of the Vetting team who maintained an outstanding service throughout. My thanks to all who worked so hard to make the transition a success.

I'd also like to thank Sir Richard Stagg who is leaving the FCO Services Board after 10 years as Chairman. He has helped guide the organisation through its transition into a Trading Fund and his expertise has been invaluable in ensuring its success. The Board and I wish him all of the best for his future endeavours.

After an excellent year, expectations for the year ahead are higher than ever before. We welcome new challenges - the transfer of the Sensitivity Reviewers from the FCO into our organisation

for example - and must also carefully navigate new pressures and risks. We must ensure we deliver excellence in project and service delivery, which is so vital to building trust and growing our mandate in global operational support services. I am confident that our talented and driven staff will rise to the challenge and I look forward to another rewarding year leading the organisation.

**Danny Payne**  
FCO Services Chief Executive



## Overview

## Performance Analysis

## Our Highlights

# Performance Report

## Who we are and what we do

FCO Services is the trusted partner to the Foreign and Commonwealth Office; we are their largest and only truly global supplier, with regional teams and service hubs worldwide. We deliver secure services and technical excellence, enabling diplomacy, consular services and the work of the government, both within the UK and overseas.

### Who we are

We were set up by the FCO to provide logistics, security, property and IT services to its diplomatic missions around the world. Our delivery of a range of secure products and services protects people, property, information and data assets for the FCO; other UK government departments and the public sector; foreign governments; and international organisations closely linked to the UK.

Since 2008, we have operated as a Trading Fund of the FCO, a status that enables us to operate using commercial principles and flexibility so we can invest, innovate and financially strengthen our core organisation. We work collaboratively with the UK public and private sectors and industry experts to deliver leading-edge services. Our position as a delivery partner within government enables us to support cross-cutting initiatives which realise benefits and efficiencies for our customers and ultimately for taxpayers.

Our strategy is to be trusted, agile, global. It is underpinned by the values of the people who make our organisation the success it is today, and who strive to be professional, innovative, collaborative, trusted and unique in all they deliver.

These attributes ensure our products and services focus on our customers achieving their own strategic aims and reform objectives. They also enable our ambition - to be a world-class provider of operational support services across the globe.

***Our ambition:***  
***To be a world-class provider of operational support services across the globe***

***Our mission:***  
***To deliver trusted services to the Foreign and Commonwealth Office and other government customers worldwide***

*"I know well from previous roles the breadth and depth of the relationship between FCO Services and the FCO, and the organisation's worldwide reach and collaboration with our partners across government, including in delivering the One HMG agenda. As incoming Chief Operating Officer one of my priorities is delivering our Diplomacy 20:20 agenda and a more expert and agile FCO, supported by a world class platform. FCO Services will be integral to that. I look forward to our future work together."*

**Chief Operating Officer,  
Foreign and Commonwealth Office**

## Our People

## Delivering for our customers

## Accountability Report

### What we do

In more than 250 embassies, high commissions and other critical government facilities across 168 countries, we deliver and support secure global solutions. Our services include secure cloud technology, consultancy, cyber and technical security, monitoring, protective security, overseas technical support, secure logistics, estates and construction, translation and interpreting. Our teams work together across a global network, to provide secure working environments that protect our customers' people, assets and information.

### How we are organised

We are a fully global business, with around 80% of our activities taking place internationally. Our UK-based teams support these activities. In the last year, we have developed a regional account management structure and

delivery capability across the overseas platform which is fully aligned to the FCO's regionalised model.

Our organisation operates through two business areas which deliver projects and services worldwide:

Our **Secure Global Services (SGS)** business group manages our UK based infrastructure, design and planning teams including project and technical management. It deploys teams worldwide to deliver customer services. The group also manages a new regional hub structure. These hubs provide a local, tailored service, supporting diplomatic missions through regional directorates, local supply chains and in-country staff.

Our **Global Digital Technology (GDT)** business group operates three closely aligned businesses, all with strong digital and technology themes: an IT business that delivers secure global solutions for a wide range of customers, including the FCO; the National Authority for Counter

Eavesdropping (UK NACE) and from 1 April 2017, we will also run a Sensitivity Review Service for the FCO.

Our delivery groups are supported by our corporate groups:

Our **Business Services** group brings together Finance, HR, Transformation, Risk and Strategic Sourcing.

Our **Business Development** group develops and implements commercial strategies that deliver business plans, and leads FCO Services' Diplomacy 20:20 team.

Our **Engineering and Technology** group manages innovation, product development, quality management and health and safety.

Our **Chief of Staff** office brings together corporate communications, business continuity, change programmes and accommodation.







# What we aim to achieve

We have a clear vision for the future of FCO Services. Developing from our original mission to provide logistics, property, IT and security services to the FCO's network of diplomatic missions around the world, we are proud to have extended our reach to the point where we now represent the FCO's largest and only truly global supplier, with regional teams and service hubs worldwide.

Our aim over the course of the next few years is to increase yet further the support which we offer to the FCO in the running of its overseas platform, by providing operational support services

to deliver a world-class platform from which the core business of the FCO, diplomacy, can be delivered. To achieve this, we are ensuring that our strategic objectives are aligned with those of the FCO to optimise opportunities for collaboration which add value and reduce cost.

This strategic context provides us with an opportunity to review our operating model as part of the Cabinet Office review of all Trading Funds and we will engage with the FCO in discussions about possible options for the future status of FCO Services.

We also see growth arising from targeted business development activity, improved products and services and embedded continuous improvement practices. We aim to deliver increased customer satisfaction through structured account management and more strategic customer insight.

We'll invest in our future by properly resourcing our business development, innovation and customer-facing teams to ensure we have a balanced and positive pipeline of future opportunities.

## Secure Global Services

Our teams will respond to the demands of customers whenever they need us, aspiring to provide a full 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 our teams will:

- Continue to refine and 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 across our four regional hubs
- Improve our customer service – by listening to, working with and responding more rapidly to our customers to align and shape our business to meet their needs
- Continue to invest in our people around the world providing technical training and skills development to ensure we have the best people with flexibility and agility to achieve the demanding challenges our customers task us with whilst creating a stable and reliable business through succession planning, leadership and talent development
- Create a business our customers truly value with products and services they need now and in the future
- Build on the new regional directorates with extended services based in Middle East, Africa, Americas, Europe and Asia Pacific.

## Global Digital Technology

Our primary objective for 2017/18 is to build on the strong trading performance achieved in 2016/17 through providing the technology that safeguards our customers' data and supports diplomacy worldwide. We will continue to deliver excellence to existing customers by enhancing our services and developing a culture of transformation and innovation through our Transformation Hub. We are committed to innovating not only for our own business but for the benefit of government, through solving complex government digital and technological problems.

To achieve this our teams will:

- Grow the IT and UKNACE business areas through expanding business with existing customers, particularly in the areas of transitioning to the cloud and secure and monitored WiFi
- Continue to exploit our GSAE, Cirrus 360 and Ironbridge platforms as core business capabilities
- Develop our Transformation Hub. Launched last year this has begun to drive innovation in our future products and services. Working with UK digital industry, we will develop new products and services in the areas of big data analytics, Internet of Things and mobile technology along with building our DevOps culture
- Develop new products and services in the UKNACE environment
- In the area of Sensitivity Review, we will work to develop systems, approaches and technologies that will assist in the delivery of this complex activity.



## 2 Performance Analysis

20 FCO Services Overview

22 Our Secure Global Services Teams

23 Our Global Digital Technology Teams





## FCO Services Overview

### Protecting people, assets and information and delivering critical services for our global customers

Last year we set out to enhance our value proposition and increase the services we provide, by adding value and reducing cost, and allowing the FCO to focus on its diplomatic priorities. We built closer, more strategic relationships with our customers across government, moving from being a transactional supplier to a valued strategic delivery partner. While consistently delivering excellent projects and critical services for our customers, we concentrated on sharpening our ambition and testing our strategy.

To deliver the opportunities ahead of us, this year we have simplified our business; creating our new regional hub structure and transforming our global digital technology strategy by focusing effort on strengthening working relationships with core customers and a continued efficiency drive.

We have streamlined our corporate functions and executive structure to support our delivery ambitions. We have delivered excellent products and services which support our customers and partners in achieving their own strategic aims and reform objectives; cutting right to the heart of government policy and savings targets.

Our success in strengthening our partnership with the FCO and other core customers has seen revenue growth beyond planned expectations in 2016/17. Our final results show an 8% revenue growth across both FCO and wider market customers, achieved by providing services that meet the specific needs of our customers.

We've responded to competitive pressures, controlled our prices, driven efficiencies across the board and actively engaged with new government customers, both in the UK and

overseas. Strengthening relationships at all levels has enabled our customer satisfaction ratings to further improve to an all-time high of 90%, again exceeding our formal targets.

We have exceeded our productivity and savings targets, achieving efficiencies through workforce changes, organisational streamlining, controlling investments, higher workforce productivity and operational efficiency.

Recognising that none of our successes would be possible without our professional and innovative workforce, we have invested in our people, implementing a leadership development programme, investing in core training such as Construction Design Management (CDM) and Health and Safety, and increasing both the volume and breadth of our apprenticeship schemes.



## Our Secure Global Services Teams

### Supporting the FCO, One HMG and Friendly Foreign Governments on a global stage

Last year we said we would build on our organisation and create a simplified structure for our customers, creating a business they value with products and services they need. We aimed to establish regional directorates and further develop our Regional Technical Support Service (RTSS), increasing our presence in the overseas network and expanding our service offerings.

During the year our customer business teams have been successfully engaging with our customers to help them achieve their goals. Feedback from our customers has been excellent, achieving an overall satisfaction score significantly above our goal.

Our business is successfully working together with other teams in FCO Services to deliver our promises. We have successfully rolled out a Regional Overseas Network, completing the first phase of adding a new leadership structure overseas. We will conclude this work in 2017, delivering a network which will increase autonomy and local decision making, responding to our customers and end users and becoming a trusted partner overseas.

We continue to offer service excellence in security and property, and through our RTSS Diplomatic Bag Logistics services. We provide valued insight and expertise to the

FCO, UK government and friendly foreign governments, and our global customers rely on our expert advice and capabilities in an increasingly volatile security environment. Our business has continued to grow, and we have successfully delivered innovative solutions that meet our customers' operational needs. We have broadened our customer portfolio across UK government departments and friendly foreign governments, and continue to build on our enviable partnership with the FCO. Our project teams have successfully delivered hundreds of projects globally, supporting diplomatic missions, and enhancing security for overseas staff.



## Our Global Digital Technology Teams

### Growing Digital Capability to Support Diplomacy and HMG Worldwide

Last year we said we would grow our business with the FCO by supporting their IT needs on both Tier 2 and Tier 1 (Official) platforms. We also aimed to expand our global business across our wider customer base and continued the development of our Transformation Hub.

Our global digital technology team have played a pivotal core support role in the delivery of the FCO's Technology Overhaul programme, rolling out WiFi to a significant number of posts overseas as well as application remediation, data repatriation and creation of Citrix solutions.

Additionally, we continue to work closely with more than 80 government partners and customers. Their feedback, satisfaction indicators, securing renewed contracts and new business endorses the strides we have made to improve and exceed expectations.

We have listened to our customers and realigned our market available services which includes a range of cloud-related products, traditional IT, cyber security and bespoke services improving productivity, collaboration and communication. This has been supported by investment in our internal management and infrastructure.

Our Transformation Hub is taking shape and profiling across government. We're speaking publically to niche audiences about its ambition to combine smart technology for government business of the future. British digital innovation is being explored and brought onboard through focused workshops exploring concepts that push government digital capability to the edge.







### 3 Our Highlights

#### 26 Our Global Reach

**28 Technology overhaul** - *collaborating to support the FCO's global IT refresh*

**30 Ensuring a modern, user friendly technical environment**

**34 Delivering on a global scale**

**38 Supporting wider government and international priorities** - *1HMG and other governments*

**42 IT Infrastructure**

**46 IT Innovation**

**48 UKNACE and Cyber Convergence Centre**



Overview

Performance Analysis

Our Highlights

Our global reach

Technology overhaul

Ensuring a modern, user-friendly technical environment

Delivering on a global scale

# Our global reach

The Foreign and Commonwealth Office is our main customer. We play a pivotal role in supporting the FCO to achieve its aims, by providing secure services that keep its global network of overseas missions running. At the same time we support a wide range of other UK government departments who work on the overseas platform.

In the UK we work with central government departments, law enforcement, regional government and the UK's critical national infrastructure.

We provide services to foreign governments including the USA, Canada, New Zealand and Australia, and international organisations closely linked to the UK.



Our People

Supporting wider government and international priorities

Delivering for our customers

IT Infrastructure

IT Innovation

Accountability Report

UKNACE and Cyber Convergence Centre



Overview	Performance Analysis	Our Highlights
Our global reach	Technology overhaul	Ensuring a modern, user-friendly technical environment Delivering on a global scale

Our People	Delivering for our customers	Accountability Report
Supporting wider government and international priorities	IT Infrastructure	IT Innovation
		UKNACE and Cyber Convergence Centre

# Technology overhaul

collaborating to support the FCO’s global IT refresh

During 2016/17 teams across our organisation have played a significant part in delivering the FCO’s Technology Overhaul programme, including WiFi to more than 30 overseas posts and developing technical solutions that will make the programme a reality. An innovative device deployment programme will start later this year.

## WiFi - Delivery to overseas posts and the UK

This year, we continued the rollout of the new Aruba WiFi system to more than 30 overseas sites including Seoul, Hong Kong and Tokyo. All switches and firewalls were pre-configured by our London Live Services team and then bulk shipped with other kit such as access points and cables before sending to post for regional colleagues to mount and connect. Once connected, the London team liaised with staff regionally to ensure connectivity and coverage were in line with design and security goals. In addition, this year also saw the final decommissioning of the old pilot WiFi-Spark system which has finally been removed from the Locarno and Language Centre within the King Charles Street building. Since inception, the new WiFi system has seen a healthy uptake of new customers every month, and regularly now sees 3000 concurrent connections across the FCO estate; ultimately resulting in greater productivity and cabling savings.

## Digital Signage - Improving the technology offering

A requirement existed to improve the technology offering within the UK. We were engaged to deliver a networked solution of over 30 large format touch-screens in order to distribute standardised and recognisably branded content across the UK estate. Engagement with FCO System architects and Security teams ensured a high quality design met requirements, leading to the deployment of a robust and fully supported service. An ongoing demand for screens by various FCO departments has led to additional, previously unconsidered revenue streams for us. This whole project sums up how collaborative working with our customers can result in successful delivery of their strategic goals.

“Great example of collaborative working between Tech Overhaul, Comms Directorate and the FCO Services team in London – delivering quickly and efficiently five of the eight digital signs planned for KCS.”

**Deputy Delivery Manager, Tech Overhaul in KTD**



## Riverbed deployment

This year our Secure Technical Services Officers continue to deliver the Riverbed project across the FCO’s global estate. Replacing the “Juniper” accelerator that is now end of life, Riverbeds are WAN Accelerators that compress and accelerate traffic over the internet. They are intended to speed up the user’s experience and reduce the bandwidth used by post. The project is delivered in two phases. Phase 1, the delivery and installation of Riverbed WAN Accelerators to 30 posts across the world, was completed at

the end of January 2017, on time and on budget. Phase 2 will deliver and install 186 Riverbeds to the remaining FCO estate worldwide before the end of November 2017.

## Data Repatriation

FCO’s data assets are dispersed globally and as part of the Technology Overhaul Programme must be brought back to the UK to enable efficient cleansing prior to migration to public and private clouds. In support of this, we designed a Cloud solution, ‘the FCO Cloud’ to provide a secure

(up to OFFICIAL) centrally hosted platform in our UK secure data centre. This provides the FCO with the facility to host international data pending migration. Integral to this is the international data repatriation service developed by FCO Services. This capability firstly brings FCO international data back to the Cloud platform to be cleansed. Following on from this, the service will provide the means to transfer data from the FCO Services Cloud to the FCO Microsoft Office 365 as the delivery programme moves ahead.

Overview	Performance Analysis	Our Highlights
Our global reach	Technology overhaul	Ensuring a modern, user-friendly technical environment
		Delivering on a global scale

Our People	Delivering for our customers	Accountability Report
Supporting wider government and international priorities	IT Infrastructure	IT Innovation
		UKNACE and Cyber Convergence Centre

# Ensuring a modern, user-friendly technical environment

The FCO's Knowledge and Technology Directorate (KTD) has responsibility for enabling the FCO to operate effectively. They own the current IT infrastructure, telephony, the diplomatic bag, secure communications, knowledge management and the live support at home and overseas. To enable them to deliver these, we provide the advice, support and products that will enable diplomacy to be delivered efficiently and effectively. Through the technical assistance and responsive, practical support provided by the Regional Technical Security Service (RTSS) and our worldwide logistics function we have continued to enable KTD and its end users throughout the overseas network to deliver their key objectives.

## Rapid and responsive in crisis situations

Now in its fifth year of service, the RTSS continues to offer emergency, rapid response to any crisis, providing technical support and assistance to Consular Directorate's rapid deployment teams. Whether large scale natural disasters such as the devastating earthquakes in Kathmandu and Japan or terrorist attacks in Tunis or Egypt, our immediate support forms an integral and critical part of the crisis response. Our support does not end there however and our specialist teams contribute to business recovery programmes.

This year, following the major earthquake in Wellington, New Zealand, the British High Commission building was severely damaged and the High Commission staff were unable to access the building because of major cracks. Our RTSS representative in New Zealand set up the technical elements needed to create a fallback,

temporary location in the High Commissioner's residence so that FCO colleagues could continue to work from laptops and teleworker phones while essential repairs were completed on the damaged building.

## Ringling in the new year on the road to Bishkek

Our project team required assistance with the delivery of a secure conference room to Bishkek, with the goods needing to be delivered by 2 January 2017. The normal road route would take the lorry through Turkey, which posed security and logistical issues. Therefore we were

faced with seeking alternative methods to meet the customer requirements without compromising the bag and meeting the proposed deadline. We considered several options to provide value for money and achieve maximum efficiency, costs savings and minimal impact upon the customer. We arranged a charter to depart New Year's Day from Robin Hood Airport, which has convenient access from Hanslope Park, and were able to get team members out on the charter and provide an end to end solution. The load was delivered safely and securely, obtaining full support and satisfaction from the customer.

*"The approach of the Secure Technical Services Officer is very positive and professional - he is quick to understand and respond to the various issues which we need resolved."*

ITSO (Seychelles)

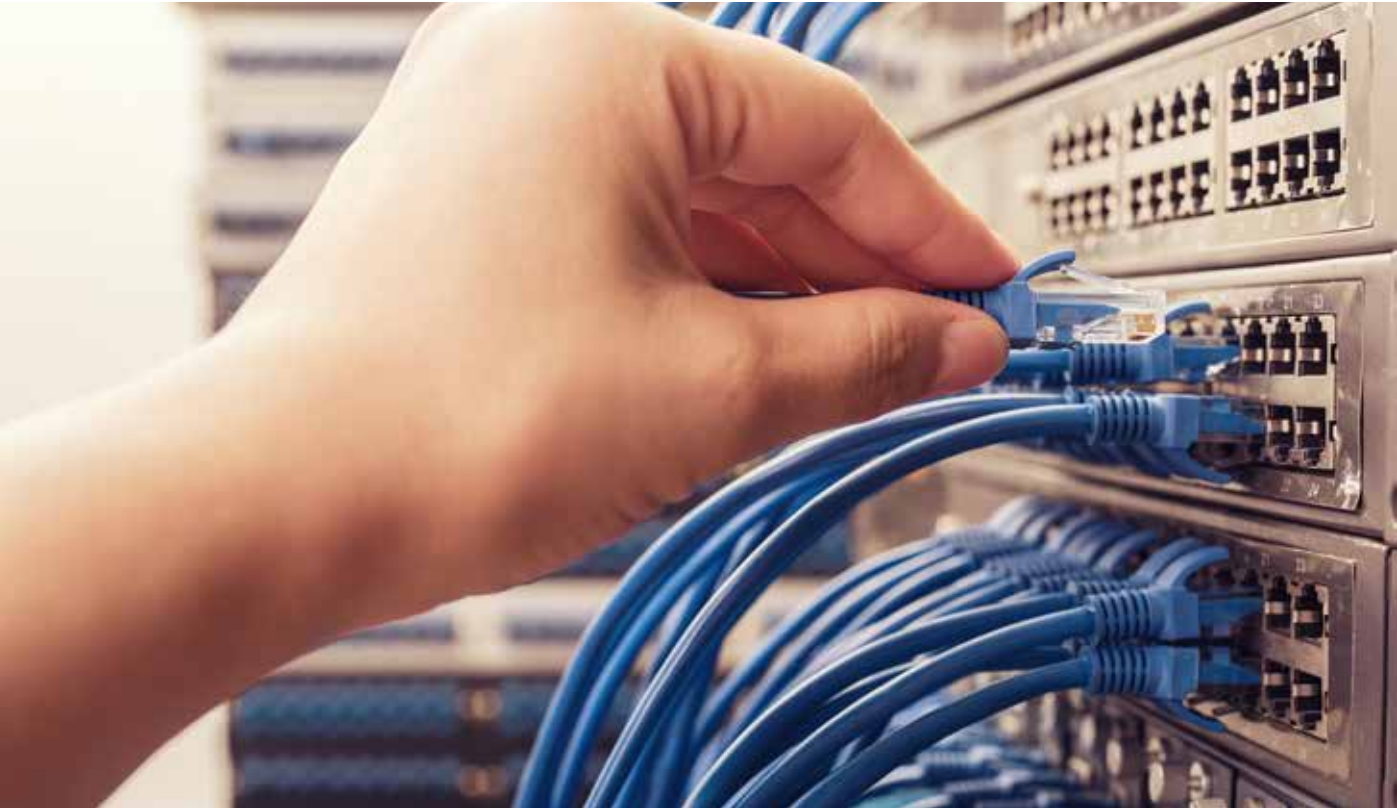
## Our global network of technical specialists

A vital part of our ability to react quickly to crises is the firm supporting foundations of our specialist teams based in regions around the world. Our regional delivery model ensures we can quickly and efficiently reach posts to fix equipment failures and carry out routine maintenance.

The High Commission in the Seychelles had been suffering with a number of corporate technical issues.

The RTSS visiting technician resolved these issues and, understanding and identifying wider issues, set about resolving these and providing mentoring to a new member of staff to enable them to fix issues that might occur in the future.

Colleagues in the High Commission noted that our technician took ownership of the problems at hand, made the necessary calls to the service desks and using his own skill and innovation resolved problems. This saved the customer money and time and enabled them to operate effectively and offer a better service.





Overview	Performance Analysis	Our Highlights
Our global reach	Technology overhaul	Ensuring a modern, user-friendly technical environment
		Delivering on a global scale

“A great team effort. The technical support was excellent and delivered calmly”  
Chief Information Officer, FCO



Virtual diplomacy – SECVIEW on Syria

In September 2016, the FCO hosted a global conference on Syria and how best to deal with the humanitarian crisis that was unfolding. The conference was held in large, imposing rooms within the Foreign and Commonwealth Office but, for cost or time reasons, not all international delegations were able to be present. In particular, the US Secretary of State could not attend in person but wanted to contribute.

To facilitate this our SECVIEW team put together a secure video conferencing capability from London to Washington that enabled the US contribution. This work was done at short notice, fully tested and adapted to work in a large open room with a number of participants.

SECVIEW is a secure voice and video conferencing service that helps government become more connected, allowing multi-way communication between up to 20 separate locations at a time, enabling greater collaboration and delivering savings.

Case Study

Snowbound in Bulgaria



Project:	Delivery by lorry
Customer:	HMG Customer in Ankara
Location:	UK to Ankara via Bulgaria

A special run was requested in January to deliver nine tons of classified building equipment for a customer in Ankara. The consignment was part of a larger project and late delivery would have a real impact on the whole project, affecting time scales and costs. The round trip was planned to take a total of 13 days, covering 4,800 miles.

Our European Road Service is responsible for arranging over 100 scheduled overseas lorry trips each year plus any requested special runs. The scheduled runs visit several posts en route crossing borders from one country to the next. Pre-departure preparation is vital and, amongst other things, the likelihood of difficult weather conditions is taken into account. There are always two drivers with every vehicle to maintain the safety of the consignments and the vehicle must never be left unattended. Drivers are chosen for each trip based on their experience and expertise, undergoing full and varied training in evasive and defensive driving.

Bad weather was expected but the conditions took a sudden turn for the worse in Bulgaria. The temperature dropped to -16°C and heavy snow fell. The roads quickly became impassable and the local authorities closed many of the main

routes. Despite being fitted with traction control and 12 gears our vehicles could not negotiate the hills and slopes and our drivers had no option but to park up and ride out the storm, which lasted 24 hours.

Preparation is key. Our lorries hold specially adapted large fuel tanks and heavy duty batteries in readiness for the most adverse weather conditions. Cabs are fitted with a sleeper compartment with pull down bunks and heating can run for 48 hours. Drivers carry food and water supplies, cold climatic clothing, arctic sleeping bags, specially adapted anti-freeze to cope with temperatures of -40°C, snow shovels and snow chains.

Due to the nature of the consignment being conveyed and the location the vehicle could not be left unattended, so the drivers stayed with the vehicle throughout the blizzard.

In the early hours of the next morning, the local authorities managed to access the main route with industrial tractors. Our vehicle had to wait in line

to be towed up the steeper inclines by the tractors, whilst they were waiting our drivers dug the vehicle out of the settled snow and fitted snow chains to the drive wheels to assist with traction.

Despite now running 24 hours behind schedule, once clear of Bulgaria the drivers managed to make good time and reached Ankara to meet the UK team, who had flown out to meet the vehicle. The customer was very happy with the service and positive praise was given for the smoothness and efficiency of delivery during a time that could have seen major delays with severe consequences for the whole of the project.

Overview	Performance Analysis	Our Highlights
Our global reach	Technology overhaul	Ensuring a modern, user-friendly technical environment
		Delivering on a global scale

# Delivering on a global scale

Our relationship with the FCO’s Estates and Security Directorate continues to strengthen as together we make a greater impact to manage the global diplomatic estate. Public finances are under considerable pressure and it is through ‘necessity’ initiatives such as the Seismic Assessment Programme, reducing the backlog of Global Maintenance and consolidating the former DFID estate on to the FCO platform that we have shown real value during the financial year. Individual project delivery has helped the FCO Estate make a real impact for Global Britain, including our role to project manage, design and securely fit-out the new NATO headquarters in Brussels and the new British High Commission in Abuja.

## The Technical Security Programme

The Technical Security Programme is a four year programme, run by a dedicated team of programme and project management professionals. We work closely with FCO Security sponsors to plan and commission work across the global FCO estate. The comprehensive programme looks at all elements of security for Embassies, High Commissions and other missions 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. We are working with our customers to use our experience and knowledge to support them in increasingly uncertain times.

## Fire Damage in The Hague

Following a fire in the Hague in 2015, we were asked to establish the damage to the building and the extent of works required to allow staff to reoccupy the Embassy building. Following a strip-back of the fire damage and accompanying assessment, a feasibility study was undertaken to look at the range of options open to the FCO when re-fitting the building. The option chosen had the widest scope, with a move to an open plan floor plate from the existing cellular office structure. As part of the wider IHMG strategy it also moved to bring Partners Across Government already operating in the Netherlands, on to the FCO’s platform. Running to tight timescales driven by the Embassy’s co-location with the Dutch Ministry of Foreign Affairs, our teams delivered the project management and architectural design, while also operating as Project Sponsor due to resource constraints within ESD. The Embassy has now re-opened inside the timescales required and with favourable reviews. Currently occupied by FCO Staff, they will shortly be followed with those from the other government departments.

Our People	Delivering for our customers	Accountability Report
Supporting wider government and international priorities	IT Infrastructure	IT Innovation
		UKNACE and Cyber Convergence Centre

## Tokyo – Replacement of High Voltage Substations

On behalf of FMCU, we delivered a £1.3m wholesale replacement of the high voltage substations on the compound of the British Embassy Tokyo, and replaced the high voltage cabling throughout. The previous substations had been installed 30 years previously and had reached the end of their useful life. They posed a serious risk as their failure would result in weeks of power outage to the entire compound.

The replacement project took 12 months and was designed to minimise the disruption to Post, despite the need for a number of planned power shutdowns and intrusive trenching throughout the compound. The physical shutdown and swap-out happened over a weekend and involved 66 operatives working through 36 hours using nine lorries and two cranes to deliver simultaneous operations at each substation location. Temporary power was provided through a network of mobile generators and outdoor distribution boards. The embassy now has a safe, efficient and maintainable power supply feeding the full compound.

*“A terrific job delivered on the HV project. It really was a complex project with a lot of moving parts. The result was excellent.”*  
**DHM BE Tokyo**

*“From my point of view, the project management has been exemplary. I’m very grateful to everyone involved”*  
**High Commissioner, Canberra**

## Canberra – Replacement of Heating and Cooling Systems

The heating and cooling systems in the British High Commission in Canberra had aged so significantly that replacement parts could no longer be obtained. Furthermore, the systems relied upon R22 gas - a hydro chlorofluorocarbon that is being phased out globally - for refrigerant. A new project delivery approach was adopted by the FCO for the system’s £1.2m replacement and we were contracted by FMCU to take on the leadership and project management of a third party contractor.

Leading both the classified and unclassified project teams, we oversaw the full design and install, ensuring cost effective installation and technical coordination across all zones of the High Commission. The project programme ran to a phased approach given the building was to remain live, and was scheduled against the optimum climatic window for the works. The impact of delivery required a decant office to temporarily house displaced occupants and night working was adopted in the secure areas. The result was a sensible, locally maintainable system which would offer a significant reduction in energy consumption and provide a more flexible system for the High Commission.



Overview

Performance Analysis

Our Highlights

Our global reach

Technology overhaul

Ensuring a modern, user-friendly technical environment

Delivering on a global scale



Colombo – termite infestation threatens building project

We were asked to project manage and design a remodel of the British High Commission in Colombo to allow an area of the building to be leased to the European External Action Service. In an under-utilised building, this allowed the FCO to reduce running costs, whilst improving their overall working environment.

Extensive surveys uncovered a severe termite infestation however - known as ‘silent destroyers’ due to their ability to chew through wood, flooring and wallpaper undetected; they had been destroying the building from within for a considerable amount of time and the scope of design was extended to strip the building back to the original frame internally. Materials were carefully selected, replacing existing unsuitable ones with those appropriate for the demanding environment, which included risk of termite attack, high levels of humidity, intensive UV levels and salt corrosion, due to Colombo’s coastal position.



Careful planning ensured the building remained operational throughout the duration of the project; works were completed in phases allowing for works to be carried out on the remaining building. This resulted in minimal disruption and our customer being able to carry out business as usual activity. The project was a success, meeting its objectives of bringing the European External Action Service on to compound, reducing running costs and giving a new lease of life to the FCO’s previously tired space.

Seismic Programme

The devastating outcome of the Kathmandu earthquake of 2015 focused the FCO on the risk that seismic activity posed to the organisation and its staff deployed overseas. With the clear obligation and duty of care to protect employees from all reasonable and foreseeable risks, we were asked to develop the Seismic Assessment Programme. The objective was to assess, identify, and understand the extent and whereabouts of the unknown risk, with the ultimate aim of a fully seismic-compliant estate.

Using Global Seismic Hazard Assessment Programme (a United Nations-backed approach to evaluate seismic hazard) methodology, posts that were located in Seismic Hazard Zones 2 – 5 required compliance assessment.

To date 80% of the Estate buildings have been assessed as compliant through the programme. The remainder represents properties acquired since the programme began and assessments will continue to determine their seismic compliance.

A total of 79 buildings have been identified and prioritised for structural remediation works and the programme is now focused on delivering structural retrofit design solutions and implementation of works for the most at-risk buildings. So far seven buildings have had seismic works completed with a further 12 identified for delivery within the next financial year. Technical Design solutions are being developed for the remaining buildings and will form the basis of the works delivery programme in subsequent funding years.

‘The team overcame huge obstacles, as the project grew in size and complexity from the initial scope. They worked together as a team, alongside post and ESD in a cohesive and committed way’

High Commissioner, Colombo

Case Study

Refurbishing the official residence in New Delhi:  
A new look for a contemporary Britain



Project:	Official residence refurbishment
Customer:	FMCU and High Commission
Location:	New Delhi

Post-Brexit Britain has a challenge – to be more outward looking, more globally minded and more internationally focused than ever before. With the FCO, FCO Services is making a difference to achieve these ambitions, and with it showcasing British interior design.

At British missions overseas, designated residences often provide a first impression of our nation to official visitors. As conversations are sparked that promote UK business and drive international trade, first impressions are vital. Interiors need to reflect a contemporary and global image of the UK and promote excellence, professionalism and confidence in what the UK can deliver.

With tired furniture, mismatched old rugs and dusty curtains the New Delhi residence lacked this initial impact, it was far from representing the innovative and creative Britain the High Commission was keen to promote. The FCO’s Facilities Management Client Unit (FMCU) called in FCO Services’ Interior Design team to create a fresh, new look.

Our senior interior designer worked closely with the High Commissioner and his wife, to create ideas that showcase a fusion of British and Indian elements, bringing life to this outdated residence.

Within a fresh tropical colour scheme, a new layout of lightweight furniture was chosen to accommodate the different configurations required for a variety of functions. This was complemented by British designed and Indian inspired signature pieces of lighting, fabrics, rugs and carpets. Our lead designer worked with independent British designers to bring both nations together; Indian design motifs such as an ornamental fretwork design in the carpets, found in Mughal architecture across India, are just one example.

The project wasn’t without its challenges, tight timescales and furniture manufacture lead times meant procurement and shipping was a challenge. Successful team work between the UK team and the local estate team in Delhi, who co-ordinated electrical works and local painting and carpentry, meant the project ran smoothly and on time.

The efficient delivery that resulted from FCO Services’ collaborative approach with FMCU and their local estate team has been well received by both the High Commissioner in New Delhi and by the FMCU sponsor. A further programme of work has followed, with the residence at the Seoul embassy receiving a modern British interior design refurbishment too.

“This is an outstanding showcase of British design. And where better to show off what Made in Britain is all about than in British Residences around the world. A lot of thought has been put into the design, taking into account the context, both cultural and operational.”

High Commissioner, New Delhi



Overview		Performance Analysis	Our Highlights
Our global reach		Technology overhaul	Ensuring a modern, user-friendly technical environment Delivering on a global scale

# Supporting wider government and international priorities - 1HMG and other governments

Our wider market government customers want a responsive, agile and flexible service that meets their needs, delivered with a commercial edge. This year we launched our regionalisation programme - a new, more responsive, and flexible way of working in order to deliver better, faster and more cost-effectively to existing and new customers. Beginning in the Asia Pacific region, regional teams are now being established in Middle East & Africa (Pretoria); Europe (Brussels); and the Americas (Washington).

Getting closer to existing and potential new customers and learning about their plans over the medium and long term has enabled FCO Services to use resources more effectively, taking advantages of economies of scale and combining works where possible, which in turn is reducing the cost to the customer. Bringing together the RTSS and Technical Works Officer networks has offered a wider range of skills and services to the customer, and the closer relationship has enabled a greater understanding of FCO Services' diverse portfolio of expertise, leading to a bigger pipeline of opportunities and business growth.

Examples of this establishing itself quickly include the Technical Works Officer in Lagos developing a number of leads with the Ministry of Defence (MOD) and the Home Office and the RTSS team in the Middle East developing a number of MOD related leads across the region.



Our People	Delivering for our customers		Accountability Report
Supporting wider government and international priorities	IT Infrastructure	IT Innovation	UKNACE and Cyber Convergence Centre

## Collaborating globally – our work with other governments.

### Global Logistics

We have worked this year on major projects for three friendly foreign governments. These involved getting technical kit into logistically challenging parts of the world, including delivering 40 tonnes of technical equipment for one customer in just six weeks – a monumental effort. We received praise for our excellent value for money, delivered as a result of our global footprint and infrastructure, as well as our undoubted expertise in this field. Additional ad-hoc requests for crossed bag services have increased from our partners across the region as engagement across the region expands.

### Seismic Survey

A government customer asked us to carry out a Peer Review of a seismic survey on their estate in an earthquake zone. One of our structural engineers was due to visit the location imminently for a seismic survey of FCO estate, and was able to tie the two visits together. Being in the same time-zone allowed the regional team to liaise extensively with the customer in order to tie up all the loose ends in the limited time available, and flexible working practices enabled the survey work to be completed, and the contract for the Review secured. This quick delivery and flexible, can-do approach has led to further requests from the customer.

### Ad hoc works

Our better, closer relationships with our customers have led to an increase in requests for small, ad-hoc works. Greater in-region capability has enabled our teams to be more flexible, and therefore capable of taking small works on. Examples include carrying out A/C repairs for the New Zealand Embassy in Hanoi; lock works for New Zealand missions in Taipei and Mexico City, as well as for the Belgium Embassy in Manila; the installation of an access control system for DFID in Beijing; and assistance with WiFi installations and videoconferencing upgrades across the region (instead of a UK team being deployed), resulting in cost savings for the customer. All of these examples have helped to build up the FCO Services brand and strengthen relationships with our customers by building trust, which in turn is opening the door to bigger business.



# Consolidating UK government’s overseas footprint



Project:	Consolidating the international estate
Customer:	DFID
Location:	Worldwide

UK government departments are located globally; consolidating their estate and management reduces costs and enables joint working, to get the best of One HMG working together overseas.

The Department for International Development is achieving this ambition; and with the help of FCO Services, consolidated their overseas estate with the FCO's.

FCO Services was tasked with the delivery works and standards assurance prior to consolidation. Our technical experts carried out inspection work in more than 500 properties in 41 locations to assess compliance with space, tenure and potential costs of remedial works, balanced with the operational and security requirements.

From the Caribbean to Burma, with more than

50 percent of works in Africa, the consolidation programme covered the globe. As a high proportion of the works were in Africa, a small team was deployed for a more nimble and targeted response to the challenges of delivering the works. This too provided quality and technical oversight and

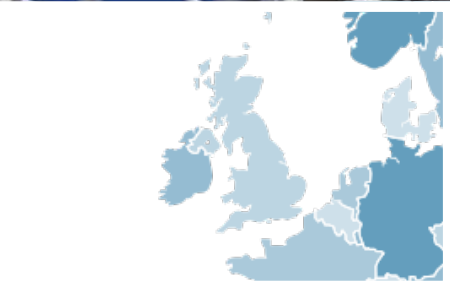
reduced the number of flights from the UK. FCO Services made use of their established local supply chains, regional contracts and UK suppliers. Innovative procurement and delivery strategies to optimise value saved over £200,000.

In less than two years, the work rectified 1805 issues in 392 properties in 32 locations, across 31 countries. End results have significantly reduced duplicated activities such as housing committees, estate maintenance contracts and estate management. The work has ensured parity of accommodation standards for DFID staff.

*“This is a great example of collaborative working resulting in excellent feedback, enhancing the reputation of the FCO and FCO Services to deliver consolidation and a unified One HMG estate overseas’.”*  
**FCO Services’ Chief Operating Officer**

*“The FCO and FCO Services team delivered collaboratively for the One HMG consolidation programme. The team worked extremely well to manage, coordinate and deliver this international multi-faceted programme. “This is an excellent example that proves cross-government collaboration can deliver great results.”*  
**Head of DFID estates**

# Radome Replacement, Supporting Defence Capability at Home and Overseas



Project:	Radome replacement programme
Customer:	ADEWS, MOD
Location:	Outer Hebrides

In 2015 we signed a new Service Level Agreement (SLA) with Air Defence and Electronic Warfare Systems (ADEWS), an operating arm of the Ministry of Defence, to provide professional project management services and to oversee the replacement of ADEWS Radome fleet. Radomes are weatherproof shelters for radar antennae, preventing ice from forming and potentially damaging the sensitive equipment.

Last year saw the completion of the first two projects in the ‘Radome Replacement Programme’ under particularly challenging circumstances. The timely handover of these projects facilitated continuous defence capability in critical locations both in the UK and overseas.

Last year’s projects were driven by both operational needs and severe environmental conditions. The most

evident of these was the construction of a steel tower and Radome at 6,400ft, which we handed back to the MOD in November 2016. Within three weeks of handover, extreme snow and ice storms were sufficient to change the landscape beyond recognition. In the Outer Hebrides the team worked 24hrs a day to complete the installation

*‘FCO Services has been exceptional on the first part of the Radome Replacement Project. The Programme Manager and his Project Manager have provided all the support necessary for the MOD. The Clerk of Works has also provided invaluable advice on-site which has made the project go smoothly’*  
**Acquisition Programme Manager, Ministry of Defence**

whenever winds fell within safe working limits - all in an effort to mitigate ever-increasing risks and achieve handover as soon as possible. Timely completion of these projects allowed the MOD to maintain capability and return to relative normality through the 2016/17 winter period.

As a result, the relationship with ADEWS has continued to grow, and we now provide

consultancy support on other defence assets extending far beyond the Radome fleet. This includes the signing of a further SLA to install military vehicle radios and detailed structural assessment of other MOD assets.



Overview	Performance Analysis	Our Highlights
Our global reach	Technology overhaul	Ensuring a modern, user-friendly technical environment
		Delivering on a global scale

# IT Infrastructure

Our global digital technology teams of experts respond to our customers’ challenges by providing resilient technical solutions, secure productivity, collaboration and communication tools to our range of customers in the UK and overseas. Our digital offerings include a number of cloud-related products, traditional IT, cyber security and bespoke services. We work together to achieve the best outcome for all, safely managing customers’ data and processes.

## Delivering infrastructure to enable post- Brexit government

Following the Brexit referendum decision in June and the creation of the Department for International Trade (DIT), we were asked at short notice to renovate, re-cable and make ready a large suite of offices for this new government department to be located within the FCO’s headquarters in King Charles Street.

Timing was critical with no scope for slippage. Skilled to deliver technology,

security and estates work, the FCO Services team reprioritised other projects and went the extra mile working nights and weekends to ensure delivery.

Cabling was installed across several floors; our technical team ensured connectivity, allowing DIT to fully test and go-live as planned. As a result of our work - telephony, IT, resilient backup WiFi, digital TV and DIT’s own strategic network, Evolve – were rapidly made available.

Gratitude from DIT’s Minister for State recognised the team’s dedication.

*“Thank you very much for your single mindedness, energy and dedication over the last six weeks. The new ministers were very impressed when they arrived. You have enhanced our reputation and I am very grateful. Well done!”*

**Permanent Under Secretary, FCO**

## Recognised for efficiency across Europe

Recognised for reducing its environmental footprint, FCO Services’ efficient data centre has won the prestigious European Code of Conduct Awards for Energy Efficiency in Data Centres from the European Commission’s Joint Research Centre (7 June 2016).

From using rainwater recycling systems for hybrid cooling towers to implementing cold aisle containment and designing the underground structure of the data centre as a natural heat drain – FCO Services has adopted recognised energy efficient best practice to reduce the impact of related environmental, economic and energy demands.

FCO Services signed up to the EU Code of Conduct in 2014 to put the organisation firmly in line with the government’s ICT greening strategy – reinforcing its commitment to make energy and cost savings.

Our People	Delivering for our customers	Accountability Report
Supporting wider government and international priorities	IT Infrastructure	IT Innovation
		UKNACE and Cyber Convergence Centre

*“The quality and relevance of the information in the report has improved significantly. I would like to thank the FCO Services team for their efforts in driving through and sustaining these improvements across various areas from incident management and resolution through to performance management reporting.”*

**Passports Business Change Manager for the Governments of Gibraltar, Isle of Man, the States of Guernsey and the States of Jersey**



### Passport technology for Jersey, Guernsey, the Isle of Man and Gibraltar

FCO Services manages the system (GIPSY2) that allows Jersey, Guernsey, the Isle of Man and Gibraltar to issue passports.

This service is securely hosted in our UK data centre, with application subject matter experts on hand to help as needed; this enables these posts to provide standard central print passports and also urgent locally printed passports.

The urgent printing of passports is a key strand of this service, with efficiency being a priority when a member of the public is facing a difficult personal circumstance and needs to travel very quickly. To support this quick demand, we agreed with the customer that any issues affecting the local print element of the service would be treated as a high priority incident; this level of priority is usually reserved for entire systems being unavailable. Providing this flexibility has made sure customers are now able to meet the demand for urgent passports.

We have also worked with the customer to identify areas that required improvement, which has significantly improved customer satisfaction results and feedback.



Overview	Performance Analysis	Our Highlights
Our global reach	Technology overhaul	Ensuring a modern, user-friendly technical environment
		Delivering on a global scale

Supporting UK nationals overseas with the FCO’s Consular Directorate

Our global technology supports UK nationals around the globe. Passports that are lost, misplaced, damaged or stolen are a stressful situation for individuals abroad. The FCO’s Consular Directorate assists UK citizens in these circumstances.

Consular Directorate needs efficient and reliable technology to support this urgent work. FCO Services has a longstanding relationship with Consular Directorate providing them with managed hosting and infrastructure services to effectively deliver their service.

“This high level of support is crucial as the users are worldwide and often need to obtain access to systems quickly to assist British Nationals in all time zones.”

Customer quote from feedback survey

Our strive for continuous improvement has been evident in the reduction of incidents recorded that interrupts the user’s IT service. We have achieved this by making small incremental steps and improvements. For example to improve our ability to fix an issue first time, IT specialists have been educating the first line service desk.

Focused work is paying off, service availability performance of 99.9% is in excess of the SLA benchmark, and our end-user customer satisfaction score of 87%, exceeds ministerial targets.

“We are extremely satisfied with the management of this upgrade and the technical expertise FCO Services demonstrated throughout. The effective joint working with other suppliers ensured there was limited impact on frontline operational users, limiting the need to fall back on legacy processes. This was very well received by the users.”

Home Office’s IT Senior Service Delivery Manager

Future proofing digital systems for the Home Office

Dated legacy systems that lack user flexibility and require regular costly developer time to be of use, is a customer challenge we all too often hear about. A Home Office digital system used in their border programme is an example of such an issue. The system had been in place for over 10 years with information hard-coded; it was becoming costly and inefficient to do the job effectively. With third party suppliers, FCO Services upgraded the system and provided a cloud solution. Collaborative working, pre-planning and preparation ensured the upgrade went smoothly, with minimal downtime of half-a-day required.

Case Study

Contract success with Home Office UK Visas and Immigration



Project:	Service Management Integration
Customer:	Home Office UKVI
Location:	UK and worldwide

FCO Services’ strong track record of delivery management was proven when the Home Office’s UK Visas and Immigration (UKVI) department renewed its contract for IT Service Management Integration (SMI) for the next three years. Having worked with the Home Office in the areas of biometric visas and UKVI over the past 20 years, FCO Services clearly understands their future direction and requirements for an SMI integrator that provides seamless support and demonstrates value for money.

FCO Services’ SMI makes sure that UKVI’s suppliers, and the critical systems UKVI uses to provide services to the public around the world, are expertly integrated.

This is achieved through delivering:

- Effective commercial management – of the contractual and commercial performance of UKVI’s suppliers and commercial change control;
- Service delivery management – of the service provided by UKVI to its users to the agreed service levels, by managing operational and performance issues, developing solutions to incidents and driving continuous strategic service improvement;
- Service control - monitoring ongoing daily performance and cross supplier service issues;
- Project management office - providing support to all project work and innovation activity.

Our strong commercial and change control management coupled with our track record of delivering IT programmes has been recognised by the Home Office. UK Visas and Immigration are responsible for making millions of critical decisions every year and our end-to-end service provides resilience that underpins this important work. We look forward to working together to driving continuous improvement, efficiencies and a better user experience.

“I would like to highlight and praise the good work and effort FCO Services have shown in the recent contract renewal, which supports the issuing of visas by the UK overseas. FCO Services has shown a keen willingness to accommodate the Home Office’s requirements and have made significant changes within their support group to achieve this. Their will to work in a collaborative and professional manner has been greatly appreciated, especially in regard to the continual service improvement work they are carrying out to improve the service even further.”

Lead Service Manager, Service Management and Integration – Home Office Digital, Data and Technology



Overview	Performance Analysis	Our Highlights
Our global reach	Technology overhaul	Ensuring a modern, user-friendly technical environment
		Delivering on a global scale

# IT Innovation

We shape and lead government thinking on technology evolution, ensuring that our next generation products and services utilise the smartest of technology whilst looking ahead at government business of the future. We regularly improve our in-house tools, innovate and align our products to refresh the technology that underpins the government and public services we and our customers deliver.

## Service management

We need modern in-house tools to deliver excellent services. Our toolset has been improved with an extensive service management upgrade with ServiceNow. Customer queries, response times and incidents are now more streamlined, enhancing the service we provide to our customers.

## Product alignment

We listen to our customers and work hard to align our products to their needs and moving trends to deliver competitively priced products and services.

Global mobility is important and we've made important steps towards offering this, so that business can be transacted anywhere, at any time, on any device in a secure and simple way. We are rolling out a new range of cloud based mobile device management tools (MDM) to drive towards a truly

mobile and joined up workforce. End users can enrol their own devices to the service helping to speed up adoption and administrators have a range of controls to keep data and devices safe and protected.

To complement our Cirrus 360 Private Cloud Collaboration product we've now added the latest Microsoft Office 365 productivity suite and Windows 10. Our partners can now choose the right collaboration product to meet their assurance requirements while delivering the latest in enterprise productivity.

## Infrastructure investment in our private cloud hosting

Our private cloud hosting is available on the G-Cloud digital marketplace offering pay-as-you-go virtual machines across our highly secure dual UK sovereign data centres. We continue to

invest in the expansion and resilience of our private cloud infrastructure, specifically with increased computing power, storage capacity, resilience to power outages and improved assurance levels to national accredited standards. The roadmap of our private cloud platform now supports the latest technologies of Windows Server 2016 and CentOS 7.3, helping our customers to leverage both legacy and next generation applications.

## Support for public cloud

We understand our customers want to embrace the rich functionality, efficiencies and scalability of the public cloud so they can continue to grow in a secure and safe way. We invested in its expertise to be able to offer public cloud assurance services as well as total public cloud management. Our goal is to fully support our customers' adoption of public cloud through security assurance, data control, expert support and cloud recovery.

Our People	Delivering for our customers	Accountability Report
Supporting wider government and international priorities	IT Infrastructure	IT Innovation
		UKNACE and Cyber Convergence Centre



## Transformation Hub

We are an organisation with transformation woven into our heritage, from the days of Alan Turing, to the Diplomatic Wireless Service, our history as part of the FCO based at Hanslope Park is well documented.

Close working with our current customers means we understand their issues and evolve with them. We understand the difficulty of legacy systems, the intricacies of contracts and pace of government. Digital demands our customers face are changing, staying still is not an option so we are developing the way we work.

Our Transformation Hub is helping our customers realise and achieve their digital aspirations. It brings together FCO Services' unique capabilities with the talents on offer in the digital market to help solve difficult government IT problems. Smart capabilities in - Big Data, the Internet of Things, secure document handling, communications, persistent wide area surveillance, open source, social media, secure communications and the patterns of life - are being explored in collaboration with a range of trusted technology companies. This will enable transition to cloud, data security and assurance, secure mobility and the global deployment of secure ICT systems; and

fundamentally reduce costs through agile working.

Challenges are being mapped against capabilities with the aim to steer and prioritise innovation where there is a future requirement and a future customer. To ensure we have the right digital industry partners we are working closely with those that represent the UK's digital industry through a series of focused workshops that explore these challenges.



Overview	Performance Analysis	Our Highlights
Our global reach	Technology overhaul	Ensuring a modern, user-friendly technical environment
		Delivering on a global scale

# UK NACE 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 the National Cyber Security Centre (NCSC) to help protect UK assets from physical, electronic and cyber attack.

## UK NACE Collaboration with the Defence, Science and Technology Laboratory

UK NACE is working in partnership with the Defence, Science and Technology Laboratory (DSTL) to manage the technical security of a major estates project planned over a three year period. The collaboration arrangements include providing subject matter expertise input into the project's Security Working Group, providing National Authority advice and expertise to enable cost effective security solutions whilst effectively mitigating identified threats and vulnerabilities. Security awareness training courses and workshops have been run at Hanslope Park for key members of DSTL Security staff.

## 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.

## 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 2016/17 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, Ministry of Defence (MOD) and Police Technical Support Units remain our three biggest customers. UK NACE is also responsible for the delivery of the National Cyber Security Centre Emissions Security (EMSEC) Fundamentals training; the first course was delivered to cross government customers in December 2016.

## Inspection services

UK NACE provides a range of inspection services across government and X-Listed companies to technically assure a range of working environments commensurate with the assets requiring protection.

Our People	Delivering for our customers	Accountability Report
Supporting wider government and international priorities	IT Infrastructure	IT Innovation
		UKNACE and Cyber Convergence Centre







## 4 Our People

52 Year at a Glance

54 Our Values

56 Our People

## 5 Delivering for our customers

59 Our Corporate Functions

62 Engineering, Technology and Innovation

63 Sustainability Report



## Overview

## Performance Analysis

## Our Highlights

## Year at a glance

**April 2016**

## Comms support for Obama

Our London Live Services team supported the White House Communications Agency during the visit of the President of the United States, by providing infrastructure in various locations to facilitate the critical comms systems for the White House staff.

**May 2016**

## European Road Service prison delivery

As part of a plan to increase the security within Albanian prisons, the British Embassy in Tirana arranged for scanning machines to be donated to a local EU-funded prison. Our RTSS and logistics teams ensured that the scanner was delivered and costs were kept to a minimum.

**June 2016**

## Providing security assurance

UK NACE completed the final phase of Technical Security Inspections for the FCO in the new high classification area in King Charles Street, enabling its accreditation prior to opening.

**October 2016**

## Apprentice award success

Two of our former apprentices were finalists in the National Apprenticeship Service Award for Advanced Apprentice of the Year – with one winning the category and the other achieving Highly Commended.

**November 2016**

## Collaboration in Bangkok

The Asia Pacific region held their first regional technical conference since the new regional model was launched, welcoming more than 30 staff from across the region.

**December 2016**

## Christmas presents to Sierra Leone

In the run up to Christmas our logistics teams helped deliver Christmas Gift boxes and football kits to Ebola orphans in Sierra Leone.



## Our People

## Delivering for our customers

## Accountability Report

**July 2016**

## Behind the scenes with Boris

Our official photographer was granted exclusive access to new Foreign Secretary Boris Johnson's first interview inside the Foreign and Commonwealth Office, securing some candid shots for our internal communications.

**August 2016**

## Supporting local charity

When excess copper recovered from historic installations was due to be thrown away in landfill, we recycled it for charity providing a local hospice with a cheque for £2031.18.

**September 2016**

## Farewell to Vetting sports day and barbecue

Over 500 staff attended our event at Hanslope Park, taking part in sports, games and an innovation challenge.

**January 2017**

## Blue Monday

On the third Monday in January - reportedly the most miserable day of the year for countries in the northern hemisphere - our Health and Welfare teams reminded us that our mental health is just as important as our physical health.

**February 2017**

## Keeping IT safe

UK NACE hosted a workshop to help staff gain an understanding of the techniques and tools used by both cyber criminals and hostile intelligence services, as well as how to reduce their risk of becoming victims of cyber crime.

**March 2017**

## Security and Policing

We showcased our specialist capabilities at the Home Office's annual Security and Policing event, highlight our expertise that contributes to national and international security challenges.





# Our Values

This year, in consultation with our staff, we agreed new people values: professional, innovative, collaborative, trusted and unique. No matter what grade, role or location we work in, by living these values and striving to incorporate these behaviours into our day to day, our people are helping the organisation achieve its goals.



## Professional

*We inspire confidence because we're knowledgeable, reliable, responsible and expert, understanding the capabilities and range of services provided by the whole organisation, acting as ambassadors for FCO Services and its reputation, and taking responsibility and ownership for our learning and professional development.*

From Chartered Architects to multi-disciplinary technical installers to commercial and transactional specialists, our organisation prides itself on its professional skills and technical expertise. For example, our UK NACE team strives to demonstrate this professionalism when sharing their knowledge through information sharing and frequent presentations, across government, at high level security events, and to the wider five eyes international community. Our new staff also benefit from an informative and intriguing talk about the history of UK NACE, including specific examples of how the work of UK NACE is so important both historically and currently and fostering pride in our work from the outset.



## Innovative

*We make a difference because we're innovative, adaptable, creative and resourceful, challenging inefficient, unsafe or outdated practices and working together to develop improvements, keeping up to date with latest trends and developments and identifying efficiencies to make savings for the customer.*

Our heritage is information – how it is stored, moved, secured, accessed, translated, intercepted and archived. Our Transformation Hub team has introduced a fresh approach to how we handle information by bringing together FCO Services' unique capabilities with talent in the digital market place and the smartest technology on offer. By collaborating with a range of trusted technology companies on areas such as big data, the internet of things, secure document handling and secure communications, the team are improving our services and reducing costs through agile working.



## Collaborative

*We work together to achieve the best outcome for all, building excellent relationships internally, sharing information with colleagues across the business and acting as part of one team, putting the interests of the organisation as a whole first.*

Working collaboratively to ensure our organisation is a place of opportunity, forward thinking and openness, cross-organisation teams have organised many events this year to increase pride and engagement, celebrate diversity and look at ways to ensure we all consider our own wellbeing and its impact on all aspects of our life. Our HR teams, Wellbeing Network and communications teams aim to appeal to everyone across our diverse and broad staff portfolio so we all feel included and are inspired to take part. Reaching out equally to staff in our parent department, the FCO, we maximise opportunities to learn from each other and grow as a single team.



## Trusted

*We are open, honest, accountable, secure and we always act with integrity, delivering what we have committed to deliver and actively listening to customers, making sure we fully understand their requirements.*

Customers who require the safe and secure delivery of mail and materials need to be confident that they are transported without compromise. The many people who work in our secure logistics environment guarantee that these requirements and commitments are met. Many of these requirements are met by our Queen's Messengers, whose experience and dedication is respected across the globe. They have to ensure that the Vienna Convention and related legislation is followed meticulously to protect the consignment during transit. Their global reach in 267 posts across 152 countries shows the importance and commitment they give to their role, integrity and professionalism, their ultimate aim to deliver.



## Unique

*We understand our customers due to our unique mix of skills and our global reach, getting to know our partners in government and anticipating what they need, actively promoting our unique set of capabilities and skills and recognising, respecting and valuing our differences.*

Our customers often work in remote and hostile locations, and need us to deliver a service that reaches across the globe and meets every expectation. This unique quality is found in our Regional Technical Support Service (RTSS). Based in our regional hubs across the world they deliver mission-critical technology, logistics, IT and security services to the FCO and partners across government overseas. Our highly trained staff provide crucial services overseas and respond in times of crisis, showing their commitment to customer focus and ability to be proactive to changing demands. A unique capability that benefits so many.



Overview	Performance Analysis	Our Highlights
----------	----------------------	----------------

# Our People

## New Organisational Design

In 2016/17 we focused on redesigning the structure of the business as part of our Culture 2020 programme to create a dynamic, diverse and safe high performing organisation. Changes to the Main and Executive Boards were implemented from 1 January 2017 to support the delivery of FCO Services’ growth strategy and priorities and to align central business teams and processes to the operational delivery areas. Appointments were made to new roles of Managing Director, Business Services; Director, Business Development; and Director, Engineering and Technology. After trade union and staff consultation based on the new communication and consultation arrangements, key functions were restructured under the new executive structure from 1 April 2017.

Other major organisational changes saw the transfer of 90 employees to the new single national vetting provider UKSV and the transfer in of over 40 Sensitivity Reviewers from the FCO.

## People Values and Culture

Working with a staff representative Think Tank, new people values were agreed: professional, innovative, collaborate, trusted and unique. These are being embedded across the business by integrating them into people management processes and through staff communications. Alongside the values, the Executive agreed the key principles for developing Culture 2020: good leadership and performance management, empowerment, accountability, safe working, innovation and operational excellence. Both the values and principles have been used as the basis of FCO services new Leadership Charter. The Charter set out our expectations of our leaders and managers and has been integrated into the annual Performance and Development Review process from April 2017.

## Right Workforce Size and Shape

Changes to SGS and GDT structures have been designed to strengthen operational delivery, customer relationships and leadership capability. These changes underpinned improved financial performance and customer feedback in 2016/17.

We continued to streamline the workforce, with the underlying average headcount falling by 7% and workforce costs £2.3m lower than the previous year. These efficiencies alongside the new organisational design provide a good base for developing future workforce capability. Overall, in the last two years we reduced our annual average headcount by c200, leading to a fall in our workforce costs of £11.7m and contributing to our profitability.

Our People	Delivering for our customers	Accountability Report
------------	------------------------------	-----------------------

## Workforce Skills and Capability

With the aim of improving staff engagement levels and business performance, we started a range of initiatives to enhance the capability of our leaders and managers. The Charter referred to above set out the expectations and success criteria for about 100 managers across the business. These managers make up the Leadership Team, which was launched at a Leadership Conference in October designed to communicate our strategic objectives and highlight the strong links between management and staff engagement.

In February 2017, we concluded the design of a new bespoke leadership and management programme (Evolve) for the Leadership Team. Evolve includes people related tools and skills, commercialism, finance and project management capability. It started with the first cohort in February and will be completed in 2018/19.

We implemented more general improvements to learning and development across the business with FCOS GLO; an app based system to deliver globally accessible and modern learning opportunities. Content is being developed, with links to Civil Service Learning and other development sources and it is planned to use GLO to build learning journeys for professions and make it easier to access to business skills, health and safety and management development wherever people are in the world. We refined the process introduced in 2015 for capturing professional, technical and specialist learning and development requirements in business areas and increased our financial investment to develop the right capability to meet our business goals and objectives.

Promoting wider diversity in our workforce continues to be a priority, sponsored at Board level by our CEO as Board diversity champion. In 2016/17, additional focus was directed to promoting staff wellbeing and increasing awareness of mental health issues. We continued to work hard to attract people from diverse backgrounds when recruiting, and have liaised with schools and targeted media at under representative groups. However, despite applying anonymous recruitment short listing we are still finding it difficult to make significant progress with increasing the proportion of female employees, people with disabilities and candidates with BME backgrounds. We will be implementing further actions to address this in 2017/18.

We are very proud of our apprentice schemes that have now been running for over 50 years with an 83% talent retention rate of apprentices recruited since we became a Trading Fund in 2008. Our Recruitment plans for 2017 will generate 32 appointments to engineering, professional services and IT apprenticeships schemes in 2017. This will exceed the annual government target of 2.3% of the workforce by about 1.7%.

Employee recruitment activity increased substantially in 2016/17, with an 86% annual rise in the number of campaigns, more than double offers made and 157 appointments (up from 106 in 2015/16). We recruited new skills across the whole business to roles in technical and construction engineering, finance, human resources, project management logistics and IT. These include some contractor conversion and senior roles in the restructured GDT and SGS operations.

Although underlying turnover remained fairly stable in FCO Services at 7.5%, attracting and retaining the right skills and capability to replace leavers and fill new roles is still a significant challenge. Continuing civil service pay constraint erodes our market position relative to many other employers; especially at senior levels and for professional skill groups.

Contractor staff remain an important part of FCO Services’ workforce, providing specialist and interim capability. Amendments to the Finance Act 2000 that came into effect on 6 April 2017 required us to assess the payroll status of most contractors. This was a significant project, requiring use of the HMRC tool and careful management to minimise the loss of key skills and capability. By applying a range of internal measures and communicating and liaising with the agencies and contractors before the tool was available, FCO Services was successful in retaining most contractors and their business critical skills and, therefore, avoided any serious impact on customers and delivery.



Overview	Performance Analysis	Our Highlights
----------	----------------------	----------------

### Staff engagement and performance management

This is a key area of focus and improvement for us. Responding to feedback in the Your Say staff surveys, we made further improvements to our performance management framework by translating our strategic objectives into team goals earlier to enable translation into individual objectives at the start of the new financial year which were aligned to briefings across the organisation to create a clearer line of sight between the Corporate Plan, Ministerial targets, other strategic priorities and individual objectives. To underpin our strategic delivery, we are developing performance management capability as a major component of the Evolve programme and part of the induction for new starters.

Research indicates strong links between performance management, staff engagement and overall business performance. In addition to investing to enhance leadership and management capability, we have been focusing our efforts on three priorities for increasing staff engagement: better implementation and monitoring of local engagement action plans; targeting under-performing business areas; and improving staff communication within business areas and corporately on the action that has been taken in response to Your Say and other feedback.

### 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 updated and 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.

### Correspondence from the public

The Knowledge and Information Management Team are responsible for Freedom of Information (FOI) and subject access requests under the Data Protection Act. In 2016/17 we received twelve FOI requests, and five subject access requests. Two internal reviews were completed. All of these 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 87% in the financial year ending March 2017.

Our People	Delivering for our customers	Accountability Report
------------	------------------------------	-----------------------

## Delivering for our customers

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

Our Customer Satisfaction Programme supports our delivery teams by encouraging customer feedback and providing insight to those providing the services. This facilitates a focused and informed response to customers' needs and wants. The programme is reaching increasing numbers of our customers, with customer participation rising over the past two years from 35% to 54%. At 90% overall customer satisfaction result, we have improved on our 2015/16 results and exceeded our ministerial target of 80%.

Our focus in putting customers at the heart of everything we do and delivering an excellent customer experience is demonstrated by the introduction of one-stop shop regional hubs, offering customers access to teams within their own time zone and ensuring faster response times.

### Publicity and advertising

We deliver a range of services to a breadth of customers, therefore clarity through our communication is essential. Our corporate communication team tailors messages to customers, stakeholders, influencers and those we seek to work with, making sure they understand what we do, how we do it and why. As not all services and products are available to all, messaging and communication channels need to be balanced and extensively researched. The team's specialist audience insight and targeted campaign plans ensure FCO Services remains appropriately positioned.

Publicity is achieved through a range of channels including; exhibiting at specialist targeted events, 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.

Raising our profile, promoting specific products within the realm of the wider organisation, and creating opportunities to sell, underpins our approach. An annual event which enables this is the Home Office's Security and Policing exhibition. At this year's event, as part of the Government Zone, we showcased a Secure Conference Room that protects conversations from technical attack and featured our historic diplomatic bag and secure logistics service that ensures mail and materials are where they need to be, when they need to be there, securely and without compromise anywhere in the world. By using a tangible linkage to our security heritage, we provided an opening dialogue to the wider global work that we deliver.





## Performance Analysis

## Our Highlights

## Our new Business Services group

As our customer base expands and service definitions become more complex, as an organisation we need to adapt and flex. We have grown our skills and capabilities to help our customers meet these demands through strengthening our Business Services. Our revised platform brings together the skills of the professional support services of Finance, HR, Transformation, Risk and Strategic Sourcing to deliver a platform for sustainable growth which supports our customer value through a refocused execution strategy.

Our customer base is evolving to meet the post Brexit economic, political and technology landscape. We will meet this rapid pace of change by consolidating our professions and reallocating resources to optimise and adapt our frontline and back office activities. Our efficient and effective operating model, built in close alliance with our operations, adapts and transforms services. This transformational partnership helps deliver services which are appropriate over the long term through the creation of delivery models which add value beyond the traditional offering of improved service at reduced cost.

This compelling value proposition creates Business Services as a service differentiator underpinning our growth.

Corporate Information  
Assurance and Knowledge  
and Information  
Management

Corporate Information Assurance and Knowledge and Information Management (KIM) functions are overseen by the Senior Information Risk Owner (SIRO). The SIRO obtains assurance through quarterly meetings with key business representatives, weekly updates from the Knowledge and Information Management team, quarterly reviews of risk and exceptions, and the outputs of the Risk Oversight Committee.

The KIM Team look after Records Management, Knowledge Management, Information Sharing, Corporate Information Assurance, Information Rights, Technical Sensitivity Reviewing, Transparency, Intellectual Property, and Information Retention.

In addition, the team provides IT governance and assurance for internal IT requests. A separate Internal IT Programme has been established to deliver larger projects in a professional and integrated manner.

## 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). And a certificate of registration was issued in June 2014. Following the BSI re-certification visit in May 2017, FCO Services were awarded a further 3 year certificate of registration.

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.

## Our People

## Delivering for our customers

## Accountability Report

## Procurement and supply chain

This has been a good year of operation for Supply Chain Services within the Commercial and Supply Chain Group (CSCG). Over the year we have worked with the business in understanding their strategies and the needs of our customers. This work will continue to enhance within the new structure as a key team within Business Services, adding strategic sourcing, shared services and post contract risk management.

## Achievements - enhancing value for our customers

- Exceeded our target in delivering cost savings and contributing to the organisations financial success
- Continued to extensively make use of existing government framework contracts, saving time and exploiting economies of scale
- Undertook procurement on a range of goods and services to ensure business and customer needs are met
- Ensured compliance with the reform to the intermediaries legislation

## Modern Slavery/Ethics

Supply Chain Services has worked extensively on ethical procurement issues to eradicate Modern Slavery in our supply Chain. All team members undertook the CIPS Ethical Procurement and Supply elearning course and as a result FCO Services was awarded the CIPS Corporate Ethics mark. We were the first public body to appear on the CIPS Corporate Ethics register.

The Modern Slavery Act 2015 requires that organisations with an annual turnover of over £36 million must produce and publish a slavery and human trafficking statement each financial year. This has been published on our website and outlines the steps taken during the last financial year to ensure slavery and human trafficking is not taking place in any part of our business or supply chain. Currently we are working with all our contracted suppliers to ensure that they sign up to our Ethics base code.



# Engineering, Technology and Innovation

The Engineering and Technology Directorate was implemented last year. It ensures the technical and professional integrity of our business operations by developing secure products and services which are assured against sustainable standards and which meet current and future customer requirements. The Directorate also acts as the head of profession for all Engineering and ICT staff within FCO Services; including the Chief Technology Officer, design, security, technical, ICT and product innovation & development and the corporate functions of Health and Safety, Sustainability, Information Assurance, Chief Information Security Officer (CISO) and Quality Assurance.

### Health and safety

The health, safety and welfare of FCO Services' staff, contractors and customers are of primary importance. We demonstrate this by empowering our teams and embedding hazard identification and risk management in the design and delivery of our services and products. Our provision of training, from skills specific safety courses through to leadership and safety management ensures our teams are competent to deliver safely.

The health and safety team have promulgated safety across our international platforms through the provision of coaching, risk management and training in the Americas, Africa and the Far East. This has improved safety engagement with our customers by facilitating an informed safety dialogue internally and externally.

Governance of health and safety continues to mature, with groups taking ownership of their risks and working across functions to enable cohesive solutions, reducing harm and loss. The Health and Safety Team provide professional strategy and support to all groups; this resource is being increased to meet the needs of the organisation, providing specialist support in logistics, IT infrastructure and construction.

Our safety culture continues to mature and evolve to meet the needs of our

growing organisation. We have open and honest reporting of accidents, incidents and near misses, and support rectification and prevention through no blame investigation and review. Audits and inspections have recorded high levels of statutory compliance and improvement in ownership of safety.

### Security

Security has been the core of our business and our organisational values since our formation as an Executive Agency in 2006. We deliver security advice and technical and physical security solutions for the FCO throughout the UK and overseas and for a number of key foreign government partners including Australia, Canada and New Zealand. We embed security awareness within FCO Services reinforcing a security culture which enables us to succeed in the face of ongoing cyber and wider security threats. The conduct of our people and their compliance with security policies and best practice is vital to the continuing success of the organisation.

Security falls under the governance of the Executive Board. The standards and assurance of security are set and implemented by the Engineering and Technology Directorate. The movement of the CISO role into the same directorate has provided another level of confidence to the business. Close

working arrangements are maintained between FCO Services and the FCO's Estate and Security Directorate with regard to security matters at home and abroad.

### FCO Sustainability

For many years FCO Services' Sustainable Operations Team has provided environmental and sustainability support to the FCO's Facilities Management Client Unit (FMCU). Since April 2016 we have provided an embedded resource working directly with, and on behalf of, the customer. We provide expert and agile management of the FCO's ministerial environmental efficiency targets, the Greening Government Commitments; driving reductions in energy, waste, water and paper across the UK estate - working with FCO colleagues across the office, most notably the IT and Procurement teams, to deliver change. Alongside this the team has been responsible for the adherence to the FCO's legal requirements including the Carbon Reduction Commitment, and has managed the FCO's ISO14001 Environmental Management System certification, using this system to drive compliance and improvement in line with the FCO's Environmental Policy and the Diplomacy 20:20 aim of delivering a world-class estate.

# Sustainability Report

FCO Services is a Trading Fund of the FCO and as such strives to be an equally sustainable and committed department. In line with the FCO's Diplomacy 20:20 aims, FCO Services is developing a Sustainability strategy that is working to support the delivery of a world-class platform by delivering a cost effective, environmentally efficient department.

Sustainability performance is monitored regularly and reported to senior management; this is a key part of demonstrating that commitment, as well as increasing transparency, and accountability of our performance against Government targets and related expenditure. This report is produced in line with public sector reporting requirements and FCO Services obligation to the Greening Government Commitments (GGC).

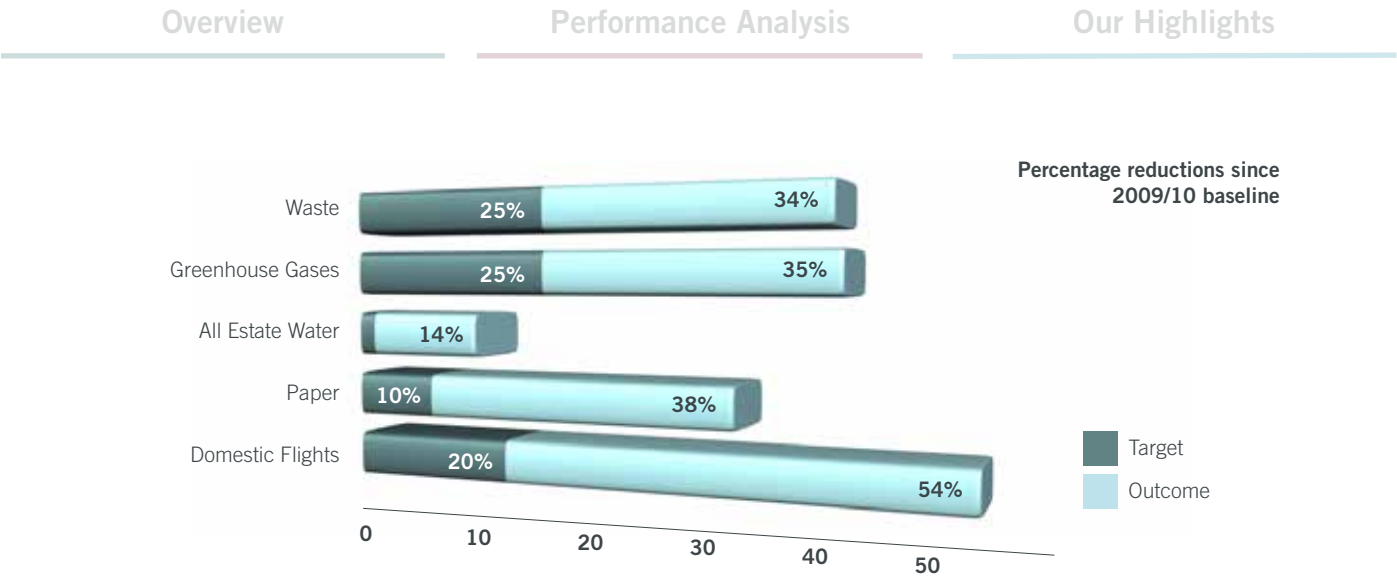
### Summary of performance

1. This report covers the environmental impacts within the scope of the GGC targets and carbon emissions.

2. All sustainability performance figures in this report relate to FCO Services only. The performance measurement is based on 2009/10 targets compared to a 2009/10 baseline, for their UK operations and non-wider market impacts. Financial figures relate to FCO Services' proportionate share, related impact as well as expenditure in some areas.
3. As a registered participant in the EU Code of Conduct for Data Centres; the acquisition of our 'green' data centre continues to reinforce 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.

4. The FCO Services fleet is the other main source of travel emissions within FCO Services. However, through the continued investment in our fleet, we continue to reduce the environmental impact of road travel. The implementation of the European RTSS road schedule has proved very successful and popular. It has conveyed over 300,000kgs of diplomatic consignments, covered over 252,355 miles and completed 106 overseas trips. By consolidating our customers European consignments via the scheduled service, we have reduced the ad-hoc deliveries that impacted on posts' resources and also reduced environmental
5. The GGC targets for Greenhouse Gas Emissions, paper, and waste reduction for FCO Services' contribution has been documented. The following table provides a summarised breakdown of performance in the key areas, direct GGC, indirect and other indirect energy emissions:





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

Impact	2016/17 Performance	FCO Greening Government Commitments Target for 2019/20 FCO Services contributes to these targets
Greenhouse gas emissions from UK estate, vehicles and domestic train and air travel	1,840 tCO2	Reduce greenhouse gas emissions by at least 32% from a 2009/10 baseline
Estate energy expenditure	£512,224	
CRC Energy Efficiency Scheme expenditure	£28,691 (see Note 10)	
No. of domestic flights	72	Reduce the number of domestic business flights by at least 30% from the 2009/10 baseline
Vehicle and domestic train and air travel expenditure	£269,543	
Office water consumption	7.5m³ per Full Time Equivalent	Continue to further reduce water consumption. Each department will continue to improve on the reductions they had made by 2014/15.  >6m³ per FTE = poor practice  4m³ – 6m³ per FTE = good practice  <4m³ per FTE = best practice
Office water expenditure	£6,433	
Paper consumption	3,939  A4 reams equivalent	Reduce government's paper use by at least 50% from a 2009/10 baseline  Reduce the amount of waste going to landfill to less than 10%;
Waste arising	98 tonnes	Also to continue to improve our waste management by reducing the overall amount of waste generated and increasing the proportion which is recycled.
Total waste disposal expenditure	£18,414	

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.

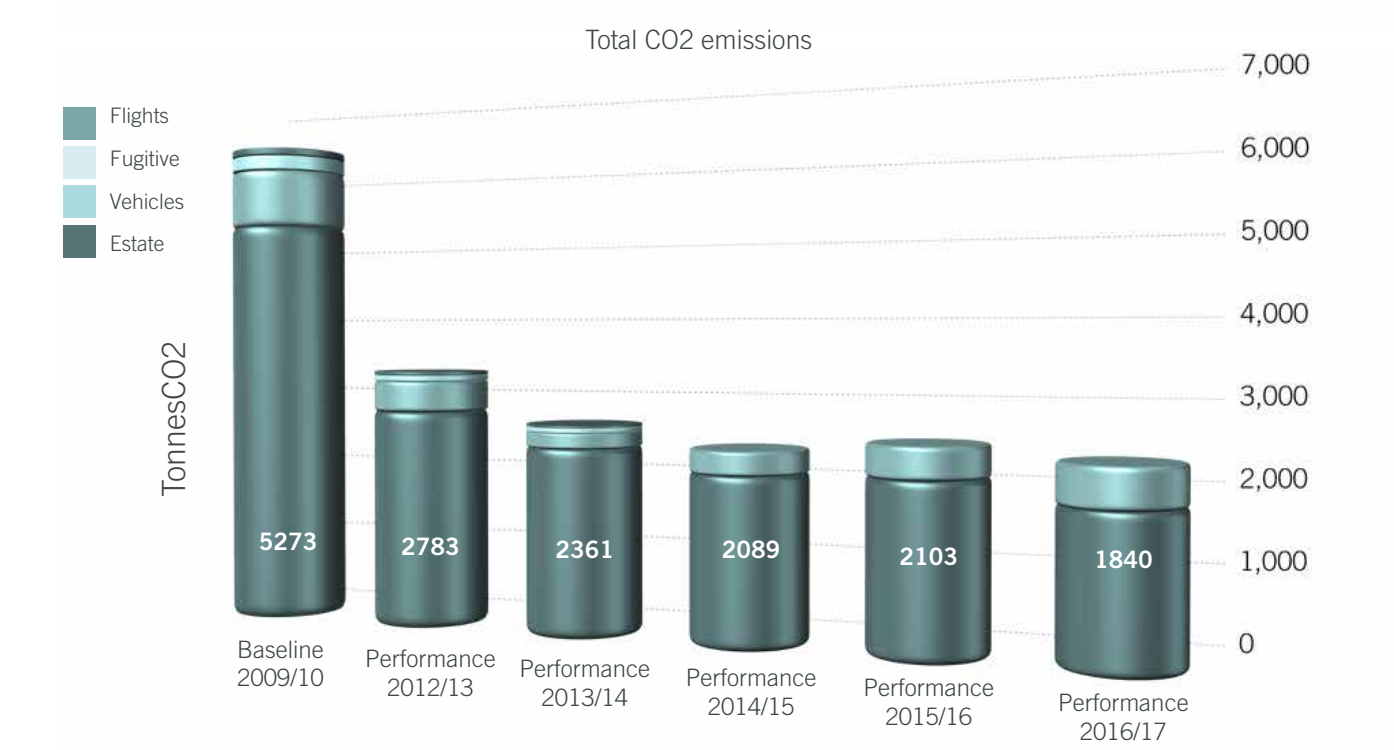
To allow like-for-like comparison between years and organisations, all data has been re-baselined (from 2009/10). In addition, environmental impacts have been normalised by dividing consumption by headcount; this produces simple indicators of like-for-like comparison for future years.
3.

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 614; 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 CO2e per FTE	2.9 tonnes of CO2e per FTE
Office water consumption	7.5 cubic metres per FTE	8.7 cubic metres per FTE
Waste arising	160 g per FTE	195 kg per FTE



Overview		Performance Analysis		Our Highlights	
Greenhouse Gas Emissions		kWh/miles/no.	tCO2	GBP (£)	
Electricity		3,074,545		1382	£370,734
Gas		212,199		39	£2137
Heating Oil		107,486		30	£42,309
Biodiesel		199,533		0	£50,539
Biomass		15,465		0	0
District Heating		344,134		91	£46,505
Fugitive		-		3	0
Domestic flights		10,084		3	£21,731
Train		35,639		3	£18,667
Private mileage		211,140		69	£90,614
Fleet		67,830		27	£64,646
Chauffeur Service		932		0	£19,567
Car Hire		84,060		24	£20,403.07
Taxis		26,881		169	£33,915.01
TOTALS:		3,953,362 kWh 436,566 Miles		1840	£781,767

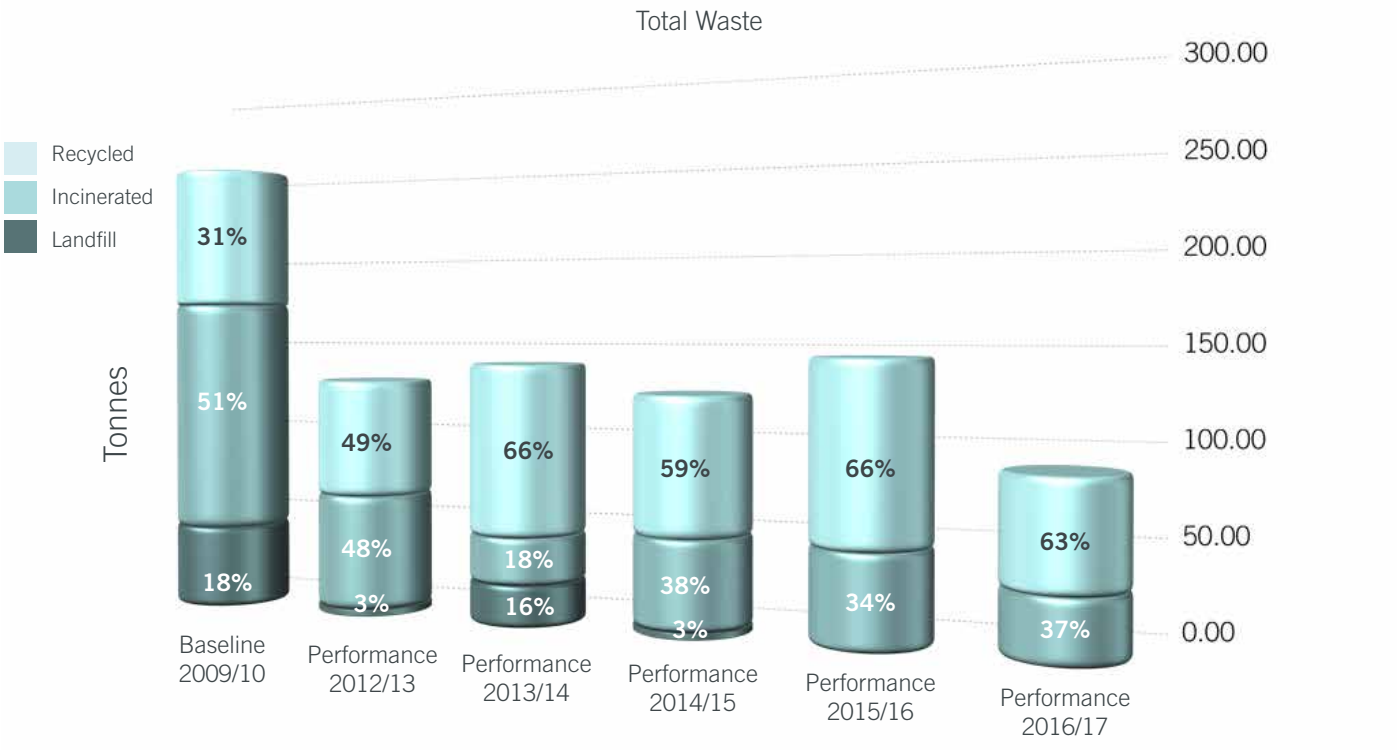


Performance and controllable impacts commentary

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 energy efficient containerised data centre continues to contribute to performance results.

Our People Delivering for our customers Accountability Report

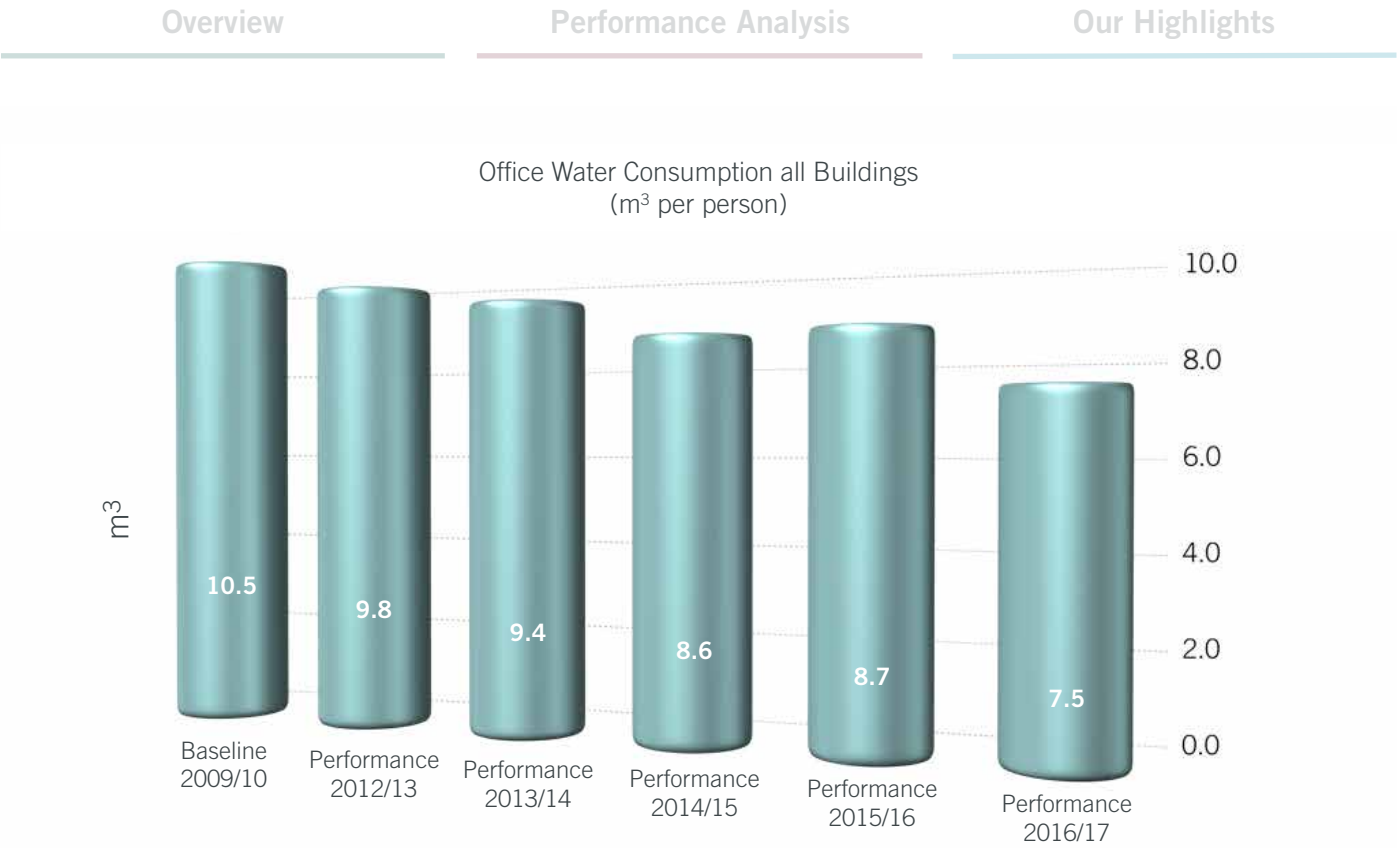
Waste	2016/17	
	Tonnes	GBP (£)
Total Waste	98	£18,414
Hazardous Waste	3	£1,822
Total waste by method of disposal		
Landfill	0	0
Reused/Recycled	62	£6,063
Incinerated (without energy recovery)	2	£141
Incinerated (with energy recovery)	34	£10,389



Performance 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 2016/17, 2087 printer cartridges have been saved from landfill.



Performance and 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 our customers. FCO Services takes its responsibilities seriously; the activities and performance improvement during the year shows not only our commitment to maintaining this, but also increasing our footprint in this area.

During the year, FCO Services participated in the Office of Low Emissions Vehicles (OLEV) greening government initiative, this meant that subsidised electric vehicles could be bought in return for Tele-Matic data measuring utilisation; three electric vans were bought. This initiative proved to be a catalyst for change and improving our green footprint in Hanslope Park. Following a business case, supported by

the FCO, a joint initiative, it was agreed that green vehicles would be extended to the internal lifting equipment in the distribution centre (moving away from diesel). These were so well received that the green initiative will be extended to staff vehicles and steps have already been taken to implement this with electric charging being installed in the next year.

Registered participant status in the EU Code of Conduct for Data Centres 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.

As tenants of the FCO, we are committed to enhancing and improving the biodiversity of the Hanslope Park site. There is active vegetation management with designated areas for wild flowers; as well as an annual arboriculture survey. 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.

Our People

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. This year, bee hotels have been produced and installed to maximise their potential for the most positive impact on the surroundings.

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.

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 13% 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

Delivering for our customers

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
- A Sustainable Procurement Checklist has been embedded within existing procurement guidance to ensure sustainability is considered throughout the procurement cycle

Accountability Report

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.

Danny Payne  
Chief Executive and Accounting Officer  
28 June 2017

- 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 £50.5m.
  9. This is the fifth 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
10. 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 a provision to reimburse the FCO £28,691 for 2016/17.
  11. 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)



## 6 Accountability Report

72 Review of financial performance

75 Table of performance against ministerial targets

### 76 Corporate Governance Report

76 Director's report

77 Statement of FCO Services Agency's and Accounting Officer's responsibilities

78 Governance statement

### 87 Remuneration and Staff Report

87 Remuneration report

94 Staff report

### 99 Parliamentary Accountability and Audit Report

100 Certificate and report of the Comptroller and Auditor General



# Review of Financial Performance

2016/17 records FCO Services’ ninth year as a Trading Fund, with continued strong performance and both fiscal Ministerial Targets exceeded.

This has been achieved through restructuring the business to drive efficiency gains, better management of costs and improved workforce productivity.

Throughout 2016/17 the business was streamlined and simplified. Transformation of the GDT business through strengthened customer relationships and efficiencies has reversed the loss making position of 2015/16.

These underlying benefits have allowed us to offset the full impact of inflationary pressures and hold prices to the FCO for the second year running, allowing us to respond to competitive pricing pressures within the other markets in which we operate.

## Financial outturn 2016/17

Total revenue delivered in 2016/17 was £146.6m, an increase of £10.8m (8%) on the revenue of £135.8m reported for 2015/16. The revenue increase included improved performances within Estates, Infrastructure and Information Technology projects, reflecting gains in both the FCO and non-FCO contracts, together with higher Bag service volumes to the UK and Friendly Foreign Government customers.

Revenue from the FCO (£96.1m) marginally increased year on year by £0.2m. This marginal increase includes the absorption of the transfer out of FCO Services of the Vetting Operations which delivered £5.6m revenue up to and including 31 December 2016 compared with full year revenues of £6.3m in 2015/16.

Whilst there was only a small improvement in FCO revenues, this outturn still underlines the importance of the FCO as our main customer and underpins our value as a strategic delivery partner.

FCO Services achieved a gross surplus before operating expenses of £41.4m, a return of 28.2% on revenue. This compares with a gross surplus last year of £37.0m, a return of 27.3%. The £4.4m surplus improvement year on year reflects a favourable margin mix, improved cost control and continued benefits derived from our efficiency savings programme. Our operating expenses at £26.6m are running at 18.2% of revenue compared to 19.2% in 2015/16. In absolute terms this is a marginal increase of £0.6m to the prior year, further demonstrating a good performance and tight control of costs during a period of revenue growth.

As a continuation of our efficiency exercise, FCO Services ran a Voluntary Exit Scheme (VES) programme, resulting in eight agreed departures from the business, at a cost of

£0.7m, with anticipated sustainable savings of £0.4m. This follows a similar VES programme undertaken in 2015/16 under which there were thirty eight agreed departures at a cost of £2.1m, with anticipated sustainable savings of £1.3m.

The Secure Global Services group generated total revenue of £110.0m in the current year, being £11.4m above 2015/16, an increase of 11.5%. This was primarily driven through improved performances within Estates and Infrastructure contracts, coupled with higher Bag service volumes. The Secure Global Services group operating surplus performance of £13.3m (12.0% of total revenue) compares to an operating surplus of £11.5m (11.6% of total revenue) for the prior year. This reflects the improved management of costs, the realisation of the benefits of the 2015/16 VES programme, ongoing efficiency gains and benefits from improved productivity.

The Global Digital Technology group total revenue was £37.7m, a decrease of £0.7m from the previous year, reflecting the loss of some legacy IT projects. The operating surplus of £0.8m (2.2% of total revenue) compares to a loss of £2.6m (6.8% of total revenue) for 2015/16, an improvement of £3.5m. The improvement included the beneficial impact of no asset impairment costs, compared with the £0.9m charged in 2015/16. The balance of the

improvement reflects management focus to reduce costs and improve efficiency, driving higher gross margins and reduced overhead costs.

Overall for 2016/17, FCO Services achieved an operating surplus, before financing and VES cost, of £14.8m; a return of 10.1% on revenue. This compares with a surplus before financing and VES for 2015/16 of £11.0m; a return of 8.1%.

## Financing income and costs

Our net finance income of £58k, against a net finance income of £31k in 2015/16 reflects reduced finance lease charges year on year of £25k and reduced interest payments of £19k as we fully repaid the balance of our Vesting Day Loan.

Finance income for the year reflects our enhanced cash position with earned interest of £74k in year from cash on deposit with the Government Banking Service, compared to £72k in 2015/16.

## Surplus for the year

Our reported surplus for the year of £14.2m net of financing income and VES costs demonstrated growth on our returns from 6.5% in 2015/16 to 9.6% in 2016/17 as we accelerated our efficiency programme, simplified our internal structures and restructured our SGS and GDT businesses. No discretionary dividend was charged

in this financial year (2015/16 £nil), the statutory dividend paid of £1.7m (2015/16 £1.3m) enabled a retained surplus for the financial year of £12.5m (2015/16 £7.6m surplus).

## Net assets

FCO Services continues to invest in line with our strategy, including sustained focus on improving customer experience. Capital additions at £1.1m in plant, property and equipment reflected a 22% increase year on year. Our investment profile for 2016/17 has been primarily focused on restructuring our operational resource in SGS and GDT to position growth in line with our Corporate Plan. Over the next three years, our Corporate Plan details further capital investment in our operational infrastructure. At 31 March 2017, FCO Services held total net assets of £53.0m against an opening year position of £40.1m. This positive movement of £12.9m is driven by the retained surplus of £12.5m for this financial year.

Net assets comprise: non-current assets £9.0m (2015/16 £11.1m); inventories £0.9m (2015/16 £0.5m); cash and cash equivalents £36.7m (2015/16 £24.7m); and other net assets of £6.4m (2015/16 £3.8m).

## Cash generation

FCO Services generated an increased cash flow of £11.9m in year with a year end exit position of £36.7m at 31 March 2017 (2015/16 £24.7m).

This increase in cash, inclusive of the cash inflow generated from the surplus and other non-cash items of £17.7m, funded a net investment in net current assets of £1.9m; a net investment in non-current assets of £1.1m and the payment of statutory dividends of £2.8m, which includes payment of £1.5m relating to the 2016/17 year.

This enhanced position has enabled FCO Services to fully repay the Vesting Day loan.

## Cash management

Effective customer credit management has remained important to FCO Services throughout the year, with debtor days outstanding reduced by three days to 33 days at the end of March 2017 (March 2016 36 days). The reduction reflects the impact of strengthened cross functional business integration and improved communications with the customer base. Our strategic success is also dependant on our strong supplier partnerships which we continue to support through prompt payment of supplier invoices in supporting the government’s target for commercial debt. In 2016/17, FCO Services successfully achieved an average payment rate of 87% (2015/16 88%) of suppliers paid within five working days of receipt against the government standard of 80%. Effective cash management ensured that liquidity remained strong, with a quick ratio of 3.3 at the end of March (2015/16 2.6).



Financial performance targets

FCO Services’ financial performance in 2016/17 continues to be measured against two key financial performance indicators: In year surplus before interest, and Return on Capital Employed (ROCE).

In year surplus: Target achieved

In-year surplus before interest, tax and dividend result £14.1m

Return on Capital Employed (ROCE): Target achieved

The result for the year of 30.0% (2015/16 25.3%) compared against a weighted average target of 7%. Given the service based, non-capital intensive nature of the business, ROCE is likely to remain higher than 7%.

Other ministerial targets

Payment of discretionary dividend: Target achieved

This new target set for 2016/17 required an annual discretionary dividend to the FCO of at least £1.5m. During the year FCO Services met the target and offered the full discretionary dividend required. The FCO advised that the payment was not required in 2016/17. The target is therefore recorded as achieved.

SR15 Efficiency saving: Target achieved

The target saving of £12.1m was set as a target to be achieved over the three year period commencing April 2015, in line with the agreed Corporate Plan submission. Actual efficiency savings of £13.9m have been recorded over this period to March 2017.

Customer satisfaction: Target achieved

Our customer satisfaction rating is targeted at an achievement of at least 80%. Our customer base is varied and reflects wider markets as well as government partnerships. With the majority of our customer base being government, our customer is both our shareholder, supplier and competition. Against this backdrop, we achieved 90% customer satisfaction, demonstrating our successful commitment to improving customer service, our prompt response to customer feedback and our active efforts to build positive, strong and future focused relationships.

Productivity ratio: Target achieved

Our productivity ratio target of at least 80% has been exceeded, with an average productivity over the year of 94.4% achieved by revenue earning staff. This improvement reflects tighter operational grip, better time-recording and more accurate forward planning of work force requirements.

Employee engagement: Target not achieved

The target was reset for 2016/17 based upon the average index Your Say score for ‘My Manager’. Our results for the year, while on par with previous years, were below our growth ambition and reflected a period of change as we reshaped our business. The score at 3% below our Ministerial target of 65%, has been a catalyst for reprioritisation of our People Agenda, with key programmes launched to refresh our corporate values and further investment in our leadership capability through the Evolve Programme to support our top 100 leaders across the business.

Pensions

Information regarding pensions is provided in the Remuneration and Staff Reports.

Events after the reporting period

These Accounts have been audited by the Controller and Auditor General whose certificate and report appears on page 100. There have been no significant events after the reporting period, which need to be noted in these Accounts. The total audit fee for 2016/17 is £99k (2015/16 £99k).

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 2017

Table of performance against ministerial targets

Long term goal	Short term Objective	Key Performance Indicator	Target 2016/17	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 & tax	An in-year surplus before interest, tax and dividend	9.6%
		Return on Capital Employed	A Return on Capital Employed of at least 7% (weighted average)	30.0%
Owner	To provide an annual discretionary dividend to the FCO	Discretionary Dividend	To provide an annual discretionary dividend to the FCO of at least £1.5m	Not required by the FCO
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%	90.0%
Processes, efficiency and effectiveness	To be an efficient organisation committed to continuous improvement in operational efficiency	To support the requirements of SR15 of a 20% efficiency saving	To deliver the efficiency savings of £12.1m as reported over the Corporate Plan period	£13.9m (achieved to date)
	To implement process improvements that enable effective measurement, understanding and control of the business	Productivity rate for revenue earning staff (including work on customer bids and R&D)	A Productivity ratio of at least 80%, measuring Actual Billable hours v Available Billable hours	94.4%
People	To continually invest in staff to build a high performance, customer focused and innovative culture	Employee engagement in FCO Services using Civil Service survey	As overall improvement of 2% on the average 2015 index Your say score for My Manager. Target 2016-17 = 65%	62%

# Corporate Governance Report

## Directors Report

### FCO Services Board

Details of FCO Services' executive and non-executive directors for the period April 2016 to March 2017 are on page 79 of this report.

All Board members are required to declare any interests they may have to enable possible conflicts to be managed. In the case of each of the directors listed on page 79, there is no relevant audit information of which the National Audit Office is unaware. The directors have taken all steps to make themselves aware

of any relevant audit information and to establish that the National Audit Office is aware of that information.

### Personal data

In 2016/17 there were no personal data related incidents.



### FCO Services Board and Executive Board members:

Stephen Barrett, Nasrin Cobb, Rob Eason, Lizzie Hanna, Stephen Hawker CB, George Hickerton, Steven Horder, Danny Payne, Glyn Smith, Sir Richard Stagg KCMG,

### Not present:

Hugh Elliott, Joy Hutcheon CB, Phil Worthington

## 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.

The Accounting Officer is required to confirm that, as far as he is aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

The Accounting Officer is required to confirm that the accounts as a whole are fair, balanced and understandable and that he takes personal responsibility for the accounts and the judgments required for determining that they are fair, balanced and understandable.

### Danny Payne

Chief Executive and Accounting Officer  
28 June 2017



# Governance Statement

## 1. Scope of Responsibility

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

My responsibilities as Accounting Officer are defined in a letter to me from the Permanent Secretary, HM Treasury. The letter 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.

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.

## 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 Framework sets out the Corporate Governance applied within FCO Services (section 3 below). The framework is reviewed on an annual basis and internally assessed by the Board Secretary against the Corporate governance in central government departments - Code of Good Practice, published in April 2017

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

The FCO Services Corporate Plan sets out our Corporate Strategy and Ministerial Targets. It seeks the input and support of the Partnership Board, the Management Board, the Chief Operating Officer and the PUS prior to submission. This plan is endorsed by the FCO Services Board and its Ministers on behalf of the Secretary of State.

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 Managing Director of Business Services, the Chief Operating Officer, the Managing Director of Global Digital Technology and four, part-time, independent Non-Executive Directors. Under the direction of the Chair, the Board engaged external reviewers to assess its performance in relation to governance and strategy, and to make recommendations for improvement. The report, provided in summer 2016, determined that the Board was effective and that there were no items of material concern.

The Board receives regular comprehensive reports detailing financial performance, sales and marketing plans, HR statistics and service delivery issues; ensuring that it is comprehensively informed. The Board also receives regular reporting on risk management, health and safety and (through the work of the Audit and Risk Assurance Committee (ARAC)) 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 quality of the information presented to the Board is under regular review. The corporate risk report provides a concise overview of the status of each of our risk categories, highlighting both current and emerging risks.

The Board and the ARAC provide advice and support with regard to my responsibilities. They are committed to ensuring that FCO Services achieves and maintains high standards of corporate governance, risk management and internal control. Their purpose is outlined within the Boards and Committees table at 4.1. All Board and Committee members are required to declare any interests they may have to enable possible conflicts to be managed.

The ARAC 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. The following 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 Cabinet Office publication ‘Partnerships between departments and arm’s-length bodies: Code of Good Practice’ outlined four principles; with good Engagement underpinning the principles of Purpose, Assurance and Value. The Partnership Board, established at the end of 2016, feeds into the principle of Engagement. It is an amalgamation of the Owner and Customer Boards. The Chair of the Partnership Board remains the FCO’s Chief Operating Officer (COO). This layer of governance provides continuous improvement to the partnership between the two organisations, enabling them to support each other’s strategic aims.

The Executive Board meets monthly; its purpose is outlined within the Boards and Committees table at 4.1.

FCO Services’ Board attendance (1 April 2016 to 31 March 2017 inclusive)

Board Member	Possible Board Attendance 2016/17	Actual Board Attendance 2016/17
Sir Richard Stagg KCMG, <i>Non-Executive Director and Chair</i>	7	7
Stephen Barrett, <i>Non-Executive Director</i>	7	7
Hugh Elliott, <i>Non-Executive Director</i>	7	6
Stephen Hawker CB, <i>Non-Executive Director</i>	7	7
Joy Hutcheon CB, <i>Non-Executive Director</i>	7	4
Glyn Smith, <i>Non-Executive Director</i>	7	7
Danny Payne, <i>Chief Executive and Accounting Officer</i>	7	7
Rob Eason, <i>Managing Director of Global Digital Technology</i>	7	7
Steven Horder, <i>Managing Director of Secure Global Services &amp; Chief Operating Officer</i>	7	7
Helen Sullivan, <i>Chief Finance Officer (until 31 December 2016)</i>	5	4
Tony Brotherwood <i>Interim Chief Finance Officer (From 2 November until 31 December 2016 )</i>	1	1
Lizzie Hanna <i>Managing Director of Business Services (From 14 December 2016) (Including the role of Chief Finance Officer from 1 January 2017)</i>	2	2

Audit and Risk Assurance Committee (ARAC) attendance (1 April 2016 to 31 March 2017 inclusive)

Audit and Risk Assurance Committee Member	Possible Audit & Risk Assurance Committee Attendance 2016/17*	Actual Audit & Risk Assurance Committee Attendance 2016/17
Glyn Smith <i>Chair and Non-Executive Director</i>	5	5
Stephen Hawker CB, <i>Non-Executive Director</i>	5	5
Stephen Barrett, <i>Non-Executive Director</i>	5	3
Michael Attenborough-Cox <i>Non-Executive Member</i>	2	2
Susan Graham, <i>FCO Deputy Finance Director (FCO Finance representative )</i>	5	4

\* (Attendance record includes attendance at the scheduled June 2016 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 internal 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. Meeting at least six times a year. The Board supports the Chief Executive in the development of the vision and strategy, 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 the vision and strategy, and by taking ownership of day-to-day management, performance and delivery against targets as per an agreed business plan. It has responsibility for providing leadership and promoting a culture of information security awareness. This is undertaken by agreeing strategic aims, objectives and key policies and also, by leading the delivery of the performance targets set out within the business plan.
Audit & Risk Assurance Committee (ARAC)	Quarterly	Provides independent advice to the Board and Accounting Officer on strategic processes for internal control and governance. Achieved by review of accounting policies, effectiveness of managing risk, oversight of assurance and review of internal and external audits.Meetings are held at least four times per year. There are four members, of which two have recent and relevant financial experience. The design of the Committee draws upon the guiding principles published in the Audit and Risk Assurance Committee Handbook (HM Treasury, 2016).
Risk Oversight Committee (ROC)	Monthly	The ROC oversees and advises the Executive Board on matters pertaining to internal control and risk. It provides a forum to ensure that risks are reviewed, monitored and where appropriate, 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 undertaken by FCO Services.
Operational Management Board (OMB)	Monthly	The OMB ensures the consistency of performance reporting 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.
Investment Board (Initiated in October 2016)	Monthly	Responsible for approving all Capital and Research & Development expenditure. Considering and agreeing wider investment opportunities. Ensuring delivery is in line with both the strategic direction and the required returns, as outlined in the Corporate Plan. The Board seeks assurance, from the governance across FCO Services, that all investment governance/controls are in place for ongoing projects.

### 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 realised through 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 any perceived weaknesses and the actions recommended 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 and value for money.
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 believes will lead to higher standards. Also considered are accident statistics, analysis of trends, safety policies and Safe Systems of Work.
Information Asset Reporting Committee	Quarterly	To enhance SIRO oversight of the Information Asset Registers and quarterly exception reports. The membership consists of Lead Information Asset Coordinators (LIACs).
Health and Safety internal audits	Periodically (Throughout the reporting period)	Statutory and policy compliance from within the business.
British Standards Institute (BSI) ISO 9001 certification	Periodically (Throughout the reporting period)	A total of twenty-two 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.
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 with 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 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.

Operational risks are predominantly 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.

Strategic risks and on-watch items are reviewed regularly by the Executive Board, the FCO Services Board and the

ARAC. This is to ensure that controls are strengthened in areas of greatest exposure, and that risk management processes are operating effectively.

In 2016/17 the Board moved from an overarching statement of appetite to defined appetites across each of the corporate risk categories. Both the change in process and the statements of appetite were reviewed by the ARAC and approved by the Board.

Internal Audit has undertaken a programme of work which was planned to enable them to assess and advise me on our capacity to manage risk. As Accounting Officer, I have been provided with an objective evaluation of, and opinions on, the effectiveness of our risk management, internal control, and governance arrangements (section 6).

### 5.1 Risk management framework

Our risk management approach is designed to achieve a cost-effective

balance between mitigation and acceptance of risk.

Our Internal Auditors use one-to-one discussions with internal stakeholders and a risk based method of assessment to determine the forward audit plan. The plan is recommended to the Board following review by the ARAC. It is reviewed in year to keep it alive.

I am not aware of any evidence to suggest major deficiencies in our risk management process. Overall, we continue to strengthen and embed our processes around the management of risk, and expect to see these continue to mature.

In January, the Cabinet Office published a paper entitled Management of Risk in Government. Its aim is to provide a broad and high-level framework of good practice without advocating a one-size fits all approach. We intend to consider the tools and framework.

### 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 risk profile of the management of information is reported to the FCO Services Board through the Corporate Risk Report. 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. This is underpinned by reports from the Chief Information Security Officer (CISO) and Chief Technical Officer (CTO). This is further supported in the form of assurance provided to the ARAC with a SIRO report on the activities underway to manage information risk.

Changes to the reporting regime on security status have ensured that the SIRO and Executive Board have an improved and more in-depth view of the risks and assurance status of systems and services under their charge.

All staff and contractors are required to complete the mandatory e-learning 'Responsible for Information' course provided by Civil Service Learning. Executive Directors, as Information Asset Owners (IAOs), have been issued with Terms of Reference for their role and made accountable through quarterly reporting for their Information Assets.

The Executive Board has been briefed in anticipation of the new General Data Protection Regulations (GDPR) that are due to come in to force in May 2018. A training and awareness programme is underway to give all staff an overview of the changes.

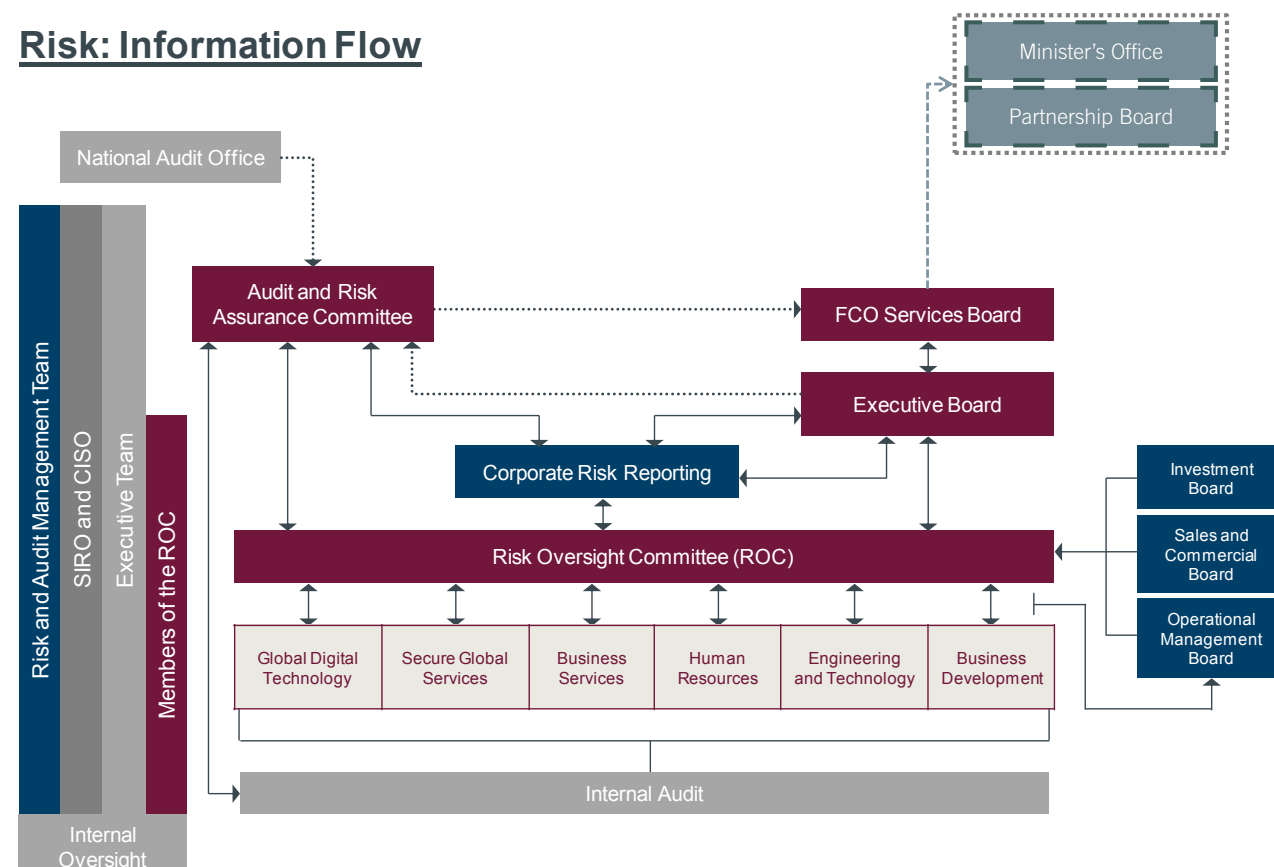
2016 saw significant growth in the cyber threat landscape. The continued rise and variable nature of cyber crime along with the increased use of cyber attack and subversion as tools for domestic and foreign policy reinforced the need to ensure that our approach to cyber security continued to be capable of addressing these challenges.

In response to the above, 2016 saw the start of a programme of activities to improve Cyber Resilience. The work continues and will include the amalgamation of existing controls and those being developed as part of the new organisation structure into modern ISMS to provide a solid foundation for a modern assurance capability, culminating in an application for ISO 27001 certification in December 2017.

Priorities for 2017/18 are recognised as:

- Assure the Executive of the strategy for Knowledge and Information Management, enabling work on the delivery of the strategy to commence
- Increase the knowledge around Intellectual Property, Public Records and Systems in order to capture the data landscape in these areas
- Work with all teams across the business to prepare for the introduction of the GDPR
- Support the business in the preparation of data for a move to new technology
- Quarterly reviews of security standards across FCO Services undertaken by the newly formed Engineering and Technology Department
- Development of a business wide Cyber Security and Assurance strategy for FCO Services by the CISO. The strategy will be underpinned by a strong education and training focus on all aspects of Cyber Security designed to raise awareness and understanding of roles and responsibilities throughout 2017-2018.

### Risk: Information Flow



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

The Audit & Risk Assurance Committee provides advice on the strategic processes for control, governance and risk management and the adequacy and effectiveness of the overall arrangements put in place by management to manage risk. It reviews our accounting policies and financial accounts, including the process for their review prior to submission for audit and the levels of error identified.

All Internal Audit, Anti Fraud & Corruption Unit and the National Audit Office (NAO) activity falls within the scope of the Committee. This includes NAO value for money reports, the NAO annual audit Management Letter and the adequacy of response to issues identified. It also encompasses the planned activity and results of both internal and external audit.

The Committee will also consider assurances and information relating to other areas of risk (including security, information and cyber threats, business continuity, environmental audit and health & safety) as requested by myself as the Accounting Officer.

The Committee considered its own effectiveness during the year and believes that it has the appropriate skills to perform its role. It is recognised that two members of the

Committee have recent and relevant financial experience, and are qualified accountants. The Committee met five times in the year with the Board 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 received reports from the Chief Finance Officer, on each area, setting out the methodology and key assumptions. Issues considered included long-term customer contracts, provisions and contingent liabilities and impairment. These reports were subject to scrutiny by the NAO. There were no material discrepancies between the views of management and those of the external auditor.

FCO Services continues to enjoy a strong relationship with the NAO. Close working relations were maintained formally, through the ARAC 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 2016/17 12 internal audit reports have been published. Of these, two returned Substantial (Green) audit opinions, seven returned

Moderate (Amber) audit opinions and three returned Limited (Red) audit opinions. Of those three limited audits the exposure was Moderate in two instances and High in one. The Head of Internal Audit has advised that, in his opinion, this represents an overall audit status of Moderate.

The annual plan for 2016/17 was supported with a mid-year review to confirm the business and assurance requirements. This review was conducted and led by the Head of Internal Audit. Following this, it was agreed that FCO Services would move to a three year rolling programme of audits, starting in 2017/18.

The Anti Fraud & 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 two new investigations undertaken by AFCU on behalf of FCO Services during this period. In both instances I was advised that the issues addressed were unfounded, and the investigations were noted as closed.

## 7. Annual Risk Assessment:

Below is a reflection of the 2016/17 key risks that have been addressed or remain under management.

### Vetting Unit

The Strategic Defence and Security Review in November 2015 committed to establish a single vetting provider, vested in the Ministry of Defence (MOD), by December 2016. The primary risks to FCO Services were recognised in the form of people, reputation and revenue.

The Vetting business, including staff and contracts, under the Cabinet Office Statement of Practice was transitioned to the Ministry of Defence from 1 January 2017. The loss of associated financial business revenues has been mitigated during 2016/17 from additional business elsewhere. Migration risks have been successfully managed, with the Vetting team maintaining their high standards of work, achieving SLA targets during the transfer resulting in an acceptable customer experience without negative reputational impact.

### Commercial Planning

FCO Services' global service value proposition is focused on the FCO and our other government customers worldwide.

We have established a global operation with four regions to work more closely with the front line customer, enabling reduced internal friction, enhancing the end-to-end process and working towards a simpler global operation.

Through tight control of the cost base and a measured pricing policy the IT business offering achieved a successful trading year. An investment programme of products and services has been developed with a confident three year plan in place.

The FCO's Diplomacy 20:20 programme may impact on our own business strategy. We have worked closely with the FCO, ensuring that respective strategies are aligned.

The Business Development group was launched to update our value proposition, produce our future commercial strategy and support major bids. This will develop a suite of tools and systems to enhance sales, account management, the commercial process and pipeline management.

### Staff Engagement

Improving staff engagement is a priority for FCO Services as part of the Culture 2020 strategy. In 2016, the Your Say results remained static for engagement at 57%. We did not achieve our formal Ministerial target based on the "my manager" score which fell by 1% year on year.

It is recognised that if engagement is not effectively managed this may impact upon the long-term capacity and capability of FCO Services. Therefore the Executive Board has agreed three priorities to improve engagement and other Your Say scores based on corporate initiatives:

- The introduction of a leadership and management development scheme, under which all of our senior management cadre will undertake a nine month programme facilitated by an external agency
- Greater focus and monitoring of local engagement action plans
- Targeted additional effort on specific business areas that typically have less positive staff feedback

We are also providing more internal communication to increase staff awareness of what is being done in response to their feedback.

### Capacity and Capability

Recruiting and retaining suitable capabilities and skills, alongside growing a more diverse workforce, remained a key business challenge. The employee workforce is constrained by a range of factors; such as Government pay policy; location; national under-representation in technical and engineering roles; timescales for security clearance and growing competition for some skills. This presents challenges and is a recognised risk to both our workforce model and cost base.

We continue to apply a range of initiatives to address these issues including targeted recruitment to widen the range of applicants and investing in skills development, including apprenticeships. A job family framework will be developed to aid workforce planning and skills development in early 2017/18.

We are applying measures to manage future risk and reduce the reliance on contractors; such as work packages, skills transfer and employee conversions and replacements, and a long-term talent management plan and workforce strategy.



IR35

HM Revenue and Customs have advised that changes to the way the current intermediaries’ legislation (known as IR35) applied to off-payroll working in the public sector are applicable from 6 April 2017.

Within FCO Services we operate a flexible workforce which consists of full and part-time civil servants, fee-paid officers, interim staff, contractors and suppliers. The impact to FCO Services has been closely monitored. We have worked closely with both our intermediary suppliers and HM Revenue and Customs, to mitigate any potential risk.

We have in place a system, through our supply chain management, that assures any relevant compliance to IR35 is adhered to by our supply chain. We have minimised any IR35 impact and believe our processes, contract terms, and application of the HMRC tool ensures compliance. This is being monitored on an annual basis.

Internal IT and Business Tools

In 2016 FCO Services commenced its review of the IT and business tool requirements for FCO Services. The Managing Director of Global Digital Technology was appointed Senior Responsible Owner to lead our internal IT upgrade. In determining the road map of appropriate future business applications and processes, we have weighed the options and are seeking to align with the FCO where practical for an ERP solution; noting that we have agreed that we require IT models that drive business and service beyond the general ledger and core HR, procurement sub-ledgers, enabling an integrated IT program for FCO Services. There will be a staged roll-out through 2017/18, completing in 2020.

Information Asset Management

As preliminary activity for the implementation of Technology Overhaul, FCO Services has initiated

a review and consolidation of its data holdings. This has identified some areas of duplicated data and the requirement for rationalisation. The application of this will be governed though formal centralised administration procedures. Our new internal IT function has come together under our Global Digital Technology Group to manage this process.

Crisis Management and Incident Management

The requirement for effective crisis management and stakeholder management was recognised as a potential threat due to the additional burden which occurs during structural changes to the business.

As an organisation we undertook a number of exercises during the period to test and examine our management processes. The changes which took place throughout the 2016/17 period resulted in no concerns of a serious nature.

Incident management will be subject to ongoing review looking at the duty roster, process, training, empowerment and exercise. This will be led by the Chief of Staff and the Head of Health and Safety.

8. Overall summary

At a time of substantial internal change, FCO Services has emerged as a stronger, more efficient organisation in the delivery of projects and services for its customers. I am very proud of the patient support, expertise and commitment of all our teams to driving through the essential changes needed to stream-line FCO Services and our spending covenant to meet the SR15 saving challenges.

There is a growing confidence amongst our customers and our people which I feel is a real foundation of growth for our medium-term future after a year of

restructuring and change. 2017/18 is an important year to settle people into the new global services model across the business units within FCO Services.

This year has seen FCO Services exceed five of its ministerial targets, which has been a good result, whilst management engagement remains static at 57%. Going forward I have enhanced our leadership programme with a Leadership Charter, which sets out clearly what we expect from our leaders. Alongside this, our staff think tank has provided us with the organisation’s People Values. Both of these, top-down and bottom-up, programmes will be embedded over the coming years through the Culture 20:20 programme.

I am pleased to note that the Head of Internal Audit has given a Moderate assurance opinion for the year as a whole. We have agreed a three year audit programme with governance and risk based audits at its heart. I look forward to working closely with our internal audit colleagues to identify areas of potential risk, and to seek assurance from both the ARAC and the National Audit Office, that our systems of internal controls are working effectively.

Our pipeline has been strong throughout this year both in Central and wider government offerings. Over the next three years there is an expectation that it will be heavily influenced by the Diplomacy 20:20 agenda. As the FCO focuses more closely upon the business of diplomacy, those elements seen as operational and service will still require professional oversight. We will work closely with the FCO to support them with our unique offering and knowledge.

**Danny Payne**  
*Chief Executive and Accounting Officer*  
28 June 2017

Remuneration and staff report

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 2017. 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:

**Tony Brotherwood** (Acting Chief Finance Officer). Appointed Acting Chief Finance Officer on 2 November 2016 to 31 December 2016. Tony holds an open-ended appointment until retirement.

**Rob Eason** (Global Digital Technology Director) holds an open-ended appointment until retirement.

**Lizzie Hanna** (Managing Director Business Services) appointed on 14 December 2016 on a four year fixed-term contract.

**Steven Horder** (Chief Operating Officer) holds an open-ended appointment until retirement.

**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.

**Helen Sullivan** (Chief Finance Officer) held an open-ended appointment until retirement. Helen left under Voluntary Redundancy terms on 31 December 2016.

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.

Executive Members’ and Key Management Personnel Remuneration and Pensions

	Salary £000		Performance Related payment £000		Pension Benefits (to nearest £000) (Note 1)		Total £000	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Tony Brotherwood (from 2 November 2016 to 31 December 2016)	10-15 (85-90 full year equivalent)	N/A	Nil	N/A	4	N/A	15-20 (90-95 full year equivalent)	N/A
Rob Eason	95-100	65-70 (95-100 full year equivalent)	Nil	Nil	97	201	195-200	270-275 (295-300 full year equivalent)
Lizzie Hanna (from 14 December 2016)	30-35 (115-120 full year equivalent)	N/A	Nil	N/A	13	N/A	45-50 (125-130 full year equivalent)	N/A
Steven Horder	125-130	115-120 (125-130 full year equivalent)	10-15	Nil	47	45	185-190	160-165 (170-175 full year equivalent)
Danny Payne	125-130	125-130 (125-130 full year equivalent)	5-10	10-15	51	44	185-190	175-180 (180-185 full year equivalent)
Helen Sullivan (until 31 December 2016)	70-75 (95-100 full year equivalent)	95-100	Nil	10-15	16	92	85-90 (110-115 full year equivalent)	195-200
	2016-17				2015-16			
Band of Highest Paid Director's Total Remuneration (£'000)	135-140				200-205			
Median Total Remuneration £	36,697				34,294			
	3.8				5.9			

Compensation for loss of office

Helen Sullivan left under Voluntary Redundancy terms on 31 December 2016. Helen received a compensation payment of £45k-£50k and compensation in lieu of notice of £60k-£65k.

**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 decrease due to a transfer of pension rights.

**Note 2.** 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 banded remuneration of the highest paid director in FCO Services in 2016/17 was £135-£140 (2015/16 £200-£205). This was 3.8 times (2015/16, 5.9) the median remuneration of the workforce, which

was £36,697 (2015/16 £34,294). In 2016/17, 3 (2015/16, no) employees received remuneration in excess of the highest paid director. Remuneration ranged from £14,332 to £143,000 (2015/16, £14,200 to £189,200). The median pay ratio has reduced by 2.1% due to the significant reduction in the remuneration band of the highest paid director, in 2015/16 the highest paid director was an interim on contract, in 2016/17 the highest paid director was a permanent officer.

(2015/16 the median pay ratio increased by 0.7 to 5.9. This was 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 £10,080 (SMS 1), £11,720 (SMS 2), £14,010 (SMS 3).

For fixed term SCS appointments, the contract of employment includes specific terms for determining annual performance related payments.

The table on page 89 shows the performance related payments paid in 2016/17.

Benefits in kind

The monetary value of benefits in kind covers any taxable benefits not given to the individual as cash. No executive member or key management personnel received any benefits in kind in 2016/17.



Executive members’ and key management personnel pension benefits

	Accrued pension at pension age as at 31/03/17 and related lump sum (Note 1)	Real increase in pension and related lump sum at pension age	CETV at 31/03/17 (Note 1)	CETV at 31/03/16 (Note 1)	Real increase in CETV (Note 1)	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Tony Brotherwood (from 2 November 2016 to 31 December 2016)	5-10 plus a lump sum of nil	0-2.5 plus a lump sum of nil	101	97	3	-
Rob Eason	35-40 plus a lump sum of 105-110	2.5-5 plus a lump sum of 12.5-15	718	605	82	-
Lizzie Hanna (from 14 December 2016)	0-5 plus a lump sum of nil	0-2.5 plus a lump sum of nil	8	0	6	-
Steven Horder	5-10 plus a lump sum of nil	2.5-5 plus a lump sum of nil	52	25	18	-
Danny Payne	20-25 plus a lump sum of nil	2.5-5 plus a lump sum of nil	216	183	19	-
Helen Sullivan (until 31 December 2016)	15-20 plus a lump sum of nil	0-2.5 plus a lump sum of nil	357	342	15	-

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.

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 8% and 14.75% (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 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 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 2018.

**Joy Hutcheon CB**, 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, which has been extended to 31 December 2017. 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 30 September 2017.

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. Michael's contract ended 31 July 2016.

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, Susan 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

	2016-17	2015-16
	£000	£000
Michael Attenborough-Cox	0-5 (5-10 full year equivalent)	5-10
Stephen Barrett	15-20	15-20
Hugh Elliott (Note 1)	-	-
Stephen Hawker CB (Note 2)	15-20	15-20
Joy Hutcheon CB (Note 1)	-	-
Glyn Smith	15-20	15-20
Sir Richard Stagg KCMG	30-35	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. (2015/16 £nil).

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

The above table and notes have been subject to audit.

**Danny Payne**  
*Chief Executive and Accounting Officer*  
28 June 2017



## Staff report (Audited)

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

As at 31 March 2017 the number of senior civil service staff and their pay bands are:

Pay Band	Number of Senior Civil Service Staff
SMS2	1
SMS1a	1
SMS1	4

Staff numbers and costs

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

	2016/17		
Staff numbers	Permanent	Other*	Total
Service Delivery	724	204	928
Corporate Services	107	18	125
Total Staff Numbers	831	222	1,053
Capitalised Staff***	-	-	-
Net Staff Numbers	831	222	1,053

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

\*Other comprises agency staff and fee paid officers.

\*\* 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

### Staff costs for the above persons

	2016/17		
	Permanent** £000	Other* £000	Total £000
Salaries / agency staff and fee paid officers	36,909	19,486	56,395
Social security costs	3,360	18	3,378
Other pension costs	5,793	18	5,811
Total staff costs	46,062	19,522	65,584
Capitalised staff costs	-	-	-
Total net staff costs	46,062	19,522	65,584

	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

\*Other comprises agency staff and fee paid officers.

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

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 PCSPS 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 2016/17, employers’ contributions of £5,785,135 were payable to the PCSPS (2015/16 £6,161,237) 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 2016/17 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 £26,022 (2015/16 £28,431) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75%. Employers also match employee contributions up to 3% of pensionable earnings. In addition,

employer contributions of £788 (2015/16 £970), 0.5% of pensionable pay, 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 (2015/16 £nil). Contributions prepaid at that date were £nil (2015/16 £nil).

In the 12 months to March 2017 one individual (2015/16 no individual) retired early on ill health grounds; the total additional accrued pension liability in the year amounted to £7,453 (2015/16 nil).

Staff composition

As at 31 March 2017:

- Executives: 29% were female
- Delegated Grades A-D: 23.2% 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 4.1 in 2016/17. This compared to 4.0 days in 2015/16 and

7.6 days across the public sector. FCO Services continued to robustly manage absence and, in particular, a focus on stress-related and long-term absences. A number of initiatives were applied throughout 2016/17 to promote staff wellbeing and increase awareness of mental health conditions and available support.

Staff policies applied during the financial year

For giving full and fair consideration to applications for employment, initiatives applied in FCO Services included the following:

- 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).
- To promote diversity and fairness FCO Services has implemented anonymised recruitment, where the personal details are withheld from managers / assessment panel until after candidates are shortlisted.
- 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. Section 4 Performance Analysis and Accountability Report

Expenditure on consultancy:

FCO Services’ expenditure on consultancy during 2016/17 was nil.

Off-payroll engagements

**Table 1:** For all off-payroll engagements as of 31 March 2017 for more than £220 per day and that last longer than six months; the number of existing engagements as of 31 March 2017 was 140.

Number of existing engagements as of 31 March 2017		140
Of which:		
No. that have existed for less than one year at time of reporting		34
No. that have existed for between one and two years at time of reporting		31
No. that have existed for between two and three years at time of reporting		19
No. that have existed for between three and four years at time of reporting		10
No. that have existed for four or more years at time of reporting		46

**Table 2:** For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017, for more than £220 per day and that last for longer than six months.

No. of new engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017	70
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	70
No. for whom assurance has been requested	70
Of which:	
No. for whom assurance has been received	70
No. for whom assurance has not been received	0
No. that have been terminated as a result of assurance not being received	0



# Parliamentary Accountability and Audit Report

## Regularity of Expenditure (Audited)

In spending public money, FCO Services operates in accordance with the principles of HM Treasury’s Managing Public Money (MPM).

### Losses and special payments

Losses Statement	2016/17	2015/16
Total number of losses	9	5
	£000	£000
Total value of losses*	313	157
Claims Waived / Abandoned	4	38
Store Losses	-	1
Fruitless Payments	177	2
Constructive Loss**	132	116
Other	-	-

\* There were no individual losses over £300,000 in either 2016/17 or 2015/16. All losses are disclosed on an accruals basis. The total loss value of the fruitless payments category, including costs to be accounted for in 2017/18, is £251k.  
\*\* 2016/17 and 2015/16 relates to stock write down, the £132k in 2016/17 relates to stock write down fully provided for in prior financial years.

## Special Payments

In 2016/17 the costs falling into the category special payments was £nil (2015/16 £nil).

## Fees and Charges (Audited)

As a Trading Fund, FCO Services manages its operations so that the revenue of the fund is sufficient to cover general running costs and the cost of capital, which are chargeable to the Statement of Comprehensive Income. Charges are set to recover full costs and to achieve the required rate of return on capital employed, before interest and dividends of at least 7% (weighted average). Refer to Note 3 of the Notes to the accounts on page 113 for FCO Services Segmental analysis, which provides details of fees and charges for 2016/17.

## Remote contingent liabilities (Audited)

FCO Services has reviewed its liability under the Late Payment of Commercial Debts (Interest) Act 1998 and Late Payment of Commercial Debts Regulations 2002 and 2013. Following analysis of statement of account reconciliations with our suppliers, no material contingent liability has been recognised. There is a potential supplier dispute at 31 March 2017, the resolution of which is sufficiently uncertain that the amount cannot be quantified.

Amendments to the Finance Act 2000 regarding off-payroll working rules came into effect for the public sector from 6 April 2017. Responsibility to assess and determine a contractor’s tax status now rests with the government department and responsibility for ensuring correct taxes are paid will rest with the agency that engages the contractor. In undertaking its responsibility, FCO Services has assessed all off-payroll contractors using the HRMC tool and informed agencies of the outcome.

### Exit packages

FCO Services ran Civil Service compensation schemes during 2016/17:  
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	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
<£10,000	-	-	-	-	-	-
£10,000 - £25,000	-	-	-	8	-	8
£25,000 - £50,000	-	-	1	12	1	12
£50,000 - £100,000	-	-	4	17	4	17
£100,000 - £150,000	-	-	3	-	3	-
£150,000 - £200,000	-	-	-	1	-	1
Total number of exit packages by Type	-	-	8	38	8	38
Total resource cost (£'000)	-	-	695	2,100	695	2,100

The value on the statement of comprehensive income of £667k includes £28k of released accrual which related to 2015/16

2015/16 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.

Danny Payne  
Chief Executive and Accounting Officer  
28 June 2017

# 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 2017 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 and Parliamentary Accountability Disclosures 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, FCO Services and 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 2017 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 and Parliamentary Accountability Disclosures 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 and Parliamentary Accountability Disclosures 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  
National Audit Office  
157-197 Buckingham Palace Road,  
Victoria, London SW1W 9SP*

3 July 2017



## 7 Financial Statements

### 102 Financial Statements

- 104 Statement of Comprehensive Income
- 105 Statement of Financial Position
- 106 Statement of Cash Flows
- 107 Statement of Changes in Taxpayer's Equity
- 108 Notes to the accounts

Statement of Comprehensive Income  
for the year ended 31 March 2017

	Note	2016/17 £000	2015/16 £000
Revenue	2	146,615	135,786
Cost of sales	5	(105,210)	(98,740)
Gross surplus		41,405	37,046
Other Income	2	0	0
Operating expenses	5	(26,626)	(26,047)
Operating surplus		14,779	10,999
(Loss)/profit on disposal of property, plant and equipment		(5)	(4)
Surplus for the financial year before voluntary exit scheme		14,774	10,995
Voluntary exit scheme	4(b)	(667)	(2,140)
Surplus before financing		14,107	8,855
Financing income	6	74	72
Financing costs	6	(16)	(41)
Net financing		58	31
Surplus for the financial year		14,165	8,886
Dividend	7	(1,682)	(1,292)
Retained surplus for the financial year		12,483	7,594
Other comprehensive net income			
Net gain on the revaluation of property, plant and equipment		393	143
Total comprehensive income for the financial year		12,876	7,737

All income and expenditure are derived from continuing operations.

The FCO Services Vetting operation transferred to the Ministry of Defence from 1st January 2017. Refer to Note 3 of the Notes to the accounts.

The notes on pages 108 to 130 form part of these accounts.

Statement of Financial Position  
as at 31 March 2017

	Note	2016/17 £000	2015/16 £000
Non-current assets			
Intangible assets	8	818	1,107
Property, plant and equipment	9	8,183	10,005
Total non-current assets		9,001	11,112
Current assets			
Inventories	10	885	483
Trade and other receivables	11	26,063	23,474
Cash and cash equivalents	12	36,662	24,737
Total current assets		63,610	48,694
Total assets		72,611	59,806
Current liabilities			
Trade and other payables	13	(18,792)	(18,245)
Provisions due within one year	16	(700)	-
Total current liabilities		(19,492)	(18,245)
Total Assets less current liabilities		53,119	41,561
Non-current liabilities			
Other Payables	14	(97)	(215)
Provisions due after one year	16	-	(1,200)
Total non-current liabilities		(97)	(1,415)
Assets less liabilities		53,022	40,146
Taxpayers' equity			
Public dividend capital		4,981	4,981
General reserve		616	424
Revaluation reserve		449	248
Income and expenditure account		46,976	34,493
Total taxpayers' equity		53,022	40,146

Danny Payne  
Chief Executive and Accounting Officer  
28 June 2017

The notes on pages 108 to 130 form part of these accounts.



Statement of Cash Flows  
for the year ended 31 March 2017

	Note	2016/17 £000	2015/16 £000
<b>Cash flows from operating activities</b>			
Surplus on ordinary activities before dividend payable		14,165	8,886
Adjustments for non-cash transactions	17	3,555	4,736
Net interest (receivable) / payable	6	(58)	(31)
(Increase)/Decrease in inventories	10	(402)	542
(Increase)/Decrease in trade and other receivables	11	(2,589)	2,988
less movements in receivables relating to items not passing through the income statement			
- Accrued deposit interest		(3)	5
Increase/(Decrease) in trade and other payables	13&14	429	(5,223)
less movements in payables relating to items not passing through the income statement			
- Working capital loan from FCO reclassified between non-current liabilities and current liabilities		-	951
- Dividend payable		1,110	(211)
- Accrued loan interest		-	19
Increase/(Decrease) use in provisions	16	(500)	(76)
<b>Net cash inflow from operations</b>		<b>15,707</b>	<b>12,586</b>
<b>Cash flows from investing activities</b>			
Purchases of intangible assets	8	(27)	(182)
Purchases of property, plant and equipment	9	(1,062)	(868)
Disposals of intangible assets	8	3	-
Disposals of property, plant and equipment	9	35	4
<b>Net cash outflow from investing activities</b>		<b>(1,051)</b>	<b>(1,046)</b>
<b>Cash flows from financing activities</b>			
Loans repaid to FCO		-	(951)
Interest paid		(16)	(60)
Interest received		77	67
Dividend paid		(2,792)	(1,081)
<b>Net financing</b>		<b>(2,731)</b>	<b>(2,025)</b>
<b>Net increase / (decrease) in cash and cash equivalents in the period</b>		<b>11,925</b>	<b>9,515</b>
<b>Cash and cash equivalents at the beginning of the period</b>	12	24,737	15,222
<b>Cash and cash equivalents at the end of the period</b>	12	<b>36,662</b>	<b>24,737</b>

The notes on pages 108 to 130 form part of these accounts.

Statement of Changes in Taxpayers' Equity  
for the year ended 31 March 2017

	Public Dividend Capital £000	General Reserve £000	Revaluation Reserve £000	Income and Expenditure Account £000	Total Reserves £000
Balance at 1 April 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
Balance at 31 March 2016	4,981	424	248	34,493	40,146
<b>Changes in taxpayers' equity for 2016/17</b>					
Unrealised net surplus on revaluation of property, plant and equipment			393		393
General reserve transfer - depreciation charge difference in year on revalued cost basis compared to historic cost basis		192	(192)	-	-
Retained surplus for the financial year	-	-	-	12,483	12,483
Total recognised income and expense for 2016/17	-	192	201	12,483	12,876
<b>Balance at 31 March 2017</b>	<b>4,981</b>	<b>616</b>	<b>449</b>	<b>46,976</b>	<b>53,022</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 19 December 2016, 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 2016-17 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 Machinery of Government changes

Following the 2015 Strategic Defence and Security Review it was decided that there would be a single vetting organisation and this would be aligned to the Ministry of Defence. Consequently, the FCO Services Vetting operation transferred across to the Ministry of Defence from 1st January 2017. This has been accounted as a transfer by absorption in accordance with the FReM section 4.2. Refer to Note 3 in the Notes to the Accounts.

### 1.4 Revenue

Revenue represents the fair value of consideration received or receivable from customers 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 IAS 11 and IAS 37 are met.

### 1.5 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. In 2016/17 the interest was £nil.

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

### 1.6 Value added tax

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

### 1.7 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.

### 1.8 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.

### 1.9 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. This represents a change to the asset life for Information Technology from Financial Year 16/17 from 2 to 5 years to 2 to 8 years following an internal review of Useful Economic Lives. This range reflects a more realistic life for this asset category:

Information technology	- 2 to 8 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.

### 1.10 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.

### 1.11 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.

### 1.12 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.

### 1.13 Bad debts provision

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

### 1.14 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 (2016) 10):

Short-term*	Between 0 and up to and including 5 years from the statement of financial position date (SOFP)	-2.70%
Medium-term*	After 5 years and up to and including 10 years from the SOFP date	-1.95%
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.

### 1.15 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.

### 1.16 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.

### 1.17 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.

### 1.18 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.

### 1.19 Effects of future accounting policies

IFRS 15 ‘Revenue from contracts with customers’ is effective for financial reporting periods beginning on or after 1 January 2018, but will not be adopted by the public sector until 2018/19. FCO Services is currently assessing the impact that it will have.

IFRS 16 ‘Leases’ is effective for financial reporting periods beginning on or after 1 January 2019 and is expected to be adopted by the public sector in 2019/20. IFRS 16 represents a significant change in lessee accounting by largely removing the distinction between operating and finance leases and introducing a single lessee accounting model. FCO Services is currently assessing the impact that it will have.

2. Revenue

2a. Total Revenue / Other Income

	2016/17 £000	2015/16 £000
Foreign and Commonwealth Office*	96,071	95,858
Other UK Government bodies and other UK and International organisations*	50,544	39,928
	146,615	135,786

\* Normal Trading Fund revenue

2b. Construction Contracts

	2016/17 £000	2015/16 £000
Contract revenue recognised in the period	-	1,305
Costs incurred and recognised profits (less losses) to date	-	-
Advances received	-	-
Retentions	-	-

3. Segmental Reporting

FCO Services is organised on two service delivery providers, Secure Global Services and Global Digital Technology:

**Secure Global Services Group** manages all commercial and delivery aspects of multiple, project-based programmes including installations, technical architecture and project management construction. It delivers the Regional Technical Support Service and Queen’s Messengers services across the UK and internationally, vetting, translation and interpreting and logistics.

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

	Secure Global Services* £000	Global Digital Technology £000	Total £000
Analysis of Operating Surplus by Service Delivery Group*, **			
2016/17			
External revenue	109,728	36,887	146,615
Internal revenue - Charged to Secure Global Services	-	329	329
Internal revenue - Charged to Global Digital Technology	269	-	269
Internal revenue - Charged to Corporate Areas	14	484	498
Total revenue	110,011	37,700	147,711
Cost of sales	(75,607)	(26,378)	(101,985)
Depreciation	(368)	(2,527)	(2,895)
Amortisation	(86)	(231)	(317)
Impairments	(15)	2	(13)
Internal cost charges	(329)	(269)	(598)
Total cost	(76,405)	(29,403)	(105,808)
Gross surplus	33,606	8,297	41,903
Operating expenses	(19,736)	(7,243)	(26,979)
Allocated internal cost charges	(373)	(125)	(498)
Depreciation	(227)	(77)	(304)
Amortisation	(11)	(4)	(15)
Total Operating Expenses	(20,347)	(7,449)	(27,796)
Surplus before financing	13,259	848	14,107

\* In 2016/17 the Vetting Operation within Secure Global Services transferred to the Ministry of Defence from 1st January 2017. Revenue of £5.65m is included within the External Revenue figure.

\*\* Inter-segment sales and transfers within the Trading Fund are at cost.



3. Segmental Reporting continued

Analysis of Operating Surplus by Service Delivery Group*	Secure Global Services* £000	Global Digital Technology** £000	Total £000
2015/16			
External revenue	98,199	37,587	135,786
Internal revenue - Charged to Security & Property	-	278	278
Internal revenue - Charged to Global Digital Technology	420	-	420
Internal revenue - Charged to Corporate Areas	30	551	581
Total revenue	98,649	38,416	137,065
Cost of sales	(66,580)	(27,866)	(94,446)
Depreciation	(360)	(2,763)	(3,123)
Amortisation	(118)	(181)	(299)
Impairments	(3)	(869)	(872)
Internal cost charges	(278)	(420)	(698)
Total cost	(67,339)	(32,099)	(99,438)
Gross surplus	31,310	6,317	37,627
Operating expenses	(19,200)	(8,706)	(27,906)
Allocated internal cost charges	(420)	(161)	(581)
Depreciation	(197)	(76)	(273)
Amortisation	(9)	(3)	(12)
Total Operating Expenses	(19,826)	(8,946)	(28,772)
Surplus before financing	11,484	(2,629)	8,855

\* 2015/16 Operating Surplus segmental report has been restated to show both the combination of the two services delivery groups (Security and Property and Network Services) that came together to form Secure Global Services and the transfer of one overhead section within Security and Property Group across to the Corporate area. 2015/16 Vetting revenue of £6.26m is included within the External Revenue figure.

\*\*Technology group changed its name to Global Digital Technology from 22 February 2016.

3. Segmental Reporting continued

Analysis of Assets less Liabilities by Service Delivery Group*	Secure Global Services* £000	Global Digital Technology £000	Corporate £000	Total £000
2016/17				
Segment Assets				
Intangible assets	113	601	77	791
Intangible additions in year	9	7	11	27
Property, plant and equipment	1,244	4,658	1,219	7,121
Property, plant and equipment additions in year	437	519	106	1,062
Inventories	885	-	-	885
Trade and other receivables	17,194	8,628	241	26,063
Cash and cash equivalents	-	-	36,662	36,662
Segment Liabilities				
Current liabilities	(13,530)	(2,810)	(3,152)	(19,492)
Non current other payables	-	(97)	-	(97)
Non current provisions	-	-	-	-
Non current financial liabilities	-	-	-	-
Segment assets less liabilities	6,352	11,506	35,164	53,022

\*In 2016/17 the Vetting Operation within Secure Global Services transferred to the Ministry of Defence from 1st January 2017. Intangible assets with a net book value of £3k and a property plant and equipment asset with a net book value of £13k were transferred to the Ministry of Defence at this time.

3. Segmental Reporting continued

Analysis of Assets less Liabilities by Service Delivery Group*	Secure Global Services* £000	Global Digital Technology £000	Corporate £000	Total £000
2015/16				
Segment Assets				
Intangible assets	128	704	93	925
Intangible additions in year**	31	90	61	182
Property, plant and equipment	1,333	6,513	1,291	9,137
Property, plant and equipment additions in year**	210	474	184	868
Inventories	483	-	-	483
Trade and other receivables	18,179	8,286	(2,991)	23,474
Cash and cash equivalents	-	-	24,737	24,737
Segment Liabilities				
Current liabilities	(9,955)	(3,345)	(4,945)	(18,245)
Non current other payables	-	(215)	-	(215)
Non current provisions	(1,200)	-	-	(1,200)
Non current financial liabilities	-	-	-	-
Segment assets less liabilities	9,210	12,507	18,429	40,146

\* 2015/16 Analysis of Assets less Liabilities segmental report has been restated to show both the combination of the two services delivery groups (Security and Property and Network Services) that came together to form Secure Global Services and the transfer of one overhead section within Security and Property Group across to the Corporate area.  
2015/16 the Vetting Operation held intangible assets with a net book value of £9k and a property plant and equipment asset with a net book value of £16k which are included within the figures.

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

4. Staff Costs

2016/17	Permanent** £000	Other* £000	Total £000
Salaries / agency staff and fee paid officers	36,909	19,486	56,395
Social security costs	3,360	18	3,378
Other pension costs	5,793	18	5,811
Total staff costs	46,062	19,522	65,584
Capitalised staff costs	-	-	-
Total net staff costs	46,062	19,522	65,584

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

\*Other comprises agency staff and fee paid officers.  
\*\* Inward Seconded Staff costs have been included in agency staff cost.



5. Cost of sales and operating expenses

	2016/17			2015/16		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
	£000	£000	£000	£000	£000	£000
Net staff costs	28,379	17,683	46,062	29,761	18,157	47,918
Net Agency staff and fee paid officers*	17,175	2,347	19,522	17,713	2,287	20,000
Training and recruitment	607	632	1,239	392	409	801
Travel	12,758	969	13,727	11,048	706	11,754
Professional services*	5,367	947	6,314	4,387	487	4,874
Legal Services	19	44	63	52	9	61
Communications	924	329	1,253	1,364	453	1,817
Other supplies, services & facilities management	4,213	184	4,397	1,838	341	2,179
Management charges from the FCO	1,521	206	1,727	1,423	179	1,602
IS Hardware	3,399	19	3,418	5,696	141	5,837
IS Software	1,769	163	1,932	1,504	126	1,630
Other Machinery and Equipment Under £3k	1,479	146	1,625	263	62	325
Security Equipment	4,898	49	4,947	3,382	34	3,416
Freight	9,579	-	9,579	7,792	-	7,792
Maintenance	8,595	721	9,316	6,517	409	6,926
Operating leases - land & buildings	-	8	8	0	12	12
Operating leases - other	(0)	51	51	(0)	38	38
Accommodation charges**	916	1,433	2,349	945	1,478	2,423
(Profit)/Loss on currency exchange	-	(1)	(1)	-	6	6
Other	-	200	200	-	171	171
Insurance	407	78	485	369	158	527
Insurance Compensation	(20)	-	(20)	-	-	-
Depreciation ***	2,895	304	3,199	3,123	273	3,396
Amortisation of intangible assets	317	15	332	299	12	311
Impairment losses on PPE assets	22	-	22	448	-	448
Impairment losses on intangible assets	-	-	-	426	-	426
Revaluation (Write Back) / Charge	(9)	-	(9)	(2)	-	(2)
Auditors' remuneration and expenses (no non-audit work)	-	99	99	-	99	99
Total costs	105,210	26,626	131,836	98,740	26,047	124,787

\* Agency staff, fee paid officers, and professional services charged to cost of sales are fee earning.  
\*\* Accommodation charges are payable to the FCO.  
\*\*\* 2015/16 Includes (£4k) depreciation adjustment

The total amount of research and development expenditure recognised as an expense during the period was £nil (2015/16 £112,000). This includes staff costs and an appropriate recovery of overheads.

6. Financing income and costs

	2016/17 £000	2015/16 £000
<b>Financing income</b>		
Government Banking Service interest	74	72
	<b>74</b>	<b>72</b>
<b>Financing costs</b>		
Working Capital Loan interest	-	-
Vesting Day Loan interest	-	(19)
Finance Lease Charges	(16)	(22)
Other Interest Payable	-	-
	<b>(16)</b>	<b>(41)</b>
<b>Net financing</b>	<b>58</b>	<b>31</b>

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

7. Dividend

	2016/17 £000	2015/16 £000
Statutory dividend charged	1,682	1,292
Discretionary dividend	-	-
Dividend	<b>1,682</b>	<b>1,292</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>2016/17</b>				
<b>Cost or valuation</b>				
At 1 April 2016	41	827	2,311	3,179
Additions	10	-	17	27
Reclassification from PPE	20	-	-	20
Assets brought in to use	(57)	-	57	-
Disposal	-	-	(116)	(116)
As at 31 March 2017	14	827	2,269	3,110
<b>Amortisation</b>				
At 1 April 2016	-	823	1,249	2,072
Provided during the year	-	2	330	332
Disposal	-	-	(112)	(112)
As at 31 March 2017	-	825	1,467	2,292
<b>Net book value</b>				
As at 31 March 2017	14	2	802	818
As at 31 March 2016	41	4	1,062	1,107
Owned as at 31 March 2017	14	2	802	818

## 8. Intangible assets continued

	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



9. Property, plant and equipment

	Assets under construction £000	Fixtures £000	Information technology £000	Transport equipment £000	Plant and machinery £000	Total £000
<b>2016/17</b>						
<b>Cost or valuation</b>						
At 1 April 2016	368	1,866	15,717	1,447	6,737	26,135
Additions	160	36	218	283	365	1,062
Assets brought in to use	(341)	100	-	-	241	-
Reclassification to Intangible Assets	(20)	-	-	-	-	(20)
Capitalisation adjustment*	(6)	-	-	-	-	(6)
Disposals	-	-	(76)	(211)	(184)	(471)
Revaluation	-	-	915	73	433	1,421
As at 31 March 2017	161	2,002	16,774	1,592	7,592	28,121
<b>Depreciation</b>						
At 1 April 2016	-	291	9,684	1,081	5,074	16,130
Provided during the year	-	155	2,170	140	624	3,089
Provided for leased asset during the year	-	-	110	-	-	110
Disposals	-	-	(76)	(193)	(164)	(433)
Impairments	-	-	3	19	-	22
Revaluation	-	-	625	55	340	1,020
As at 31 March 2017	-	446	12,516	1,102	5,874	19,938
<b>Net book value</b>						
As at 31 March 2017	161	1,556	4,258	490	1,718	8,183
As at 31 March 2016	368	1,575	6,033	366	1,663	10,005
Owned/Leased as at 31 March 2017	161	1,556	4,258	490	1,718	8,183

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 2017 using appropriate indices.

\* Previously capitalised expenditure in Assets Under Construction (£6k) charged to 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>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	368	1,866	15,717	1,447	6,737	26,135
<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	-	291	9,684	1,081	5,074	16,130
<b>Net book value</b>						
As at 31 March 2016	368	1,575	6,033	366	1,663	10,005
As at 31 March 2015	2,796	1,603	7,798	469	1,538	14,204
Owned/Leased as at 31 March 2016	368	1,575	6,033	366	1,663	10,005

\*2015/16 previously capitalised in Assets Under Construction (£132k) written off to R&D and operating expenses.

10. Inventories

	2016/17 £000	2015/16 £000
Raw materials and consumables	885	483
Work in progress	-	-
	885	483
Amount of inventory write (back)/down*	(5)	101

\*The constructive loss reported in the Accountability Report of £132k relates to stock write down fully provided for in prior financial years.

# 11. Trade receivables and other current assets

## Analysis by type

	2016/17 £000	2015/16 £000
Amounts falling due within one year:		
Trade receivables	13,352	13,214
VAT	-	-
Other receivables	33	33
Prepayments and accrued income	12,678	10,227
	26,063	23,474

Included within prepayments and accrued income is £5,111,000 relating to the FCO (2015/16 £5,428,000).  
Included within prepayments and accrued income is £nil relating to construction contracts (2015/16 £217,408).

# 12. Cash and cash equivalents

	2016/17 £000	2015/16 £000
Balance at 1 April	24,737	15,222
Net change in cash and cash equivalents	11,925	9,515
Balance at 31 March	36,662	24,737

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

# 13. Trade payables and other current liabilities

## Analysis by type

	2016/17 £000	2015/16 £000
Amounts falling due within one year:		
Trade payables	1,423	1,841
Accruals *	8,691	10,209
Payments on account **	7,538	3,890
Other payables ***	944	204
VAT	14	809
Dividends payable	182	1,292
	18,792	18,245

\* Included within accruals is £321,000 (2015/16 £319,000) due to FCO in respect of payroll.  
\*\* Included within payments on account is £3,551,000 from the FCO (2015/16 £3,263,000).  
\*\*\* Included in other payables is £536,000 (2015/16 £111,000) due to FCO in respect of management charges and accommodation.  
\*\*\* Included in other payables is £118,121 (2015/16 £111,324) finance lease creditor.

# 14. Trade payables and non current liabilities

## Analysis by type

	2016/17 £000	2015/16 £000
Amounts falling due after one year:		
Finance Lease	97	215



# 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

	2016/17 £000	2015/16 £000
<b>Buildings</b>		
Not later than one year	1	-
Later than one year and not later than five years	-	-
Later than five years	-	-
	<u>1</u>	<u>-</u>
<b>Other:</b>		
Not later than one year	3	8
Later than one year and not later than five years	43	16
Later than five years	-	-
	<u>46</u>	<u>24</u>

There are no obligations under operating leases for land.

# 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:

	2016/17 £000	2015/16 £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	<u>-</u>	<u>-</u>
Present Value of obligations	<u>-</u>	<u>-</u>
<b>Other</b>		
Not later than one year	127	127
Later than one year and not later than five years	89	200
Later than five years	-	-
Less interest element	<u>7</u>	<u>16</u>
Present Value of obligations	<u>209</u>	<u>311</u>

Present Value of obligations under finance leases comprise:

	2016/17 £000	2015/16 £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	<u>-</u>	<u>-</u>
<b>Other</b>		
Not later than one year	125	125
Later than one year and not later than five years	84	186
Later than five years	-	-
Total Present Value of obligations	<u>209</u>	<u>311</u>

There are no obligations under finance leases for land.

16. Provision for liabilities and charges

	2016/17 £000	2015/16 £000
Balance at 1 April	1,200	1,276
Provided in the year	-	-
Provisions not required written back	-	(76)
Provisions utilised in the year	(500)	-
Balance at 31 March*	700	1,200

*\*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. Adjustments for non-cash transactions

	Note	2016/17 £000	2015/16 £000
Loss/(profit) on disposal of property, plant and equipment		5	4
Amortisation	8	332	311
Depreciation	9	3,199	3,400
Capitalisation Adjustment	9	6	153
Accumulated Depreciation Adjustment	9	-	(4)
Impairment of property, plant and equipment	5 & 9	22	448
Revaluation (Write Back)/Charge	5	(9)	(2)
Impairment of intangible assets	8	-	426
		3,555	4,736

18. Capital commitments

Contracted capital commitments not provided in these accounts:

	2016/17 £000	2015/16 £000
Property, plant and equipment	395	261
Intangible assets	-	1
	395	262

19. Other financial commitments

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

20. Contingent liabilities disclosed under IAS 37

At 31 March 2017 contingent liabilities existed in respect of employment £83,000 (2015/16 £20,000). While the outcome of these matters cannot be precisely foreseen it is anticipated the matters will be resolved within the next financial year.

21. Financial instruments

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

FCO Services’ financial instruments comprise cash deposits 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.



## 22. 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), Ministry of Defence, Department for International Development and National Crime Agency.

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.

## 23. Events after the reporting period

There were no reportable events after the date of the Statement of Financial Position.

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

ISBN 978-1-4741-4465-0

