

## FCO Services

# Annual Report and Accounts 2013/14

(for the year ended March 2014)



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# Foreword by Mark Simmonds MP

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

Despite the country starting to emerge from one of the deepest and longest recessions in living memory, it is clear that the public sector will still be required to operate within challenging financial boundaries. Securing value for money will remain at the top of the government's agenda, and civil servants will be expected to use the nation's resources wisely. I am pleased to see that FCO Services continues to play a vital part in supporting government to achieve this aim.

The FCO has 267 posts in 152 countries and 12 Overseas Territories, and this entire vast network is underpinned and supported by FCO Services and its staff. Given the disparate and often remote locations of individual missions, this is often a difficult and complex task. Over the past year, I have travelled extensively and have again been impressed with FCO Services, and how its people work tirelessly to ensure that diplomats and other officials from both the UK and international governments have the platform and tools they need to do their jobs effectively. Whether providing support to posts in challenging, hostile locations or developing and enhancing secure services in the UK, the commitment and professionalism of staff is striking. I am grateful to each and every officer for the role they play in supporting the FCO to meet its key objectives.

This government has set the FCO a range of policy priorities to protect and advance Britain's interests in the world. As an integral part of the FCO, FCO Services has a contributory role to play in the achievement of these agendas and has collaborated with

the FCO on a number of them this year. For example, in support of the FCO's commitment to provide a robust consular service, FCO Services continues to provide invaluable technical expertise and equipment to Rapid Deployment Teams who are sent into crisis zones to provide consular support to British nationals. In the last year alone, technical support officers have been deployed to South Sudan, Egypt, Kenya and the Philippines and provided essential communications links and maintenance to crisis centres in the UK.

More broadly, work continues to build and maintain relations with key friendly foreign governments. Working closely with countries such as Canada and Australia, FCO Services has helped our international partners deliver innovative and cost-effective solutions to their security issues around the world.

In financial terms, FCO Services has had another successful year, and has met all of its financial targets that were set at the start of the year. This report highlights this strong performance, and confirms that the investment made in its people and assets are now delivering results. Against a challenging financial backdrop, the organisation has successfully increased its revenue, driven down its overheads and controlled costs. As this report clearly demonstrates, FCO Services continues to deliver both to the FCO and to colleagues across the wider government. Its innovative and pro-active approach gives me every confidence that the organisation and its staff will continue to be successful over the coming year.

## **Mark Simmonds MP**

*Minister for Africa, the Overseas Territories, the Caribbean and Consular Policy*

# Foreword by Chris Moxey

*During 2013/14, our organisation has strengthened and matured as envisaged by our strategic plan. In last year's annual report I set out how we had made encouraging progress against our core strategic aims, reaching a financial outturn far beyond that which we had envisaged at the onset of our plan. This strong position enabled us to continue to invest in our organisation and deliver improved value to the FCO throughout the last year.*

This year, intent on building on this robust and improving business platform, we took a fresh look at the way we are organised to deliver our strategy. Recognising that our three delivery groups have developed distinctly different characteristics, we have adjusted our organisational structure, concentrating primarily on how service delivery aligns with our interaction with customers. These structural changes and renewed focus will enable the continued success of the three business groups that are central to our strategy: Security and Property Services, Technology Services and Network Services to the FCO.

Our focus remains on keeping our ever closer partnership with the FCO strong and collaborative, and we have developed our Networks strategy specifically to meet its needs. The global success of the Regional Technical Support Service represents a true collaboration with our key customer, owner and partner, and demonstrates the scale of achievement possible when working together towards common goals. In the ICT sphere, we have again concentrated on delivering effective, lower cost services for the corporate centre, modernising the FCO's IT platform through secure WiFi technology, and supporting the FCO's vision to become the best diplomatic service in the world.

Our strong relationship with the FCO has also been mutually beneficial to our work with other governments. Our Security and Property experts have focused on building and maintaining relationships with our key allies and have delivered successful projects for the Canadian, New Zealand and Australian governments. On an operational level, these achievements have also helped transform wider FCO bilateral relationships in the field of estates.

We have again been forward-looking and innovative in supporting our IT strategy with investment, transforming our IT services to provide our cloud platform across government and develop our flagship product, PSN360. The firm foundations that we have spent some time putting in place are now producing real results and our customer base has broadened to include major government departments.

Our operational areas have also delivered consistently for our customers throughout the year. Despite facing a number of challenges over the past 12 months, our dedicated teams in Vetting, Translation and Interpretating and Logistics have all undertaken vital work to support both the FCO and our wider government customers in meeting their priorities.

Providing support to all of our business groups, whether in the UK or overseas, is the corporate centre of our organisation. In a year of considerable change, our teams across our HR, Finance and Corporate and Supply Chain Groups have made a hugely important contribution to the organisation, underpinning the work of the delivery groups with professionalism and commitment.

Finally, and most importantly, I am proud to acknowledge that the credit for our success must go to our staff. The recent One Team staff event demonstrated their loyalty and pride in our organisation, and I encourage them to continue to work together as one team, breaking down barriers, and concentrating on one common goal. Our organisation is in a strong position to embrace the many opportunities present in our major markets and, with an excellent track record of delivery, we can confidently enter our next phase of development.

**Christopher Moxey**  
*Chief Executive, FCO Services*

# Strategic Report

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

*With over sixty years' experience working in government and for government, we understand the rigorous security requirements that are placed on our customers. By developing close relationships at all levels, and building a deep understanding of their needs, we aim to exceed customer expectations and deliver services that offer excellent public value.*

### Who we are

*Since becoming a Trading Fund of the Foreign and Commonwealth Office (FCO) in 2008, we have used our commercial status to enable us to expand our customer base and become more accountable, streamlined and efficient. We now provide a range of integrated, secure services worldwide to the FCO and other UK government departments, supporting the delivery of government agendas and common goals. We also provide services to foreign governments and international organisations closely linked to the UK, supporting healthy and constructive bilateral relations.*

Operating worldwide, our security-cleared people design and deliver secure services that meet the demanding needs of our customers. These services include protective security, estates and construction, cloud computing, traditional hosting, communications and monitoring, logistics, vetting and translation and interpreting. We are also the UK National Authority for Counter Eavesdropping (UKNACE).

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

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

### How we are organised

Over the past six years we have transformed the products and services we provide, developing new technologies and offers which have equipped us to compete successfully for new opportunities. A strategy review last year concluded that our existing pillar business strategies are well-founded and valid. Our focus now, and for the years ahead, is to refine and strengthen these strategies and deliver on the opportunities created across our three core service areas.

Recognising that our three delivery groups had developed distinctly different characteristics, both in how they operate with our customers and in their business aspirations, we identified a need to structure our organisation to make it easier for our customers to do business with us and to better align our service delivery with our business strategies and target markets.

We are now structured into three operationally-focused business groups covering security and property, technology and network services, improving alignment of service delivery with operational capability and enhancing customers' experience of doing business with us.

### What we do

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

## Network Services

Our Network Services Group focuses primarily on delivering a first class service to the FCO network and supporting our wider market customers on a regional basis.

The successful global roll-out last year of our Regional Technical Support Service (RTSS) builds firm foundations for our Network Services strategy, providing multi-disciplinary technical, IT and logistical support. Currently under this model we successfully deliver the crossed bag service and high classification IT and technical security support. We are increasing our scope to include the full range of logistics services we provide to the FCO network and its key partners at post, and increasing our footprint in IT and technical security support.

Within the group we continue to develop our world-class vetting and translation and interpreting services, participating in the government's vetting transformation programme and continuing to deliver excellent customer satisfaction. These services will form a 'Government Services' division of Network Services Group during 2014/15.

## Security and Property

Our Security and Property Group design and deliver embassy build projects, property services and physical security systems.

Our customers rely on us to provide their teams around the world with a safe and secure working environment and our aim is to provide a full range of security and property services to the FCO, UK and friendly foreign governments. Through targeted campaigns, our relationship with the FCO is growing from strength to strength, and we are focusing on the delivery of key objectives in global asset management, co-location and property management. Our business is flourishing and we continue to explore major opportunities with international governments worldwide.

## Secure Technology

Our Technology Group is responsible for delivering a comprehensive portfolio of cloud-related services including end-user devices, cyber security services and a range of bespoke services to long term customers.

In the ever-changing world of IT, our specialist technology teams play an essential role in enabling our customers to communicate and collaborate securely anywhere in the world. We develop and manage solutions and services, and provide the security monitoring and networks that protect government assets to high security levels. We are making strong progress in transitioning existing customers onto the new cloud services as well as gaining major new customers and growing our presence across government.



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

### *What we aim to achieve*

Following several years of austerity, the UK is experiencing a strengthening economic recovery. Despite promising signs of growth, the fiscal situation remains challenging for government and the need to control costs and manage spending is as great as ever. The identification of further operating efficiencies and opportunities for reductions in spending remain a key focus for all government departments. In this climate, our strong record of delivering more for less, combined with the investments we have made in new products and capabilities, paves the way for us to play an increasing role in supporting government to achieve its objectives through the next phase of the economic cycle.

We aim to be the provider of choice to the FCO for our range of secure products and services. Our partnership continues to grow stronger and enabling the FCO to deliver their critical priorities is core to our future strategy. We will do all we can to continue to support the FCO's Diplomatic Excellence agenda, playing particularly significant roles in the areas of security, networks and the 'One HMG' priority overseas. FCO achievement of its ambitious plans requires rationalisation and streamlining through innovation, and in this context our relationship is more important than ever.

Supporting the government's key agendas of fiscal responsibility, prosperity and national security will be the basis for growth in our market share across UK government. Through our growing reputation in cloud technology, we have increased our portfolio across Whitehall to support core IT platforms for major government departments. We will build on this foundation to become an even more significant provider across UK government, growing the number of users of our IT services across the public sector. Internationally, we will concentrate on strengthening and maturing our relationships with key foreign governments and international agencies, focusing particularly on Canada, Australia, New Zealand and the USA.

### *Our priorities*

The foundations in each of our three core business areas are strong, and we are confident that we have credible strategies to deliver sustained market strength. Each business area is focused on developing underlying growth and we have very stretching growth ambitions, particularly in the IT business.

#### **Our priorities for 2014/15 include:**

- Continuing to improve the Regional Technical Support Service (RTSS) model through embracing the rest of the logistical support service and by widening IT and technical security support. We will also expand our customer base to support the FCO's 'One HMG' agenda and assist our Security and Property Group in the delivery of secure solutions to other governments.
- Expanding our service offerings to friendly foreign governments and supporting the FCO and partners across government with the 'One HMG' agenda. We will also focus on enhancing our security lifecycle products, a review of our security capability and further investment in research and development to ensure that we retain our competitive advantage in the security arena.
- Continuously improving our cloud computing capabilities, such as PSN360 (which is our secure version of Microsoft's office productivity, communications and collaboration tools), and demonstrating a return on the investment in cloud-based solutions carried out over recent years. Using the successes of the early adopters of our cloud solutions, we will work with the next wave of public sector organisations to migrate to cloud services.

# How we have performed: Our highlights 2013/14

## Corporate Overview

*Last year we set out to provide quality, value for money services to enable our customers to deliver their core priorities against a backdrop of budget cuts. We developed and strengthened our key strategic relationships, leveraged the investments we have made in our cloud services and grew our customer base across government and in the wider market.*

In last year's annual report we described how, reaping the rewards of our targeted investment programme in secure ICT, we had established a solid platform and started to build a track record of delivery. New opportunities across government have become customers and we have refined our offers and continued investment in our services to better meet their needs. We have maintained our strong financial position by responding to competitive pressures, controlling our prices, driving efficiencies across the board and actively engaging with new government customers, both in the UK and overseas.

In 2013/14, we reviewed and re-confirmed our strategy. In order to deliver the opportunities ahead of us in our three core business areas, we recognised the need to organise ourselves to make it easier for our customers to do business with us and to better align our service delivery to the needs of our customers and future markets.

Through focusing more acutely on the unique relationships we have with our customers and building on the firm foundations we have put in place, our overall trading position at the end of the year was highly encouraging. Our final results represent another year of strong performance with growing revenue, controlled costs and financial performance in line with targets. Revenue increased significantly from

£141.2m in 2012/13 to £157.0m in 2013/14 while operating surplus for the year exceeded plan at £3.8m, falling from £6.3m in 2012/13 due to continued investment in new services.

In particular we have continued to invest in developing and refining our technology-based offers, to provide better, cheaper ICT for our government customers. Our cash balances have as a consequence fallen, from £32m at the end of 2012/13 to £25.5m at the end of 2013/14. The reduction in cash is accentuated by a special dividend payment of £5m to the FCO.

Our relationship with the FCO has become stronger and our partnership has deepened. Targeted programmes in the security and property fields as well as the successful roll out of the RTSS programme have contributed to a 7.7% increase in revenue from the FCO, from £90.4m in 2012/13 to £97.4m in 2013/14. As a result of this unique partnership with the FCO, the image of our organisation across our wider customer base has also significantly improved. The delivery of our new cloud products and services to a range of government customers has contributed to strong growth in revenue this year from our non-FCO customers, increasing from £50.8m in 2012/13 to £59.6m in 2013/14 (17.3%).

In our last annual report, we set out our business priorities for 2012/13.

## *Regional Technical Support Service*

*Last year we said we would roll out our Regional Technical Support Service (RTSS) globally, transforming our services to the FCO at posts overseas, delivering a significant enhancement in value for money and creating a solid platform to capture further opportunities with international partners.*

As an important component of the FCO's Working Differently programme, RTSS delivers mission critical support to the network, providing increased IT and technical security support, as well as the complete crossed bag service.

Following on from the successful pilot of our RTSS model last year, the service has now been rolled out globally to five regions covering over 200 posts, taking the model from an initial concept in a proposal to a live service. Striving for increased efficiency and value for money, the scope of the model grew, encompassing Regional Service Hubs and Logistics Hubs and passing on considerable cost savings to the FCO.

Delivering customer excellence has always been at the heart of the service model and we have exceeded customer expectations, delivering services above and beyond the agreed scope in a number of instances.

In developing this strong position we:

- Established an RTSS user community who are looking at how to optimise and improve the service
- Exceeded customer satisfaction targets from both our end user groups at posts and from our central commissioning customers in the FCO in London
- Delivered 20% more volume than planned to

posts across the world through the diplomatic bag service with the same level of outlay. The increased revenue from this will be invested in systems and new infrastructure to enhance the service

- Provided a key enabling element of the FCO's Working Differently programme, helping them to significantly reduce operational support staff at post and to use technology to achieve operational efficiencies across the network.

## *Strengthening our relationships globally*

*Last year we said we would build on our relationship with the governments of Canada, Australia, New Zealand and the European External Action Service (EEAS); strengthening our links to other governments and widening our product portfolios with these countries and institutions.*

In an age of heightened security threat, our global partners continue to rely on our expert advice and capabilities. Our estates and protective security business has continued to grow, both with the FCO and with other governments and we have successfully won projects and delivered innovative solutions that meet our customers' operational issues.

This year we have concentrated on deepening our forward growth strategy to focus on our customers, developing a customer charter and making it easier for them to do business with us. These themes define our approach and commitment to our customers and facilitate the development of new and integrated key processes.

In line with this strategy we have continued to broaden our customer portfolio beyond the UK market by focusing on friendly foreign governments and partners across government, offering new products and services. We have been successful in securing several major international projects building on the framework

agreement signed with foreign services overseas. We have developed and strengthened our relationships with international governments with whom we are working on a number of co-location projects in the Middle East.

Alongside our work with our close allies in other governments, we continue to enjoy a close partnership with the FCO. Our project teams have successfully delivered over 600 major projects all over the world, supporting diplomatic missions, and enhancing security for overseas staff. This included our specialist project teams providing design and installation expertise for the new modern and efficient office accommodation in a secure and sustainable environment in the new build embassy in Jakarta, and carrying out design, project management, pre and post contract services for the new embassy offices in Bishkek, Sarajevo and San Salvador.

We have strengthened our relationships by:

- Holding collaboration boards with the Canadian government as part of the on-going development of a tri-lateral relationship with the FCO
- Alongside these existing connections, developing a strong relationship with the European External Action Service (EEAS) and delivering our first co-location project for them in Colombo
- Finalising our Government-to-Government model in order for the UK defence and security industries to take this forward.

### *Marketing widely our secure cloud solutions to the UK public sector*

*Last year we said we would improve and continue to invest in our cloud capabilities, aligning them to the government's ICT strategy.*

As the austerity measures of the government continue to compel departments to do more with

less, technology remains an essential enabler for public sector efficiency, collaboration and cost reduction. The Cabinet Office "Cloud First" policy and the growth of the G-Cloud store have provided welcomed guidance in the technology direction for HMG. With its suite of cloud-based solutions, we are perfectly placed to assist early adopters in their migration from legacy IT systems to flexible cloud platforms and tools.

In June 2013, we launched our flagship cloud proposition, PSN360, which is our secure version of Microsoft's office productivity, communications and collaboration tools. The launch was well received in the market with PSN360 sitting among relatively few equivalent products on G-Cloud's CloudStore.

We followed up by actively and widely promoting the solution across the UK public sector throughout the year. Notable adopters of PSN360 include the Department for Energy and Climate Change, the Department for Business, Innovation and Skills and the Ministry of Defence.

We achieved this position of success by:

- Collaborating with teams across the organisation and outside to ensure a joined-up, technologically robust and customer-focused approach to the design of PSN360
- Developing a strong visual identity for the product and promoting through a wide range of marketing channels including the government Cloud Store
- Adopting a strategy for the internal use of the product. The first application of the cloud software solutions was in the form of a customer relationship management tool which went live in September 2013.

## Security and Property Group

*This year our Client Delivery Group became Security and Property Group, focusing on delivering Security and Estates projects and incorporating colleagues from the Regional Technical Works Officer Service, Drawing Data Management and sales and marketing teams.*

### Our highlights

#### *ARGO – transforming delivery of security products to posts*

This year we launched 'ARGO', a portfolio of security products that provides enhanced protection for people and physical assets. Through co-ordinated planning, ARGO brings together a number of critical protective security programmes for the FCO as the first step in a multiyear portfolio of work to transform the way security products are delivered to overseas posts. ARGO creates a partnership programme between its sponsors and suppliers of all aspects of delivery, and proactively seeks opportunities to combine delivery of the security products defined by FCO for deployment by post, country or region. It is designed to achieve the best value for money for the FCO. The products being delivered include the full range offered by FCO Services, along with ongoing research and development to enhance existing security products and create new ones developed with the FCO to meet its emerging strategic objectives.

#### *Providing secure ICT for our partners across government*

Our programme teams have been active throughout the year installing secure ICT across the world for the FCO and for key UK government departments such as the Home Office and the Ministry of Justice. This included the delivery of the Visa4UK programme. Our new organisational structure saw our ICT project team move to the newly formed Technology Group on 1 April 2014. We have also been heavily involved in a variety of aspects of the programme for replacement

telephony systems in all FCO posts globally such as Islamabad, Vilnius and Karachi. In Pyongyang our teams also set up the communications network back to the UK which enabled the new telephone system.

#### *Apprentices – our engineers of the future*

Our long standing and highly successful Technical Engineering Apprentice programme has continued to deliver qualified engineers into FCO Services, many of whom go on to fulfil long and varied careers with us. We were proud to host a visit by HRH The Prince of Wales, who met a number of our apprentices and was interested in our programme.

One of our first year female apprentices accepted an invitation to a reception hosted by the Deputy Prime Minister at Admiralty House. The event was to promote Science, Technology, Engineering and Maths (STEM) apprenticeships to women.

Our newly appointed STEM ambassadors have participated in outreach activities with local schools to explain the benefits of careers within the engineering sector.

#### *Territory Account Managers*

We will look at opportunities to develop even closer relationships with customers and are considering the introduction of Territory Account Managers into three territories with centres in Washington, Abu Dhabi and Singapore. This presents an opportunity for developing our business with clients within local time zones whilst retaining a strong delivery capability using the existing Technical Works Officer roles.

The implementation of a local engineering management service in multiple locations supported by a local supply chain and UK based Professional Services workforce will support the Territory Managers and Technical Works Officers in their day to day delivery role.

### *Developing our capabilities*

Our strategic tool set will be enhanced and rolled out globally, including the introduction of the PSN360 device enabling mobile working, a new asset management tool and a portfolio management tool. A Project Management Wiki site is in development by the Portfolio, Programme and Project Office (P3MO) and will be introduced in the year.

As we embed our new organisational structure and implement revised processes we will develop new skills and capability such as Strategic Maintenance and Asset Management that will enable the expansion of our portfolio. Our Architecture, Design and Engineering capability and expertise will be enhanced with the introduction of a new graduate programme.

The next stage of our organisational development will focus on strengthening the leadership and management capability of the group, recruiting into key senior positions and developing the Professional Services Centre.

## Technology Group

*This year, our Operations Group became Technology Group, comprising of Secure IT, UKNACE, the IT project team from our former Client Delivery group and key sales and marketing colleagues. Boosted by the launch of our flagship proposition, PSN360, we had a strong and busy year during which we improved our services and broadened our customer base.*

### Our highlights

#### *Adopting PSN360 internally to improve collaboration and efficiency*

PSN360 is being embraced both by government departments and by our own organisation too. In the autumn, FCO Services implemented the customer relationship management (CRM) module of the PSN360 package. This was aimed at sales and account managers in the first instance to help them work more transparently and efficiently. CRM has transformed the work of commercial colleagues, providing a catalyst to change the way we looked both at forecasting our sales pipeline, and subsequently at our capacity requirements. This first step is being extended through the internal launch of the full PSN360 solution in 2014/15. In parallel, senior colleagues in the FCO have been equipped with the PSN360 solution, including secure tablets for use on the move.

#### *Contributing to the implementation of HMG immigration policy*

A highly secure visa processing infrastructure is crucial to the implementation of the UK immigration policy set out by the Home Office. At the end of November 2013, we launched an upgraded system processing most UK visa applications for UK Visas and Immigration. This is a critical enabler of high profile government policies with regard to immigration, tourism and inward investment to the UK. The website proved a huge success with potential visitors to the country and is visited by over 10 million people every day. By April 2014, less than five months after launch, the system

had processed one million applications. This continues to grow and the volume of application is expected to reach three million by December 2014. Further activities for UK Visas and Immigration include the global deployment of a new biometric system, testament to the strong relationships we aim to build with each of our customers.

#### *FCO Services at the centre of the UK Electoral Reform*

Placing us at the heart of the UK's democratic process, we have been selected by the Cabinet Office to run the technology platform underpinning the Electoral Register. Dubbed the most significant electoral reform in 80 years, the Electoral Register Transformation Programme entered an intense phase in 2013. Work on this critical initiative has been on-going throughout the year inside Technology Group. Collaborating closely with the Cabinet Office team, our focus has been on delivering a technically solid solution that meets the customer's requirements and offers a smooth and secure citizen's experience. Once live in the first quarter of 2014/15, the hub will connect and process data passing between all local authorities and the Department for Work and Pensions, enabling 46 million UK voters to register electronically on the electoral roll.

### *Enabling better working in the FCO*

Working in close collaboration with both the Estates and Security and the Knowledge and Technology Directorates of the FCO, FCO Services started piloting the use of WiFi in early 2014 across the UK estate of the Department as well as at post in Washington D.C. and Brasilia. The service is not just open to FCO staff. Visitors are also able to connect through this highly secure network, which benefits from constant monitoring by UK NACE. A few months into the pilot, user satisfaction is high and we aim to extend the WiFi network to new posts in 2014/15. This new tool is one of the many ways FCO Services contributes to the Public Service reform agility agenda.

### *UK NACE plays its role in the nation's security*

Last year was a busy and successful period for the UK National Authority for Counter-Eavesdropping (UK NACE) which started with a high profile assignment. Working in collaboration with the FCO's IT Security team, UK NACE contributed to the successful security operation for the UK hosting of the first paperless G8 summit at Lough Earne, Northern Ireland by ensuring the technical integrity of the conference environment and IT systems.

During August, UK NACE ran a very successful international training course at the College of Policing, Bramshill with over 175 people involved. This was the culmination of over nine months of planning and the session was a great success; the Director of FCO Security described it as 'a stunning exercise'.

Two senior UK NACE staff attended a NATO bi-annual security conference in Budapest. This was attended by delegates from 16 member states as part of cross-government collaboration on international security.

This year has also seen UK NACE expand its operations to include the management of IT Security Monitoring function for FCO Services' partners across government.

2014/15 will see UK NACE provide a permanent support officer presence in London, offering a more responsive technical security support to the FCO London estate.



## Network Services Group and Government Services

*During 2014/15, the Regional Technical Support Service (RTSS) and Logistics will merge to form Network Services Group. RTSS was formerly part of Operations Group and Logistics was formerly part of Services and Logistics Group (S&L). The remaining parts of S&L – including Vetting, Translation and Interpreting, the London Car Service, Internal Messengers and Reprographics – will form Government Services as part of the Network Services Group.*

### Our highlights

#### *Transforming Logistics*

The Logistics Quality Transformation Programme commenced in January 2013. This new programme includes the development and implementation of the Logistics elements of the Regional Technical Support Service (RTSS) roll out and the tendering of our air freight provider contract. We are also reviewing our utilisation of space and taking a critical look at our processes to see how further integration and automation can provide the continuous improvement that our customers expect of us. We have invested heavily in staff training, buildings, plant, vehicles, systems and space in recent years and to ensure the success of the new programme, and we will continually evaluate the levels of investment needed to support progress in all areas of the business.

The programme, which was driven by input from our own staff, had two initial phases in its introduction. Phase one introduced eight new work streams within Logistics, covering: Strategy; Organisation Design/Development; Materials Management, Space, Process and Systems; Supply Chain Planning and Value Chain; RTSS – Logistics Planning/Delivery; Mercury; Behaviours and New Ways of Working and Communication and Raising the Profile.

One of the most important pieces of work being undertaken at the same time as phase one was the introduction of a new planning tool. This will be used to gain advance warning of projects coming into Logistics from colleagues across the organisation (primarily from Security and Property) and our partners across government.

Phase two of the Logistics Transformation Project built upon the formation of the eight work streams and allocated specific targets to the work streams.

#### *Mercury – identifying a global logistics partner*

Mercury 2014, the re-procurement of the contract for the delivery of the Diplomatic Bag has finally reached its successful conclusion. The tender, which concluded following an intense evaluation period by the Mercury Project Team, recommended the contract be awarded to a new supplier, who is ranked on the top 10 global logistics providers. This supplier will help us deliver an integrated global logistics network for diplomatic material, and our aim is to further consolidate the efficiencies that we have already delivered for the FCO.

An intense period of implementation and handover from the existing supplier will now take place, in anticipation of full operational roll out on 1 November. Work is currently underway to ensure that resources are in place to fully support this process and that our customer experiences a seamless transfer during this important and critical period.

#### *Translation and Interpreting*

Speaking the languages of the world is a crucial element of modern diplomacy, and our team of professional linguists provide the highest quality written translations and confidential interpreting services to and from a broad range of languages.

Building on our wide-reaching business with EU organisations, we successfully tendered for four legal translation contracts (French, German, Polish and Spanish) with the European Court of Justice, securing first-place rankings for German and Polish and third for French and Spanish.

We fielded interpreters working from and into six languages via English to provide full interpretation facilities for the G8 Summit in June 2013, and for the Open Government Partnership Summit hosted by the UK in October/November 2013. We provided interpretation for the Prime Minister in his dealings with other leaders on the subject of the Ukraine crisis. We also provided translation and interpretation services for the Ukraine Conference.

Our priorities for 2014/15 include introducing translation memory software to our portfolio with a view to increasing output and efficiency and reducing costs. We will also put in place a cost-effective procurement regime that is compliant with UK and EU legislation.

### *National Security Vetting*

Following a number of high profile security breaches in other countries, there has been renewed focus on the need for national security vetting services to ensure the security of individual organisations and the nation as a whole. Building on our reputation for delivering high quality vetting services, our Vetting Unit has experienced another year of growth, delivering more cases to more customers than ever before.

Our customer base now stands at over 100 individual customers, including major government departments, commercial companies, police forces and transport hubs. Growth has been primarily in the wider market, which continues to comprise more than 70% of our overall work. The Vetting Unit delivered over 40,000 total vetting cases in 2013/14, an increase in excess of 10% on last year's total.

Our customers demand the highest standards of vetting, delivered in a cost effective and timely way. Our Vetting Unit is responding to that challenge by ensuring continuous improvement of our processes and the best use of our specialist staff. Over the course of the last twelve months we have reduced clearance times by an average of 20%.

# Our People

## People and Skills

Our ambition is to continue to build a working environment that encourages and supports innovation, expertise, customer service excellence and commercialism. Underpinning the future success of FCO Services and the new business operating model will be our ability to ensure that we are able to secure the right people, with the right skills and capabilities and at the right time. This impacts across the full range of people policies: starting with how we recruit; through ways we lead, manage and motivate our teams and performance; how we provide our employees with the development and opportunities to respond to new challenges and priorities and to progress their careers; and how we effectively plan skills and capabilities for the future.

Effectively implementing and monitoring the range of people management initiatives will be a key challenge for the new delivery groups and corporate services. We have, therefore, developed the HR function based on the Ulrich model of expert services, shared services and embedded business partner support. The latter has been strengthened to provide the support to business areas to ensure they are able to recruit, retain, develop and motivate the right people, with the right skills and the right time.

## Workforce Planning and Recruitment

Last year we reviewed our recruitment processes to provide a more responsive, effective and timely service across the business. Following early positive feedback, our updated resourcing strategy will be fully implemented in 2014/15, including development of our careers website and more use of social media to promote our employee value proposition. Contractor and agency staff will continue to be an essential and valued component of our flexible and responsive workforce. We will, however, continue with the contractor review and replacement programme to maximise career development opportunities for our permanent employees and to deliver significant financial savings in 2014/15.

Improving our workforce planning is essential to the success of the new delivery groups, effective recruitment and to changing the balance of our workforce. We are undertaking a thorough review of future skill requirements using job families covering the whole business. This data will be used to underpin better planning of future resource requirements.

## Talent Management

Following full consultation with our staff, we implemented a new performance management and development process from April 2014, which places a greater focus on quality appraisals and line management capability. It also embeds talent management and succession management processes using the civil service 9 box model following a pilot for senior roles in 2013/14. Aligned to this, we are implementing a revised succession planning process to more effectively minimise risk to business critical roles. We have also adopted the Civil Service Competency Framework which will be embedded through these initiatives and recruitment.

We are committed to continued investment to develop all our employees to help them improve their performance, fulfil their potential and to maximise promotion and career development opportunities. From our award winning apprenticeship scheme, in-house technical skill development, improving core business skills and capabilities, through to supporting professional development, we will continue to invest around £1.5m each year in learning and development.

## Staff Engagement and Leadership

Having secured re-accreditation of the Investors in People standard last year, we are working towards renewal again in 2016/17 as part of our continuous improvement programme through devolved staff engagement action plans. We recognise that engaging leadership and management should be at the heart of all that we do and is essential to the continued success of the business. To support this, FCO Services' new leadership and management development programme is based on the Civil Service Learning model, and will be aligned to the new the new talent management and appraisal processes.

This will be driven by greater line management accountability through stronger performance management and measurement in the new organisational structure. Within the new organisational model there is clear accountability for improving staff engagement and business area action plans are now monitored through regular Operational Review Boards.

# Our Corporate Areas

## Customer Satisfaction

Our customers continue to be at the heart of our business, and ensuring that our customers are satisfied remains a key focus. This year we again used the Institute of Customer Service's (ICS) customer satisfaction survey. Our Ministerial target was met against a wider, more appropriate range of Public Sector benchmarks. Valuable information and insight was gained on where we perform well, and where improvements are possible.

Our Customer Satisfaction Programme 'Finger on the Pulse' has been developed to allow our diverse business areas to select a bespoke surveying package which, where appropriate, can incorporate face to face or telephone interviews in addition to the traditional online survey. The results are used to develop service improvement plans to target specific customer needs. We are conscious of the risk of over surveying our customers and have implemented checks to reduce this eventuality.

In June we launched our Customer Promise, outlining the minimum standards of customer

service that our customers can expect from FCO Services. During October we shared our Customer Promise with the FCO and published our 'Voice of the Customer' dedicated email address which, in addition to the traditional surveying, allows our customers to send us feedback on how we are performing.

Our Customer Service Training Programme has been developed to meet the training needs of our people. During 2013/14, over 130 members of staff participated in customer service courses, giving them the opportunity to develop and rehearse their skills. We also held a series of events during National Customer Service week which included recognising our people's and teams' outstanding achievements in delivering excellent customer service.

We will continue to invite feedback from our customers and build upon our improvement plans across our business. We will work to embed our customer service ethos and standards across our organisation to ensure the changing needs of our customers are met.

## Procurement and Supply Chain

Our Procurement and Commercial Contracts Group (PCCG) has continued to support the organisation as it expands both its services to the FCO and its wider market business. During the restructuring of our organisation, our small team has directly supported our individual business units to ensure best value for money in the provisioning of goods and services. We also helped establish new supply chains to enable the delivery of new capacity and capability without increasing numbers of permanent staff or contractors.

As part of this new approach PCCG has set up embedded business partners within each of our three business units to build individual supply chain strategies and support the delivery of their business plans. This work will continue over the next three years as procurement staff become an integral part of the business pillars and establish new contracts and partnerships with industry.

During this financial year we have also launched the 'Mercury 2014' procurement

exercise that will provide the new contract for the secure global movement of diplomatic material within an integrated logistics network. This requirement was advertised in the Official Journal of the EU (OJEU) and the contract was recently awarded.

In addition to these achievements, PCCG has:

- Delivered a range of secure buildings labour contract to support works projects
- Exceeded our savings target, significantly reducing overhead and corporate costs
- Continued to make extensive use of existing government framework contracts, saving our staff time and exploiting economies of scale for price
- Completed the implementation of the Bravo Solutions eTendering and evaluation software tool
- Introduced a new procurement analysis tool

- Drafted new government-to-government MOUs with friendly foreign governments
- Supported and developed the cloud service offering, with commercial terms and conditions for the sale of Infrastructure as a Service (IaaS), Platform as a Service (PaaS), and PSN360 as well as dealing with customer change requirements.

During the latter part of the year, PCCG became part of Commercial and Supply Chain Group (CSCG). This new group combines the existing team with Business Intelligence and Commercial Policy and Governance. The new teams bring in a range of different functions including External Communications, a new Business Intelligence unit, Customer Satisfaction and other Secretariat functions. The group will provide oversight of the new Commercial process as well as providing expert help and advice across a range of different areas, such as Health and Safety, Business Continuity and Sustainability.

## Security and Information Assurance

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. Being known to be at the absolute cutting edge of Technology and Information Assurance, while being ever cautious of current and future cyber threats, is key to the success of our mission and vision (see page 8) and demonstrates our commitment to our customer base. The Executive Committee recognises its responsibility in providing leadership and promoting a culture of information security awareness throughout the organisation. Following a comprehensive review of information assurance, the Corporate Knowledge and Security Group (CKS) was formed in April 2014. This new group is comprised of the former Corporate Information and Security team (CIS) and other Information Assurance Mandatory roles, including the Chief Information Security Officer (CISO) and Lead Accreditor, and reports directly to the

FCO Services Senior Information Risk Officer (SIRO). The group is responsible for four workstreams in the organisation: Information Assurance (including cyber); Corporate Security; Knowledge and Internal ICT. In these areas the group will provide overall governance and assurance; set standards, policy and procedures; embed awareness; and ensure that health checks are completed, with action plans and follow ups taking place.

CKS will support FCO Services' objectives and strategic principles by enabling its business to continue successfully in the face of ongoing cyber and wider security threats. This will be achieved through the delivery of a work programme to enhance the current culture and by working with the business to further develop standards and to manage and exploit information, while enabling the business to operate in a safe and secure environment.

## Business Continuity Management

Robust and resilient business continuity arrangements remain a key element of our overarching strategy. In May 2011, FCO Services was awarded the formal British Standards accreditation for Business Continuity Management (BS 25999). To maintain this certification, FCO Services' Business Continuity Management System is subject to annual British Standard Institute (BSI) compliance assessment audit reviews.

In June 2014, BS 25999 will cease to exist and will be replaced by a new International Standard. To ensure FCO Services' Business Continuity Management System complies to the rigorous requirements of the new International Standard,

BSI undertook a six day assessment audit in February 2014, subsequently recommending transition from BS 25999 to ISO 22301. This was approved by the United Kingdom Accreditation Services (UKAS) and we received a certificate of accreditation in April 2014.

Certification provides evidence of a proven, robust and resilient Business Continuity Management System, which protects our brand, image and reputation, demonstrates good corporate governance, and provides confidence across our government and wider market customers. Certification also opens doors in the EU and International markets, providing increased potential bid opportunities.

# Public Interest Matters

## Diversity and Community Engagement

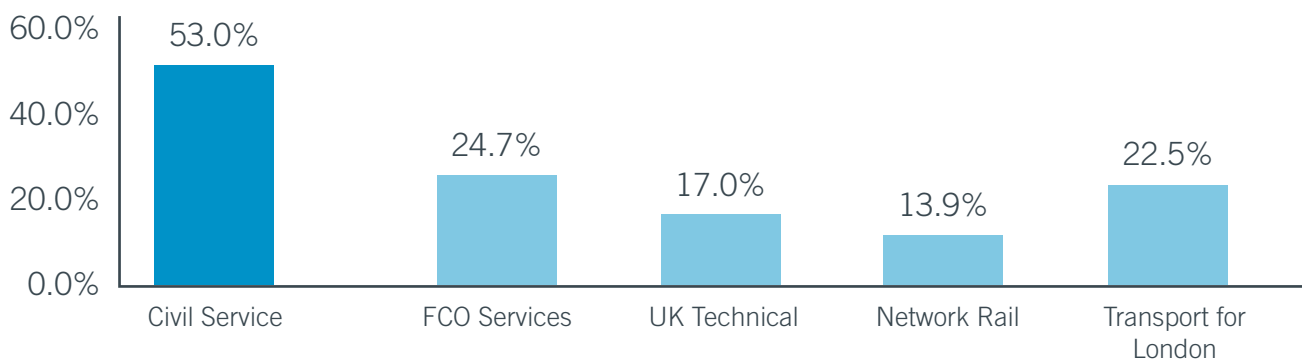
We remain committed to promoting diversity and fair treatment of our staff. As a technical based organisation and with our prime location in Hanslope Park, we are faced with some difficult challenges in encouraging candidates from a wider spectrum of society. About 25% of our employees are female, compared to 53% in the Civil Service. However, our low female representation is mainly attributed to being a technical organisation and many of our roles are seen as non-traditional female roles. Only 5.3% of women in the UK are involved in science, engineering and technology compared to 33% of men, so the recruitment pool is limited. When looking at total female representation against UK technical and engineering organisations we compare quite strongly (see table below).

We continued our community engagement initiatives in the Milton Keynes area by working closely with local schools and again took an active role in the Equal Choices scheme 2013 that is aimed at highlighting various career opportunities to disadvantaged school children. We have extended that work into the Westminster area, concentrating on apprenticeship events in particular.

As part of our resourcing strategy we are developing our employer value proposition to promote FCO Services as an employer of choice. We continue to tailor our recruitment campaigns to be more appealing to a wide group of applicants, with particular emphasis on females, not just in terms of words but in terms of imagery and where and how we reach our audience. We actively encourage and promote a wide range of flexible working options including part time, compressed hours and term-time working. Our roles are advertised as open to alternative working patterns unless there are specific operational reasons preventing this.

Our Dignity at Work policy published last October emphasises fairness for all and encourages people to challenge inappropriate behaviour. We also emphasise the importance of diversity at induction and all employees are encouraged to attend a diversity workshop specifically tailored to our organisation. We work with business groups, tailoring presentations/workshops to each business groups' needs to raise awareness and understanding. We are in the highest scorers in the Civil Service Your Say survey questions on disability and are working with FCO to re-energise and raise the profile of minority staff associations.

### Comparison of Percentage of Female Employees





We have been at the forefront in Civil Service Learning development initiatives, providing expert advice on six new Civil Service wide diversity modules including the new Unconscious Bias product. We strongly encourage our employees to complete this learning and recommend it in our policies.

## Raising Concerns

We are committed to dealing professionally and responsibly with any concern our staff may have about possible malpractice. We encourage them to report any acts they encounter in the course of their work that they believe to be illegal, improper or unethical. All such approaches are taken seriously and treated in confidence. We will not tolerate the victimisation of anyone who comes forward to raise a genuine concern.

The Public Interest Disclosure Act 1998 provides legal protection for employees who make disclosures about suspected malpractice in the workplace. During the year we reviewed, updated and re-published FCO Services' Ethical Code and along with the FCO, updated our joint Raising Concerns Policy. We recruited and trained two new nominated officers to help ensure that civil servants who may have concerns relating to the Civil Service Code are able to receive impartial advice from someone outside of the management chain and we identified three further FCO Services' contacts for staff wishing to raise a concern over Fraud and Theft, Data Handling and Conduct.

## Health and Safety

The health and safety of FCO Services staff is paramount to the organisation, and is demonstrated through robust policies, procedures and standards. Health and Safety performance is measured through a programme of 26 internal audits and these achieved an overall score of 95% across the business. The Executive Committee have agreed to implement a programme of targeted improvements based on the audit findings. In 2011 we achieved British Safety Council 4 Star accreditation for our safety management and the Executive Committee have agreed to embark on the re-accreditation process in 2014/15. An IT based solution for the FCO Services Safety Management System continues to be developed using Sharepoint/PSN360.

## Correspondence from the public

During the financial year we answered five FOI requests, all of which were answered within statutory deadlines (including issuing extensions when 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 86% in the financial year ending March 2014.

## Sickness absence

The average number of working days lost per employee due to sickness absence was 4.9 in 2013/14. This compared to 5.9 days in 2012/13 and 7.6 days across the public sector. The improvement reflects robust management of absence and, in particular, a focus on stress-related and long-term absences.

# Sustainability Report

*FCO Services is fully committed to the Greening Government Commitments (GGC), and its obligation to reducing the impact we have on the environment, as well as promoting and supporting sustainability in all aspects of our activities.*

Sustainability reporting is a key part of demonstrating that commitment, as well as increasing transparency, and accountability of our performance against government targets and related expenditure. In addition, FCO Services aims to reduce costs and make efficiencies, where possible.

## *Strategy and Governance*

1. The government's continued commitment to sustainable development and the sustainability agenda means that FCO Services recognises the importance of reducing its environmental impact. Reporting on GGC targets and carbon offsetting is compulsory for all government departments.
2. FCO Services continues to work with the FCO towards the achievement of the GGC target, and performance against these targets is monitored in conjunction with the FCO. The GGC targets apply to the FCO's UK operations only, but also cover the sustainability impact of FCO Services (as well as Wilton Park Conference Centre).
3. As tenants of the FCO, FCO Services is committed to aligning to these targets, and supporting the FCO by meeting its contribution to these targets. The methodology for the split has been fully agreed with the FCO and uses headcount as a basis for calculating the respective elements and to apportion the effects accordingly.

## *Summary of performance*

1. This report covers the environmental impacts within the scope of the GGC targets and carbon emissions associated with the Prime Ministerial policy that departments purchase offsets for international flights originating in the UK. The GGC data applies to FCO Services' UK operations only, and non-wider market impacts.
2. All sustainability figures in this report relate to FCO Services' performance only. Financial figures relate to FCO Services' expenditure in some areas, and their proportionate share and related impact. This performance measurement is also normalised to allow comparison between years and across departments and other public bodies.
3. FCO Services has made good progress in meeting their contributory share of the FCO's targets. Greenhouse Gas Emissions reduced by 15% in 2013/14 (after adjustments for the wider market impacts). The number of domestic flights rose by 46%, with a total of 19 flights for the year. Waste arising has increased by 5%. Office paper procurement decreased by 8% and water consumption fell by 3%. Measures to enhance biodiversity continue at our Hanslope Park site.
4. The FCO Services fleet is the other main source of travel emissions within FCO Services. However, we aim to reduce the environmental impact of road travel through the continued investment in our fleet. Two vehicles have recently been replaced with hybrids, with a CO<sub>2</sub> emission of just 89g/km per vehicle (compared to the outgoing vehicle figures of 196g/km per vehicle). Two further vehicles have been introduced with stop/start eco diesel engines producing just

88g/km of CO2 per vehicle, significantly less than the vehicles they have replaced. In addition, there are three other vehicles in the process of replacement; the new vehicles will also have stop/start technology with a CO2 emission of just 109g/km compared to 151g/km for the outgoing vehicles. The fleet has been increased by 6 vehicles to supplement FCO Services' new European road schedule, including three lorries with Euro V spec which currently exceeds the current government guidelines regarding Euro emissions.

5. FCO Services remains on track to meet its contribution of the GGC targets for greenhouse gas emissions, paper and waste reduction. The three scopes 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).

Performance against the SOGE targets is summarised in the following table:

Impact	2013/14 Performance	FCO Target for 2014/15 (unless other year stated) FCO Services contributes to these targets	On/Off track to meet target
Greenhouse Gas Emissions			
Greenhouse gas emissions from UK estate, vehicles and domestic train and air travel	2361	14,426 tCO <sub>2</sub> e (a reduction of 25% on 2009-10 emissions)	Currently meeting target
Estate energy expenditure	£690,667		
CRC Energy Efficiency Scheme expenditure	£13,788 (£42,570 provision made in accounts. See Note 10)		
Flights			
No. of domestic flights	19	588 flights (a 20% reduction on 2009/10 flights by 2015)	Not on track to meet target
Vehicle and domestic train and air travel expenditure	£330,401	-	-
Expenditure on GCOF carbon offsets for UK originated international flights	£2,522	-	-
Emissions associated with those international flights	*3,362 tCO <sub>2</sub> [*See Note 9]	-	-
Water			
Office water consumption	9.4 cubic metres per Full Time Equivalent	>6m <sup>3</sup> per FTE = poor practice 4m <sup>3</sup> – 6m <sup>3</sup> per FTE = good practice <4m <sup>3</sup> per FTE = best practice	Not on track to meet target
Office water expenditure	£12,966	-	-
Paper			
Paper consumption	6,304 A4 reams equivalent	35,036 A4 reams equivalent (a reduction of 10% on 2010/11 consumption).	Currently meeting target
Waste			
Waste arising	140 tonnes	947 tonnes (a reduction of 25% on 2009/10 waste arising)	Currently meeting target
Total waste disposal expenditure	£28,171	-	-

*\*This refers to the amount of carbon FCO Services purchased to offset its international flights. The actual amount is 2085 tCO<sub>2</sub>, excluding wider markets and 3362 tCO<sub>2</sub> altogether. FCO Services offsets the total figure of 3362 tCO<sub>2</sub>.*

## 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; however, 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

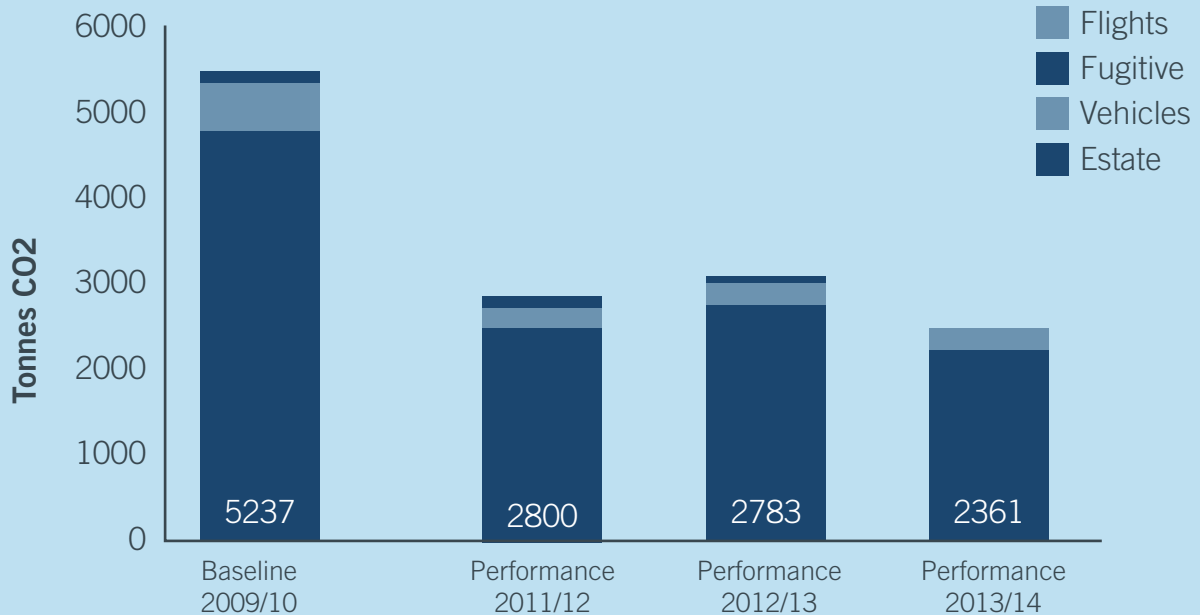
reporting; To allow like-for-like comparison between years and organisations, all data has been re-baselined (from 2009/10) on this basis. In addition, environmental impacts have been normalised by dividing consumption by headcount; this produces simple indicators of like-for-like comparison for future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

2. 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 776; 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) 2013/14	Per full time equivalent (FTE) 2012/14
Greenhouse gas emissions	3.0 tonnes of CO <sub>2</sub> e per FTE	3.5 tonnes of CO <sub>2</sub> e per FTE
Office water consumption	9.4 cubic metres per FTE	9.8 cubic metres per FTE
Waste arising	180 kg per FTE	170 kg per FTE

Greenhouse Gas Emissions	kWh/miles/no.	tCO <sub>2</sub>	GBP (£)
Electricity (Non-Renewable)	4,053,771	1960	£477,836
Electricity (Renewable)	0	0	0
Gas	302,025	56	£9,619
Heating Oil	46,058	13	0
Biodiesel	460,000	1	£58,327
Biomass	108,656	0	0
District Heating	673,773	179	£144,885
Fugitive	-	35	-
Domestic flights	4,831	1	£1,490
Train	48,536	5	£23,533
Private mileage	237,645	82	£89,601
Fleet	54,466	18	£90,245
Chauffeur Service	3,968	1	£48,120
Car Hire	11,796	3	£18,850
Taxis	48,529	7	£61,562
<b>TOTALS:</b>	5,644,283kWh 409,771 Miles	2361	£1,024,068

## Graphical Analysis: Total CO2e



### PERFORMANCE COMMENTARY (Including Targets)

FCO Services' Greenhouse Gas emissions fell by 15% in 2013/14 largely due to the decommissioning of a legacy IT system and the mild winter.

### CONTROLLABLE IMPACTS COMMENTARY

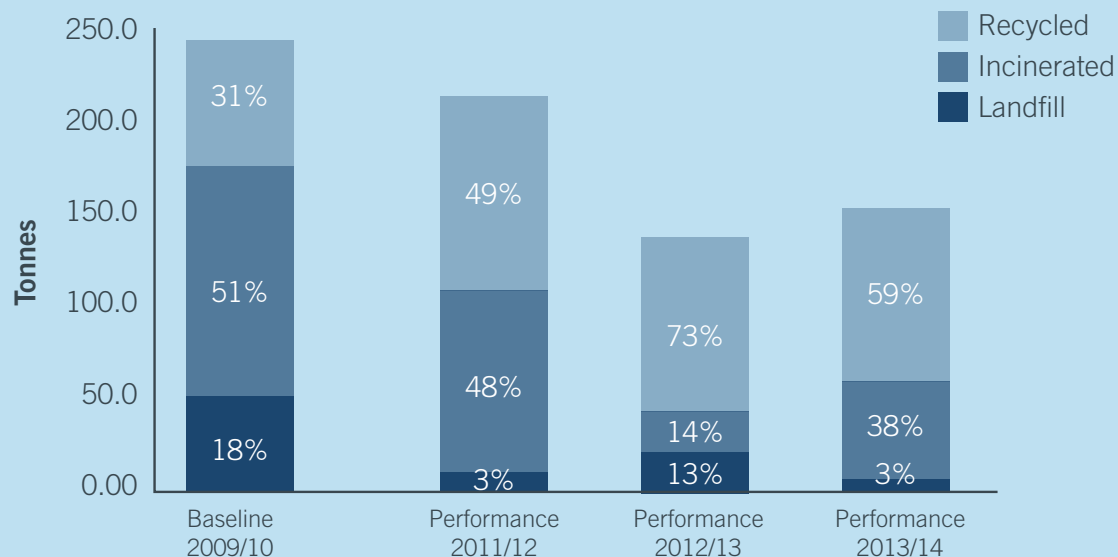
FCO Services' direct impacts are mainly from fossil fuels and electricity. These are being reduced through a combination of energy efficiency measures and the heating of our Hanslope Park site with 100% biodiesel from waste and second generation oils. In addition, the continued investment and expansion of the hybrid fleet continues to reduce emissions.

### FUTURE MEASURES

The FCO is continuously reviewing possibilities for greater efficiencies, and intend to install further energy efficient equipment such as LED lighting. The new ICT contract will also lead to significant improvements in the energy efficiency of the data-centres. Longer term options for generating renewable energy at the Hanslope Park site are being explored.

WASTE	2013/14	
	Tonnes	GBP (£)
Total Waste	140	£28,171
Hazardous Waste	3	£2,392
<b>Total waste by method of disposal</b>		
Landfill	4	0
Reused/Recycled	83	£12,559
Incinerated (without energy recovery)	0	£2,279
Incinerated (energy from waste)	53	£13,333

### Graphical Analysis: Total Waste



### PERFORMANCE COMMENTARY

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

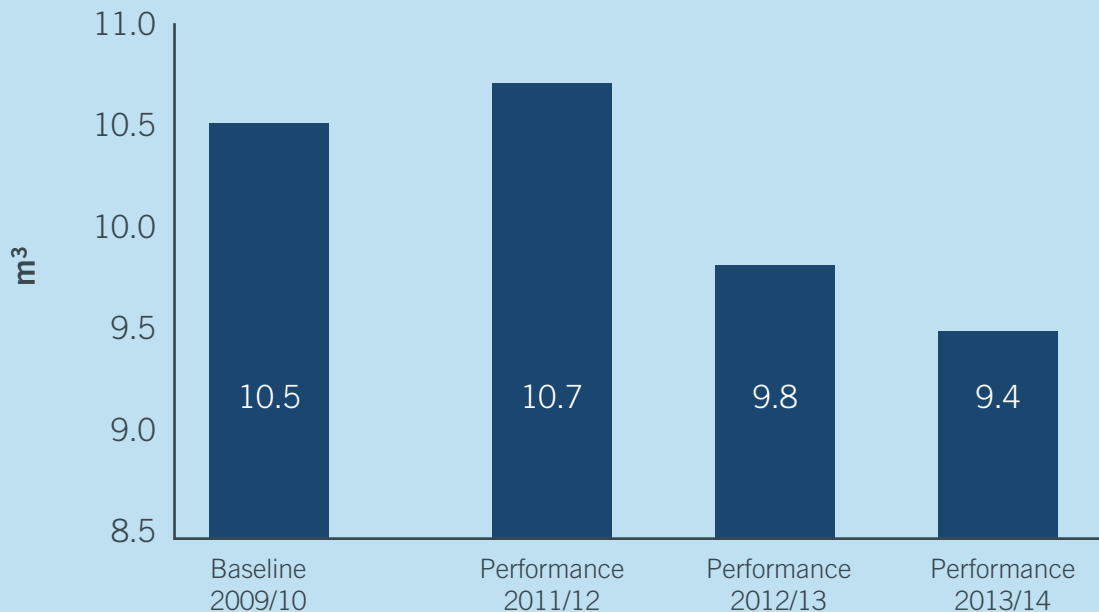
### CONTROLLABLE IMPACTS COMMENTARY

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

FCO Services (Secure Disposals) recycled 4200 printer cartridges; the cartridges were reused and the cardboard recycled. The total weight diverted from landfill equates to between 4200-6300kg (based on boxed cartridges weighing between 1-1.5kg). This raised £15,673 which went to various charities.

FINITE RESOURCE CONSUMPTION – WATER (SUPPLIED)	Cubic metres	GBP (£)
Office Water Consumption	6555	£12,966
Non-Office Water Consumption	3291	£7,395
Total	9846	£20,361

### Graphical Analysis: Office Water Consumption all Buildings (m<sup>3</sup> per person)



### PERFORMANCE COMMENTARY

Office water consumption decreased from 9.8m<sup>3</sup> per FTE to 9.4m<sup>3</sup> per FTE however consumption remains high, above the target and benchmark (where between 4-6m<sup>3</sup>/FTE is considered good practice). An evaporative cooling plant in a 'Non-Office' data centre consumes a significant volume of water.

### CONTROLLABLE IMPACTS COMMENTARY

Controllable impacts include water use in washrooms, canteens, evaporative cooling systems for data-centres and building and vehicle 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, customers, and suppliers; and we actively seek out opportunities to improve the environment, and the way in which we do business.

In 2013/14 FCO Services applied to become a registered participant in the EU Code of Conduct for Data Centres; further reinforcing our commitment to making both energy and cost savings (Registration approved June 2014). This is a significant step in our Greening ICT Programme that will benefit our customers in the long term; it also aligns to the government's ICT greening strategy.

In addition, FCO Services, alongside the FCO, was awarded the Carbon Trust Standard (for Greenhouse Gases), and the Carbon Trust Standard for Waste Management; endorsing and improving the robustness of our environmental operations.

## *Biodiversity and the natural environment*

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

FCO Services has no direct influence on the estate, as tenants. However, there are some points worthy of noting; the FCO's improved commitment to biodiversity in 2013/14 through a positive management approach to existing habitats, species and landscaping at its Hanslope Park site. There is active vegetation management with designated areas for wild flowers; in addition, a arboriculture survey is conducted annually. Tree maintenance is an ongoing activity, and ecological surveys are carried out prior to any works on site

The FCO Services' on site nursery continues to promote habitats for birds and insects and staff are actively involved in bird feeding on site.

## *Sustainable Procurement*

FCO Services adopts UK government best practice in sustainable procurement. Products are sourced via government framework contracts, which place up to date sustainability obligations upon our suppliers. Where bespoke contracts are placed, UK government sustainability terms and conditions are incorporated. FCO Services also contributes to the FCO Greening Government Commitments for Sustainable Procurement.

The sustainability credentials of our suppliers are examined and reviewed rigorously in the selection process. FCO Services also reviews the ongoing compliance with sustainability requirements by its suppliers; for example, Forest Stewardship Council chain of custody certification in respect of timber procurement is monitored.

The emissions of our freight and private hire contractors are regularly reviewed as part of our ongoing contract management activity.

## *People and Initiatives*

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

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 and collaborate in pan government initiatives including Closed Loop Paper Reduction, to encourage better more efficient printing.

## Notes

1. FCO Services (along with Wilton Park) is included in the figures of the FCO report because it is 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 16% after allowing for wider market impacts.
4. The greenhouse gas figures exclude carbon emissions associated with one wider market server hosting service at the FCO's Hanslope Park site. With the agreement of Defra, DECC and OGC, responsibility for reporting those emissions were contractually passed to the customer. Estate electricity consumption includes electricity consumed in charging FCO Services owned electric vehicles. Some emissions from official train and underground, bus or coach travel have not yet been base-lined or reported.
5. Defra conversion factors have been used to calculate carbon emissions. Some totals include estimates where actual readings could not be taken. The methodology and calculations for each estimate is documented.
6. The greenhouse gas emission figures are non-weather corrected.
7. The expenditure figures relate to FCO Services' UK operations only and include VAT. FCO Services purchase fuel for the fleet (except electricity for electric vehicles).
8. The expenditure figure used for normalising the sustainability data includes all FCO Services' wider market (non FCO) revenue; this equates to £59.6m.
9. Expenditure on GCOF carbon offsets represents carbon offsets purchased to offset FCO Services' air travel originating in the UK in 2013/14. The actual amount is 2085 tCO<sub>2</sub>, excluding wider markets and 3,362 tCO<sub>2</sub> total.
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 £13,788 for 2013/14 (plus £10,602 accrued for 2012-13 and £18,180 accrued for 2011-12) CRC allowance costs.

**Christopher Moxey**

Chief Executive and Accounting Officer

27 June 2014

# Directors' Report

## Review of our Financial Performance

In its sixth year as a Trading Fund FCO Services has had another successful year, meeting all its formal financial Ministerial targets. However it is clear from a comparison with the previous year that our overall gross margins have come under pressure, as we continue to deliver best possible value for money to our customers, including keen pricing, and doing more for less.

At the same time, we recognise the need to maintain an investment programme in new products and services, particularly in the area of IT. This year we have invested £5.4m in capital expenditure, of which £4.3m relates to the development of our Cloud Services' capability.

### Financial Outturn 2013/14

Total revenue achieved in 2013/14 was £157m which is an overall increase of £15.8m against revenues in the previous year of £141.2m.

This increase is spread across all three delivery groups, and is attributable to significant growth in security related programmes to our FCO customer, offset by year on year declines in the FCO IT and FCO Estates business areas as large projects brought forward from 2012/13 have come to an end; growth in additional Estates business with Friendly Foreign Governments; a marked increase in revenues from Cloud technology; and an improvement in revenues from RTSS network activity for both FCO and non-FCO customers.

The significant increase in revenue outturn has been seen in both FCO and non-FCO markets. On a year on year comparison, FCO revenue has increased by £7m (7.8% on last year's revenue), while non-FCO business has increased by £8.8m (17.3%).

FCO Services achieved a gross surplus before operating expenses of £31.3m, a return of 19.9% on revenue. This compares with a gross surplus last year of £35.3m, a return of 25%. This reduction reflects a similar trend as in 2012/13 and is a result of changes in product mix, increasingly competitive pricing, and investment in technical resource to support areas of revenue growth such as Cloud and Security and Property offerings.

Operating expenses of £27.5m show a reduction of £1.5m from the previous year, and represent 17.5% (2012/13 20.5%) of revenue.

Overall FCO Services achieved an operating surplus before financing for 2013/14 of £3.8m, a return of 2.4% on revenue. This compares with a surplus before financing for 2012/13 of £6.3m, a return of 4.5%.

The segmental performance analysis in note 3 to the Accounts highlights the fact that the Client Delivery group is showing a much improved performance in terms of revenue generation, with an increase in revenue of £5.7m, to £51.7m compared with £46.1m in 2012/13, a 12.4% improvement. The impact of product mix, and lower margins in both IT, and Security projects, has driven a reduction in gross margin from 27.1% in 2012/13 to 21.5% in the current year.

Revenue performance by the Operations Delivery Group is also showing a significant improvement in revenue of £17m compared to the previous year. Almost half of this relates to the transfer of the diplomatic bag activity into this Group from Services & Logistics; the remaining increase comes from Cloud technology revenues, as we begin to see customer uptake in this area. The gross margin has fallen by

3.8 percentage points, from 21.9% to 18.1%, driven largely by impairments of some of the development costs and irrecoverable research costs, relating to the Cloud Platform, and a change in the pricing model for RTSS.

The Services and Logistics group's results reflect the incorporation of the diplomatic bag service, and its associated revenues and margin, into the RTSS service within the Operations Group. In other respects the financial outturn is in line with the previous year.

### **Financing income and costs**

Interest of £102k was earned in the year from cash on deposit with the Government Banking Service, compared to a value of £97k in 2012/13.

Financing costs of £99k (2012/13 £178k) relate to interest on loans from the FCO, and also includes finance lease charges of £3k (2012/13 £0k). The year on year reduction arises from the repayments of the Working Capital and Vesting Day Loans.

The resulting net finance income is £3k, compared to a net finance charge of £81k in 2012/13.

### **Surplus for the year**

After taking into account the net financing income, FCO Services produced a surplus before dividend of £3.8m, a return of 2.4% on revenue. After deduction of the statutory dividend of £1.0m (2012/13 £0.9m), and the discretionary dividend of £5m (2012/13 £0m), there was a retained deficit for the financial year of £2.2m (retained surplus of £5.3m in 2012/13).

### **Net Assets**

At 31 March 2014, FCO Services' Statement of Financial Position showed total net assets of £30.5m against an opening year position of £32.8m. This negative movement of £2.3m is

driven by the payment of a £5m discretionary dividend to our owner and shareholder, the Foreign & Commonwealth Office. This, combined with the statutory dividend, was £2.3m higher than the in year surplus.

The net assets comprise: non-current assets £12m (2012/13 £9.3m); inventories £2.8m (2012/13 £2.8m); cash and cash equivalents £25.5m (2012/13 £32m); and other net liabilities of £9.6m (2012/13 £11.3m).

### **Cash Generation**

The level of cash of £25.5m at 31 March 2014 is a reduction of £6.5m from the end of the previous financial year. This reduction in cash, together with the cash inflow generated from the surplus and other non cash items of £6.4m, funded a net investment in net current assets of £0.6m; a net investment in non-current assets (mainly development assets) of £5.4m; repayment of £1.0m of FCO loans; and the payment of a statutory dividend of £0.9m, and a discretionary dividend of £5m.

### **Cash Management**

The effective credit management of customers has remained a focus for FCO Services throughout the year. Debtor days outstanding were 29 days at the end of March 2014 (2012/13 18 days).

FCO Services remains committed to the prompt payment of supplier invoices for goods and services received in accordance with the government's target of paying at least 80% of all properly rendered invoices from suppliers within five working days from receipt. For 2012/13, FCO Services achieved an average success rate in meeting this target of 86% (2012/13 88%).

Effective cash management ensured that liquidity remained strong, with a quick ratio of 1.5 at the end of March (2012/13 1.7).

Performance against Formal Ministerial Targets  
Long term goal

	Short term Objective	Key Performance Indicator	Target 2013/14	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 and tax producing a net margin of between 1% and 5%	2.4%
		Return on Capital Employed	A Return on Capital Employed of at least 3.5% (weighted average)	12.0%
To put the customer at the heart of everything we do, driving innovation and delivery	To continually improve customer satisfaction in all aspects of our products and service delivery.	Customer satisfaction rating derived from an independent, quantitative customer survey	Customer satisfaction rating to be within or above the 2nd quartile in the customer satisfaction index, as produced by the Institute of Customer service	67.1 against a public sector (national) sector average score of 65.3
Processes, efficiency and effectiveness	To be an efficient organisation committed to continuous improvement in operational efficiency	Cost of Corporate functions will be controlled in line with revenue	Cost of Corporate functions as a percentage of revenue is less than 10%	8%
	To implement process improvements that enable effective measurement, understanding and control of the business	Utilisation rate for revenue earning staff (including work on customer bids and R&D)	A utilisation rate for revenue earning staff of between 75% and 80%	78%
People	To continually invest in staff to build a high performance, customer focussed and innovative culture	Employee engagement in FCO Services using Civil Service survey	Achieve a staff survey employee engagement score of 60%	57%

## *Financial Performance targets*

FCO Services' financial performance in 2013/14 has again been measured against two key financial performance indicators: In year surplus before interest, and Return on Capital Employed (ROCE).

### **In year surplus: Target achieved**

FCO Services has met its formal target of a surplus of between 1 and 5% of revenue, achieving an actual result of 2.4% (2012/13 4.5%).

### **Return on Capital Employed (ROCE): Target achieved**

ROCE is based on the surplus before financing, expressed as a percentage of average net assets. The result for the year was a ROCE of 12.0% (2012/13 21.1%) compared against a weighted average target in accordance with HM Treasury guidance of 3.5%. Given the service based, non capital intensive nature of the business, ROCE is likely to remain higher than 3.5%.

## *Non Financial Performance targets*

### **Customer satisfaction: Target achieved**

Following consultation with the Institute for Customer Service, the Ministerial target relating to customer satisfaction has been met. The 2013/14 report saw three further organisations included in the survey, all of which are central government departments, some with similar business-to-business profile as FCO Services. FCO Services' results placed it in the second quartile.

### **Efficiency of Corporate Functions: Target achieved**

The target cost of FCO Service's corporate functions as being no more than 10% of revenue has been achieved, with the cost of corporate areas representing 8% of revenue in 2013/14.

## **Utilisation rate: Target achieved**

Our utilisation rate target of a rate of between 75% and 80% has been achieved, with an average over the year of 78% utilisation being achieved by revenue earning staff. Staff compliance with the prompt and accurate completion of time –recording has remained a focus of attention throughout the year.

## **Employee Engagement: Target not met**

Our engagement score stayed the same at 57% in 2013 and is still at the median for the civil service

## **Pensions**

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

## **Events after the Reporting period**

There has been one significant post balance sheet event, details of which are recorded in note 25 to the accounts.

These Accounts have been audited by the Comptroller and Auditor General whose certificate and report appears on page 69. The total audit fee for 2013/14 is £95k (2012/13 £100k).

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

## **Christopher Moxey**

Chief Executive  
27 June 2014

# Lead Non-Executive Director's Report

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

There can be little doubt that the pressures on public spending remain as real now as they were at the start of the current financial crisis. This environment looks unlikely to change for some time to come. The Foreign and Commonwealth Office, and the government more widely, will continue to operate under tight fiscal conditions. So it is all the more important that innovation and value for money remain high on the agenda of FCO Services.

As government departments seek creative ways to make their scarce resources go further, FCO Services continues to offer tailored and cost-effective solutions. Thanks to high quality leadership and the skill and professionalism of its people, I am pleased that, as this Report confirms, FCO Services has continued to perform strongly in 2013/14.

It has been my privilege to chair the FCO Services Board since 2007, working with a group of people with a broad range of public and private sector experience to provide constructive challenge, guidance and support to the Chief Executive and his team.

During the last year, the Board has focused on a number of the key strategic challenges facing the organisation – including the new Government-to-Government agenda and the opportunities of Cloud-based technologies. The organisation has undergone a significant internal realignment. This will help to ensure that we continue to meet the needs of our customers, as they face strong financial and operational pressures. Over the coming months, at the Board's request, there will be a review of the relationship between the FCO and FCO Services. This will help us to remain both relevant and responsive to our core customer, our owner and a key stakeholder.

The composition of the Board has changed over the course of the year. In March, Neil Masom stood down from the Board. As someone who has held both non-executive and executive roles, he had unique insight into and knowledge of the organisation: I am very grateful to him for his valuable contribution over the years.

The Board is very conscious of the critical role which the Audit and Risk Assurance Committee plays. We have strengthened its membership by appointing a new Non-Executive, to sit exclusively on the ARAC. Michael Attenborough-Cox joined the Committee in August 2013, and brings with him extensive private sector experience. We welcome him to the organisation, and look forward to benefiting from his knowledge and experience as our organisation moves forward.

As in previous years, we worked to maintain the visibility of the Board throughout the organisation. Board members have continued to be pro-active and have regularly engaged with different parts of the business. As well as holding meetings in both London and Hanslope Park, staff have had the chance to meet with Board members individually and to talk about their work.

I started by saying that the public sector finances remain tight. Even so, I remain confident that FCO Services will continue to go from strength to strength, offering tangible benefits to its customers and stakeholders across government and beyond. The staff who make up FCO Services, both at home and overseas, remain committed to ensuring that the organisation can deliver its objectives. They are proud to be part of the Foreign and Commonwealth Office. Given all they have achieved together, I am certain that they will be able to meet future challenges head on, as part of one FCO Services team – and, by so doing, will remain an indispensable partner to the FCO and wider government.

**Sir Richard Stagg,**  
*Chair, FCO Services Board*

# 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 2014. 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:

**Christopher Moxey** (Chief Executive and Accounting Officer) appointment was extended on 6 February 2014 to 4 August 2015.

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

**Andrew Coller** (Procurement and Commercial Contracts Director) holds an open-ended appointment until retirement.

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

**Daniel Payne** (Client Delivery Director) holds an open-ended appointment until retirement.

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

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

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

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

**Philip Colley** (Interim Commercial Director) was transferred on 15 October 2012 to a two year Fixed Term Contract.

**Neil Masom** (Interim Deputy Chief Executive) was appointed on 4 December 2012 on a Fee Paid basis for 104 days. On 22 July 2013 this

was extended by 52 days to 156 days and on 1 November 2013 by a further 52 days to 208 days. He is paid through the FCO Services' payroll. He resigned on 9 March 2014.

No compensation is payable for early termination.

	Salary £000		Performance Related payment £000		Pension Benefits (to nearest £000)		Total £000	
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13
Richard Bishop (to 30 September 2012)	N/A	35-40 (65-70 full year equivalent)	N/A	0-5	N/A	N/A	N/A	40-45 (70-75 full year equivalent)
Sarah Cevro (Note 1)	100-105	95-100	Nil	Nil	20	34	120-125	130-135
Andrew Coller (from 25 March 2013) (Note 2)	100-105 (95-100 full year equivalent)	0-5 (95-100 full year equivalent)	Nil	Nil	24	Nil	125-130	0-5 (95-100 full year equivalent)
Philip Colley (Note 3)	105-110	125-130	Nil	Nil	36	17	140-145	140-145
Neil Masom OBE (from 4 December 2012) (Note 4)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nigel Morris	80-85	75-80	Nil	Nil	4	3	80-85	80-85
Christopher Moxey (Note 5)	135-140	130-135	10-15	10-15	35	49	180-185	190-195
Daniel Payne	105-110	100-105	5-10	5-10	36	33	150-155	145-150
Kerry Simmonds (to 10 February 2013) (Note 6)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Helen Sullivan (Note 7)	75-80	80-85 (75-80 full year equivalent)	5-10	Nil	19	26	105-110	105-110
David Williams	110-115	105-110	Nil	5-10	43	31	150-155	145-150

	2013/14	2012/13
Band of Highest Paid Director's Total Remuneration (£'000)	175-180	175-180
Median Total Remuneration £	36,963	35,493
Ratio (Note 8)	4.8	5.0

Note 1. Benefits in kind were received by Sarah Cevro to the value of £1,488 for Salary Sacrifice Child Care vouchers. (FY 12/13 benefits in kind were received by Sarah Cevro to the value of £1,500 for Salary Sacrifice Child Care vouchers).

Note 2. During FY 13/14, Andrew Coller, received remuneration of £0k-£5k that related to FY 12/13, the value disclosed in FY 12/13. Pension benefit values for Andrew Coller include a preserved award.

Note 3. (Relates to FY 12/13 when Badenoch and Clark provided the services of Philip Colley, in the role

of Interim Commercial Director from 14 February 2012 until 14 October 2012. The total fees amounted to 75k-£80k. On 15 October 2012 Phil Colley, continued in the role of Interim Commercial Director transferring to a two year Fixed Term Contract and received £45k-£50k, during FY 12/13, at an annual rate of £105k-£110k).

Note 4. Neil Masom was appointed on a Fee Paid Contract for 104 days from 4 December 2012. On 22 July 2013 this was extended by 52 days to 156 days and on 1 November 2013 by a further 52 days to 208 days until his resignation on 9 March 2014. His payments are processed through the FCO Services' payroll. The total

fees paid amounted to £135k-£140k (which included £10k-£15k for FY 12/13 and £0k-£5k was accrued for FY 13/14). This would equate to £175k-£180k for a full year (FY12/13 he was paid £45k-£50k, which would equate to £175k-£180k for a full year. Neil Masom's fees from 1 April 2012 to 30 November 2012 inclusive are included as a Remuneration payment in the Non-Executive Directors table).

Note 5. Pension benefit values for Christopher Moxey include a preserved award.

Note 6. (FY 12/13 Badenoch and Clark provided the services of Kerry Simmonds, who assisted the organisation with a number of major projects. The total fees amounted to £125k-£130k, which would equate to £140k-£145k for a full year).

Note 7. (During FY 12/13, Helen Sullivan, received remuneration of £0k-£5k that related to FY 11/12).

Note 8. The basis for the median pay calculation for both financial years is 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 above table and notes have been subject to audit

## Salary

'Salary' includes gross base salary; 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 3 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 level of bonuses awarded to the top 25% are set as £9,600 (SMS 1), £11,250 (SMS 2), £13,500 (SMS 3).

The table above shows the performance related payments paid in 2013/14.

## Benefits in kind

The monetary value of benefits in kind covers any taxable benefits not given to the individual as cash. Other than detailed above, no other executive member or key management personnel received any benefits in kind in FY 2013/14. (For FY 12/13 no other executive member or key management personnel received any benefits in kind).

	Accrued pension at pension age as at 31/03/14 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/03/14	CETV at 31/03/13	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	£000
Richard Bishop (to 30 September 2012)	N/A	N/A	N/A	332	N/A	N/A
Sarah Cevro	10-15 plus a lump sum of nil	0-2.5 plus a lump sum of nil	197	167	13	-
Andrew Coller (from 25 March 2013) (Note 1)	10-15 plus a lump sum of nil	0-2.5 plus a lump sum of nil	209	174	17	-
Philip Colley (from 15 October 2012)	0-5 plus a lump sum of nil	0-2.5 plus a lump sum of nil	56	17	31	-
Nigel Morris	30-35 plus a lump sum of 95-100	0-2.5 plus a lump sum of 0-2.5	732	717	4	-
Christopher Moxey (Note 1)	25-30 plus a lump sum of 20-25	0-2.5 plus a lump sum of -2.5-0	516	449	30	-
Daniel Payne	10-15 plus a lump sum of nil	0-2.5 plus a lump sum of nil	115	90	13	-
Helen Sullivan	10-15 plus a lump sum of nil	0-2.5 plus a lump sum of nil	234	198	18	-
David Williams	25-30 plus a lump sum of nil	2.5-5 plus a lump sum of nil	422	363	31	-

Note 1. Pension disclosures for both Andrew Coller and Christopher Moxey include a preserved award.

The above table has been subject to audit.

## *Civil Service Pensions*

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase Legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 1.5% and 6.25% of pensionable earnings for classic and 3.5% and 8.25% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2014. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos members build up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase Legislation. In all

cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos. Further details about the Civil Service pension arrangements can be found at the website [www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)

### *Cash equivalent transfer values*

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension

figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are 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 person), are appointed by the FCO Services Chief Executive in his capacity as Accounting Officer on fixed appointments. The FCO as sponsor, appoints the Chair following a recommendation from the Chief Executive. Their remuneration and terms are agreed at the time of their appointment, which is

normally for three years with the option to be extended under mutually agreed terms. No compensation is payable for early termination.

FCO Services' Non-Executive Directors are not FCO Services employees, except for Sir Richard Stagg and Andrew Mitchell, 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 Sir Richard Stagg or Andrew Mitchell, who are civil servants employed by the Foreign and Commonwealth Office. Travel and accommodation expenses may be payable by FCO Services for Sir Richard Stagg's attendance at FCO Services Board meetings.

The Non-Executive Directors, (excluding Sir Richard Stagg and Andrew Mitchell), are paid through the FCO Services payroll.

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

**Wendy Barnes** (Chair of the Audit Committee), appointed on a three year contract commencing on 1 September 2009 as a Non-Executive Director which has been extended to 31 December 2014.

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

**David Kogan OBE**, appointed on a three year contract commencing on 1 March 2008 as a Non-Executive Director which has been extended to 30 June 2014.

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

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

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

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

### *Remuneration payments to Non-Executive Directors*

	2013/14	2012/13
	£000	£000
Sir Richard Stagg KCMG (note 1)	-	-
Andrew Mitchell CMG (note 1)	-	-
Michael Attenborough-Cox (note 2)	0-5 (5-10 full year equivalent)	N/A
Wendy Barnes	15-20	15-20
Stephen Hawker CB (note 3)	15-20	15-20
David Kogan OBE	15-20	15-20
Neil Masom OBE (to 30 November 2012) (Note 4)	N/A	10-15 (15-20 full year equivalent)

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

*Note 2. Michael Attenborough-Cox received remuneration of £0k-£5k during FY 13/14 and £0k-£5k was accrued for FY 13/14, which equates to £5k-£10k for a full year.*

*Note 3. During FY 13/14 Stephen Hawker also chaired the Government to Government (G2G) Sub-Committee; his fees in respect of this amounted to £5k-£10k. (FY 12/13 Stephen Hawker also chaired the G2G Interim Board; his fees in respect of this amounted to £10k-15k).*

*Note 4. Neil Masom OBE (Former Chair of the Audit Committee), resigned on 30 November 2012.*

*The above table and notes have been subject to audit.*

### **Christopher Moxey**

Chief Executive and Accounting Officer

27 June 2014

# Annual Governance Statement and Risk Assessment

## *1. Scope of responsibility*

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

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

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

## *2. The governance framework*

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

The FCO Services' Board is responsible for the strategic management of the business. Chaired by Non-Executive Director, Sir Richard

Stagg and comprising the Chief Executive, his Executive Directors and part-time independent Non-Executive Directors, the Board supports the Chief Executive in maximising the organisation's performance. Meeting at least six times per year, the Board is responsible for agreeing FCO Services' strategic agenda, setting corporate policy and monitoring performance at a corporate level. All Board members are required to declare any interests they may have to enable possible conflicts to be managed. Further, our Non-executive Directors are appointed through processes of fair and open competition. The combination of these two factors ensures the Board provides impartial and well rounded advice.

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

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

The Board, under the direction of the Chair, has established an annual performance management process to evaluate the Board's overall performance and effectiveness, as well as the performance and contribution of Board members. This self-assessment format was agreed in 2008 and is conducted annually,



measuring both behaviours and processes on a numerical scale with the option for further subjective views.

The views expressed in the latest self assessment were positive. In the previous year's assessment, the review identified a need to ensure that all members of the Board, not just Executives, have a formal evaluation of their contribution and skills. This has now been introduced, and is a move welcomed by the Board. However, although the Board has held events with staff in Hanslope Park, and regular messages have been issued following Board meetings, the 2013/14 assessment suggests there is still a feeling that more could be done to improve engagement levels with staff. As such, the Board recognises that further improvements are needed and will continue to focus on this throughout 2014/15.

The Audit and Risk Assurance Committee supports the Board and Chief Executive in the management of risk, internal control, and assurance and governance. Meeting at least four times per year, in 2013/14 its membership consisted of three Non-Executive Directors (one serving as Chair) and a Finance representative from the FCO. Two of the three Non-Executive Directors also sit on the Board. The Committee is also attended by the FCO Head of Internal Audit and the National Audit Office, as well as members of the Executive Committee as required.

In February 2013 the Board established the FCO Services Government to Government (G2G) Oversight Sub-Committee, and this continues to provide governance, management oversight and advice to the FCO Services Board and Chief Executive on G2G opportunities.

The membership consists of the Chair (an FCO Services Non-Executive Director), an Independent Adviser specialising in regional

knowledge, FCO Services' Chief Executive and Accounting Officer, FCO Services' Finance Director, FCO Services' HR Director, FCO Services' Client Delivery Director, representatives from the programme team and relevant FCO, and Home Office representatives.

The Executive Committee usually meets twice each month, consisting of the Chief Executive and his Executive Directors, and focuses on managing day-to-day operations, ensuring that resources are used appropriately and that the business performs in line with its objectives.

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

In recognition of the fact that the organisational structure needed change to reflect the now embedded 'Three Pillars' strategy, a revised organisation model was implemented on 1 April 2014, supported by monthly Operational Review Boards chaired by the Chief Executive.

## FCO Services' Board Attendance

Board Member	Possible Board Attendance 2013/14	Actual Board Attendance 2013/14
Sir Richard Stagg KCMG, Non-Executive Director and Chair	6	6
Wendy Barnes, Non-Executive Director	6	5
Stephen Hawker CB, Non-Executive Director	6	5
David Kogan OBE, Non-Executive Director	6	4
Andrew Mitchell CMG, Non-Executive Director	6	4
Chris Moxey, Chief Executive and Accounting Officer	6	6
Neil Masom OBE, Interim Deputy Chief Executive until 10 March 2014	6	5
Danny Payne, Client Delivery Director	6	6
David Williams, Operations Director	6	5
Nigel Morris, Services and Logistics Director	6	6
Phil Colley, Commercial Group Director	6	5
Helen Sullivan, Finance Director	6	6
Sarah Cevro, Human Resources Director	6	4
Andrew Collier, Procurement and Commercial Contracts Director	6	4

## Audit and Risk Assurance Committee Attendance

Audit and Risk Assurance Committee Member	Possible Audit and Risk Assurance Committee Attendance 2013/14	Actual Audit and Risk Assurance Committee Attendance 2013/14
Wendy Barnes, Chair and Non-Executive Director	5	5
Stephen Hawker CB, Non-Executive Director	5	5
Michael Attenborough-Cox Non-Executive Member (Audit Committee Member from 1 August 2013)	3	3
Susan Graham, FCO Deputy Finance Director & Finance representative	5	4

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

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

- To ensure that an appropriate framework of internal controls exists and has been in operation throughout the year;
- To ensure that an appropriate framework for risk management is in place and has been embedded effectively throughout the organisation;
- To agree an audit strategy and an annual audit plan and to monitor progress both of the audit work and management actions agreed in response to audit findings;
- To review the reports of the internal auditor and the Financial Compliance Unit (FCU) and to monitor progress against management action plans;
- To review the annual accounts and recommend adoption to the Board.

In total, 11 new audits were undertaken during the year, plus two follow-up audits and one piece of consultancy. This is a reduction of three from the previous year and builds on the work started in year one of the plan of ensuring the level of effort is proportionate to a more mature organisation. Of these, we have had four Audits rated as providing a “High” level of assurance; eight rated as having a “Moderate” opinion, and one Audit for which the level of assurance is “Low”. This reflects a similar performance to last year and suggests an overall assurance level of moderate as confirmed by the Head of Internal Audit.

Throughout the year FCO Services enjoyed a strong relationship with the National Audit Office (NAO) and close working relations were maintained both formally, through the Audit and Risk Assurance Committee and at Executive working level. The Committee reviewed the findings of the audit of the Half Year accounts and was assured that no significant issues had been identified. The Committee oversaw the development of the Annual Governance Statement and was grateful for the guidance and advice of

the NAO. In accordance with the governance model, a workshop was facilitated by the NAO at which the committee reviewed its performance over the previous year and a number of actions resulted. The Committee acknowledged that the Audit and Risk Assurance Committee was a well run and effective Committee and that the main focus of review was on seeking continuous improvement. With this in mind, the Committee agreed to rename itself as the Audit and Risk Assurance Committee. An additional, Non-Executive Director was appointed with a specific remit to advise on financial matters.

The Financial Compliance Unit provided the Committee with valuable advice and reports on matters relating to the investigation and prevention of fraud, and continued to represent FCO Services on the Government's 'Counter-Fraud Champions' Network. There have been no reported instances of fraud although there are currently three investigations underway into a number of non-compliant credit card expense claims.

FCO Services' Risk Management approach has continued to mature this year. The Committee was pleased with the continued use of FCO Services Risk Appetite Statement. The Assurance Mapping approach continues to develop and will be vital to ensure that the appropriate level of assurance is achieved at the right cost and from the most relevant source. In addition the Executive have agreed to review all outstanding actions and audit recommendations on a regular basis, as an integral part of performance management. This takes place three times a year.

Managing Information Risk continued to receive management attention during the year. In consultation with the FCO, FCO Services has decided to undertake a 'light' version of the Information Asset Maturity Model (IAMM). This decision was taken on the basis that in 2013 FCO Services achieved a full level 3

maturity across all areas from a self assessment supported by The National Technical Authority for Information Assurance, CESG. Third Party suppliers continue to be evaluated annually against their compliance with information management requirements.

The Committee was pleased with the progress made in 2013/14. FCO Services' actions have demonstrated its commitment to the high standards of risk management and control demanded of a Government Trading Fund. There are a number of areas where further progress needs to be made, particularly in ensuring that agreed audit actions are implemented as promptly as possible, but the Committee is confident that there is the will and capability in the Executive to address these.

#### *4. Corporate Governance*

FCO Services operates within the terms of its Framework Document which takes primacy in determining the responsibilities and accountabilities of the Secretary of State for Foreign and Commonwealth Affairs, the FCO and FCO Services. The Framework Document was recently reviewed, 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. First published in 2008 (when FCO Services became a Trading Fund), the revised version contains a number of relatively minor amendments, and more accurately reflects the current governance structures of both organisations.

In addition to this, FCO Services' Corporate Governance Document sets out the Corporate Governance applied within FCO Services (set out in section 2 above) - the design of which has drawn upon the guiding principles published in, "The Corporate Governance Code" and "The Audit Committee Handbook".

The document is reviewed on an annual basis and has been internally assessed by the Board Secretary against the Corporate Governance Code published in July 2011 and Managing Public Money. This assessment concluded that FCO Services corporate governance complied with all relevant aspects of the code. Any departures were aspects only relevant to departmental/ministerial Boards and not applicable to the operations of FCO Services.

## *5. Capacity to identify and manage internal and external risk*

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

All identified risks are managed within the business enabling recognised ownership at Group level and shared accountability at Corporate level. Our managers have clearly defined roles in our risk management approach and are responsible for ensuring that all our people are trained and supported appropriately. Risk management policies and guidance are freely available to staff through our intranet.

The corporate level risks are reviewed regularly by the Executive Committee, the FCO Services Board and the Audit and Risk Assurance Committee so they can ensure that they remain up-to-date and relevant, that controls are strengthened in areas of greatest exposure and that risk management processes are operating effectively. Internal Audit provides me, as Accounting Officer, with an objective evaluation of, and opinions on, the effectiveness of our risk

management, internal control, and governance arrangements. Their programme of work is planned to enable them to assess and advise me on our capacity to handle risk.

## *6. The risk and control framework*

### **6.1 Risk management framework**

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

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

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

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

Detailed assurance information, in line with HM Treasury guidelines, is available to the Internal Auditors. This has been taken into account along with assurance provided by other review and inspection functions and monitoring activity within FCO Services. This has avoided duplication of effort and helped to provide better, more rounded coverage of the strength of risk management, control and governance for the Audit and Risk Assurance Committee and myself as the Chief Executive.

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

## 6.2 System of internal control

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

- the FCO Services Board, which meets bi-monthly to support myself as the Accounting Officer in maximising the organisation's performance, monitoring performance at corporate level, ensuring that the management and controls required to ensure effective governance and control are in place and to provide support, advice and constructive challenge to the executive team in the execution of their duties.
- the Executive Committee, which meets regularly to consider the strategic direction, assess key monitoring information and review corporate risks.
- the Audit and Risk Assurance Committee, which considers all aspects of internal control including the consideration of reports from the internal and external auditors and regular reports from Directors and senior managers on operational and financial aspects of their activities.
- the Health and Safety Committee which meets a minimum of twice a year to consider all aspects of FCO Services' Health and Safety policy and performance, supported by sub-committees for the main operating divisions within the business and clear accountabilities for managers throughout the organisation.
- an annual process of target and budget setting through the Corporate Plan process, covering both Operational and Capital investment requirements.

- a quarterly revised annual planning process
- monthly monitoring of key performance measures and indicators, including comprehensive financial and HR data and project reports.
- project management reviews and controls designed to ensure the effective management of key programmes and projects using project management methodologies and intranet-based tools.
- a system of cascaded delegations for capital and revenue expenditure and authority to contract, supported by clear mandate letters, enforced through system controls and exception reports.
- individual approval of capital (including research and development) expenditure projects, supported by appropriate business cases, by the Executive.
- annual letters of assurance provided by members of my Executive Team, supported by assurances from their senior managers and information asset managers, providing documented assurances of compliance with their operational risk management and internal control responsibilities, identifying any perceived weaknesses and actions to address these.
- a programme of internal audits delivered to Government Internal Audit Standards, providing regular reports and an overall annual opinion on risk management, control and governance within FCO Services.
- external audit provided by the National Audit Office (NAO) who provides internal control comments in their management letters and other reports.
- internal reviews utilising the Managing Risk of Financial Loss (MRoFL) toolkit, with reports and recommendations issued to the Executive Committee.
- internal and external reviews of our Quality Management systems wherein in April 2011, FCO Services achieved ISO 9001 certification for our Quality Management System in delivering our Perimeter and Protective Security and Secure Disposals, and the commercial processes around them. A total of ten processes come under the certification, which defines and controls the processes used to deliver these services to customers; they are audited (internally and externally) to identify continuous improvement opportunities. In March 2014 FCO Services achieved recertification of the current scope, and consideration is now being given to extend the scope into other areas of the business.
- a number of security focussed governance groups notably, the Security Committee which meets quarterly and is chaired by myself as the Accounting Officer.
- other specific risk reviews, including Health and Safety reviews and commissioned third party reviews of particular policies and processes, as appropriate.

### 6.3 Management of information risk

FCO Services is committed to protecting and using its information securely and effectively, in compliance with its legal obligations and with the standards and requirements set out by the Cabinet Office.

The Executive Committee recognises its responsibility in providing leadership and promoting a culture of information security awareness throughout FCO Services. The Senior Information Risk Officer (SIRO) is a Board member and Directors have been made accountable and responsible for their information assets as Information Asset Owners (IAOs).

Following extensive review, significant changes have been agreed to FCO Services Information Assurance (IA) Governance structure and reporting mechanisms.

The changes to the governance structure ensure that FCO Services has a more cohesive approach to governance across the many IA related disciplines. Specifically the review has focused on:

- Cabinet Office mandated and non mandated IA roles and responsibilities, effectiveness and delivery;
- Revisions to terms of reference for appointed roles;
- The formal appointment of non mandated roles;
- Creation of additional IS / Security related roles;
- Committee meetings – Terms of Reference, appropriateness and attendance;
- Evaluation of the existing reporting structures;
- IA and associated training relevant to each IA role;
- Incident management processes.

All IA appointed roles, within FCO Services governance structure, are issued with formal Terms of Reference. Responsibilities include quarterly reporting to the SIRO supported by a formal review of information asset registers.

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

Further to this, FCO Services is engaged in delivering a comprehensive IA training programme to all IA appointed roles. The

training includes the provision of formal IA reporting mechanisms at all levels of the organisation.

During 2014 the National Archives will deliver specially tailored courses to the FCO Services IA community.

A cyber security programme of awareness began in early 2014. This will be further supplemented with training provided by external Cyber Security specialists during 2014.

The FCO Services Board received a briefing on Cyber Security issues to increase their awareness of this important area.

On the basis of the information assurance assessment process recently completed, we consider that FCO Services is fully compliant with the information management requirements specified in HMG Security Policy Framework version 11, published in October 2013.

All internal systems within FCO Services have been accredited to HMG IA1/IA2 standards or are being risk managed where a full risk assessment and accreditation has been deemed unnecessary.

Systems are reviewed on an annual basis, or when significant change occurs, and are subject to regular vulnerability assessments and IT Health Checks. All new systems or services are subject to the accreditation process and the accreditation team will undertake an appropriate and proportionate approach to accreditation.

Our cloud service platforms, Government Secure Application Environment (GSAE) operating at IL2 and IL3, have been awarded Pan Government Accreditation with the PSN360 software service expected to receive PGA accreditation in August 2014.



Priorities for 2014 include completion of remedial IA work on some of our systems in order to facilitate continued accreditation. A review of the accreditation process and tools will be undertaken; some work on this has already been started by the accreditor. The intention is to reduce effort and cost associated with accreditation activities while maintaining a robust outcome.

The Security Operation Centre continues to monitor FCO Services hosted systems. The IA governance of the FCO Services hosted systems has been reviewed by the Public Services Network (PSN) and the Pan Government Accreditation Panel (PGA) with the FCO Services hosted systems meeting the requirements for PSN Code of Connection compliance and PGA accreditation.

To support IA governance across FCO Services, a number of boards meet on a regular basis to manage our IA governance and cyber security awareness. These include a fortnightly Patch and Vulnerability Board, weekly Secure Delivery Assurance Board and monthly Cyber Security Steering Group. In addition to FCO Services hosted systems, we constantly monitor social networking and open source feeds for intelligence to support cyber awareness as well as regular contact with the national technical authority (GovCert).

FCO Services' incident management processes are currently under review. Robust data collection, reporting and escalation processes are in place. The review will ensure that deployed processes and procedures are aligned with the Information Commissioner reporting/escalation policies and industry best practice.

A Corporate Knowledge Management strategy has been developed, agreed, and published. This sets out the direction of the organisation

both in terms of electronic and paper records, dealing with legacy issues as well as looking at how best to meet electronic requirements in the future. The electronics element is being explored through a pilot adoption of PSN360. This offers additional document management features to ensure the organisation is compliant. The organisation is driving forward to reduce the number of data repositories, with the ultimate vision being to have one corporate data repository. These actions will minimise the risk of information management policies not being followed, and provide better, automated tools to support users and subject matter experts in this area, to provide assurance on information management compliance.

An Information Systems (IS) Strategy was agreed and published and linked to the Corporate Knowledge Management strategy. The IS Governance process ensures that any information assurance or management requirements are captured early in the process and followed through to completion. A new Intranet is being developed to enhance user access and centrally manage corporate news and host policies, processes and guidance.

During 2013/14 FCO Services worked with its parent organisation, the Foreign and Commonwealth Office and Other Government Departments to implement the new Government Classifications Scheme. The new scheme came in to effect 2 April 2014

Under the new Scheme information is classified into three types: OFFICIAL, SECRET and TOP SECRET. Each attracts a baseline set of security controls providing appropriate protection against typical threats. Additionally, where applicable, ICT systems and services are afforded enhanced controls to manage the associated risks to aggregated data or to manage integrity and availability concerns.

The new scheme serves to ensure that FCO Services information assets are appropriately protected, supporting the business whilst meeting the requirements of relevant legislation and international / bilateral agreements and obligations. It applies to all information that FCO Services collects, stores, processes, generates or shares to deliver services and conduct business, including information received from or exchanged with external partners.

## *7. Annual Risk assessment*

As Accounting Officer I am responsible for monitoring the effectiveness of the system of internal control and carrying out and responding to regular risk assessments throughout the year. I set out below the key risks that have been identified, and which have been (or are still being) addressed throughout the year.

### **Customer**

Maintaining a strong sales pipeline, and strong relationships with all our customers, particularly our principal customer, the Foreign and Commonwealth Office (FCO), is clearly essential to the financial stability of FCO Services.

Pipeline information is managed on a customer basis with each customer being assigned a Senior Relationship Executive (SRE) and a named Account Manager or Sales lead. These assigned personnel have regular meetings with the customer which helps to form the view of both longer term customer aspirations and budgets alongside more immediate prospects. SREs reports go to the Executive Committee for regular review. The recent structural changes has not affected the way we manage relationships with customers but has given each Business Unit a clearer line of sight, and more control, of the revenue pipeline.

The recent introduction of a Dynamics database is allowing us to develop a more comprehensive view of the revenue pipeline and related information, enabling the production of more in depth and timely customer management information.

The 2013/14 customer survey process, which included almost two thousand pulse test results, in addition to the Annual Survey managed by the Institute of Customer Service demonstrated strong improvements in customer service, but also highlighted that more work remains to be done to address billing and pricing issues.

We reported last year on the continuing development of the Regional Technical Support Service (RTSS), in collaboration with the FCO. More significant progress has been made in the current year, with the deployment of regional teams to facilitate the provision of mission critical (essential) services. Shared management with the FCO of this ambitious and challenging change programme has been a key factor in its success to date, as is reflected in consistently positive customer feedback.

The development of a high level design for a new Commercial Process has realigned the process to the new organisational design, which provides a more risk based approach and enables a more agile response to customer requirements. This new model will be put in place during 2014/15.

### **Supporting the Government's Prosperity Agenda**

Using our expertise in commercial operation and delivery overseas, FCO Services is supporting the government's cross Whitehall policy initiative to deliver economic benefits to the UK through the development of Government-to-Government ('G2G') agreements. Since 2012 we have been working with the FCO, UKTI and the

Home Office amongst others, to develop G2G agreements with a small number of friendly foreign governments.

G2G initiatives are new to FCO Services and carry significant bilateral, reputational and financial risks: many of which differ in nature and scale from those that FCO Services is accustomed to managing as part of its normal activities.

An operating model, designed explicitly to manage the risks to HMG (and FCO Services) in delivering G2G programmes, has been developed and agreed by Ministers.

FCO Services has created a Sub-Committee to the main Board to oversee the implementation of the new operating model and to provide governance and management oversight of active G2G agreements. Cross Whitehall governance structures have been agreed and implemented to ensure effective departmental working to supervise the programme.

On 2 June 2014, the Government of Kuwait informed FCO Services that although they remained positive in principle about engaging with the UK Government on a G2G programme, they felt at the present time the current programme should be halted.

### **ICT Transformation**

This year we have completed an extensive development programme to deliver a number of innovative Cloud offerings at various security tiers that are well positioned to enable public sector customers to reduce the cost of their ICT.

We have implemented the recommendations of last year's internal audit, which focused on strengthening governance over the project review process, and to ensure the new

commercial process is working as efficiently as possible. We have continued to embed the governance and control framework around investment projects.

### **IT delivery**

FCO Services has invested heavily in cloud technologies, and the requirements for resilience with cloud services are much higher than was the case with traditional IT services. When these new services were set up, FCO Services built very high degrees of resilience into computing capabilities. However, the uptake of these services has been rapid, and now a number of highly critical government services are being provided from FCO Services' cloud facilities.

Consequently, FCO Services is taking further steps in terms of reducing risk. A detailed assessment has been carried out of computing capabilities (processing power, system memory and large scale data storage) and of vital services (power and data networks). A range of actions is in hand, particularly in connection with improvements in power resilience at Hanslope Park.

The current round of improvements will be complete in Quarter Two 2014/15, but regular reviews of the risk of delivery failure will continue.

### **Bag Services**

Last year we conducted an internal audit of the Secure Bag Service, which made a number of recommendations to improve the security of the service. A follow up audit this year found that good progress has been made, and Internal Audit now consider the strength of risk management associated with the Secure Bag Service to be Moderate. Several new recommendations were also

made which supersede those outstanding from the previous report. These include the need to continue working on a solution to allow secure 'one point in time' loading and verification against associated loading manifests; to follow up with the FCO on reissuing the revised diplomatic bag guidance; and to complete the re-tender exercise for a replacement active vehicle tracking system. All of these recommendations are being actively progressed.

### **Secure Disposal**

An audit was undertaken during the year, to provide assurance over the end-to-end secure waste disposal process. In response to areas of weakness identified in the absence of receipting waste by the Secure Disposal Team and management reconciliation of waste handled and waste destroyed, revised processes and checks have been enacted within the business to minimise the risks identified.

### **Projects**

We operate more than a thousand projects globally, and recognise the paramount importance of effective programme governance, which if not in place, could result in reputational damage and financial loss. This has led us to undertake a thorough review of our internal governance processes, including an internal audit review of project management.

The internal audit considered that the strength of risk management relating to compliance with standardised project management methodology to be 'Moderate'. However, the report also recognised that a new, enhanced project management standard was being introduced by Client Delivery, which, when embedded, would greatly enhance the control regime over compliance with process.

Client Delivery has established a Programme, Portfolio and Project Management Office (P3MO) to ensure that all projects are managed according to Association for Project Management (APM) accredited project management standards, by qualified Project and Programme Managers (PRINCE2, MSP), supported by trained project control specialists. FCO Services also became a corporate APM accredited member in December 2013.

In accordance with the commercial process, regular gate reviews are held for all projects throughout their life to ensure they are de-risked early and are delivering to the customer's satisfaction and agreed financial performance. These gates are now independently assured by the P3MO, and management information is being developed to monitor compliance with process.

We are also mindful that the mutual interdependencies between suppliers on major projects, including ourselves, carry risk of reputational damage to all parties involved.

### **Health and Safety**

Health and Safety (H&S) performance within FCO Services has continued to improve throughout this year and is now well established as an integral part of the business. The H&S team continue to engage with all FCO Services groups to improve performance, develop guidance and expand knowledge of statutory and local standards for all staff.

To provide an independent review of the effectiveness of our health and safety systems, we carry out an annual internal audit against the benchmark of the British Safety Council 5\* Audit system, achieving the target score of 95% for 2013/14.

We are never complacent about health and safety matters, and the internal audit highlighted a number of areas for improvement. These include enhancing the co-operation with all customers and key stakeholders to maintain safe transfers, accommodation and places of work for our staff, particularly in fragile or high risk environments; and the inspection and audit of project sites to ensure UK H&S standards are complied with, wherever practical.

### **Safe working and duty of care**

FCO Services has a legal and moral obligation to its employees and contractors to ensure, so far as is reasonably practicable, the health, safety and welfare at work for all its people and, in particular, those working overseas, and to protect against reasonably foreseeable risks.

In December 2011 the FCO Services Audit Committee raised duty of care, specifically the lack of a joined-up 'duty of care' approach by FCO Services for its traveling staff, as a major risk. A policy document that sets how FCO Services meets the duty of care obligations to its employees and contractors, particularly in 'fragile environments' has been developed. This incorporates a Duty of Care Framework. The overall aim is to ensure all staff and contractors are afforded the same support when working for non-FCO customers as they receive when working at Post.

In response to lessons learned from the Nairobi Mall incident, a new Duty Officer rota has been created, with associated procedures, and piloted successfully for three months. Improvements to process have been made in response to feedback, and this rota will now continue permanently.

### **Business Continuity**

Being able to maintain service to our customers is of vital importance, and hence Business Continuity remains an integral part of our business activity. FCO Services has held the British Standard for Business Continuity Management (BS25999) since May 2011, and in January 2014 FCO Services Executive Committee endorsed the transition from BS 25999 to the new International Standard, ISO 22301. This is regarded as a much more rigorous standard but will provide a more thorough set of assurance and following an assessment by the British Standards Institute, we have been notified that FCO Services is now fully compliant with the requirements of the new International Standard, ISO 22301.

One of the main tenets of this standard is the importance of ensuring we have a proven, resilient Business Continuity Management System in place and that we have plans and procedures to manage a coordinated incident response.

We have undertaken a thorough review of our critical business activities, and the output of the business impact analyses has helped us further define and improve our plans. We have instigated an annual exercise programme to test the adequacy of such plans regularly. We also have in place an annual internal audit schedule, with all audits undertaken by the Business Continuity Manager based on a risk based approach. This activity will now encompass internal audits of our critical suppliers.

We have invested heavily in improving the resilience of our data centres and are starting to actively pursue more off site Disaster Recovery solutions for our customers and our major internal systems. There is currently a dependency on key FCO systems for our

desktop enterprise services but as we move towards developing our Cloud based systems, this dependency will reduce.

### **Enterprise Platform**

FCO Services shares an Oracle platform with its owner, the FCO. As we reported last year we have been working with the FCO Prism 2015 team on the implementation of a technical upgrade to Release 12 in November 2014. The project involves a significant amount of data cleansing and testing, but the project plan is now well underway, and on track to complete in line with the defined timescales, and with as little business disruption as possible.

### **Information Assurance**

As an organisation which is committed to maintaining high standards of information assurance, we have continued to review and strengthen our IA processes and governance, with annual revision of strategy and policy.

We will continue to remain vigilant to cyber threat, and to ensure that IA policies and procedures are known and well understood by all relevant staff.

### **Asset Management**

Maintaining sound controls over the organisation's assets is an area of continual focus and improvement.

We carry out verifications of fixed assets three times a year, and stocktakes twice a year.

As a global organisation, we have a number of assets held overseas, and an internal audit undertaken this year confirmed that there is a high level of assurance around the strength of risk management relating to the management of overseas fixed assets.

We have recently introduced a project stock management tool, to assist with the control of stock movements. We will ensure that this tool is properly embedded within the business areas in 2014/15.

### **Fraud Awareness**

The effective use of public money has always been important and in these times of austerity, it is more important than ever that we remain vigilant in overseeing the effective use of our organisation's resources. We are fully committed to minimising the risk of fraud in our work at home and overseas. While abuse is rare, when it does arise it is an affront to us all, running contrary to the values we hold as a public sector organisation. Profoundly, it also risks damaging our organisation's professional reputation.

To this end, FCO Services takes any allegations of fraud extremely seriously and no level of loss due to fraud is acceptable. Those found to have been involved in fraudulent or corrupt activity or to have been negligent in the exercise of supervisory duties, will be subject to disciplinary and where appropriate, civil or criminal proceedings.

All staff are required to undertake the 'Responsible for Information' course, which includes a section on Fraud Awareness. We have also introduced an Anti-Bribery and Corruption policy, strongly endorsed by myself as the CEO, which is currently being communicated across the organisation. Our expenses policy has been thoroughly revised, and we have established an internal expenses audit team to review processed claims for compliance with policy. This team provides monthly management information to senior managers to highlight any areas of concern.

During the year we have used the Managing the Risk of Financial Loss toolkit to carry

out an internal review of both Payroll and the Government Procurement Card. Both reviews identified a number of areas for improvement, and these recommendations will be implemented next year under the oversight of the respective Global Process Owners. During the year we reviewed, updated and re-published FCO Services Ethical Code and along with the FCO, updated our joint Raising Concerns Policy. We recruited and trained two new Nominated Officers to help ensure that civil servants who may have concerns relating to the Civil Service Code are able to receive impartial advice from someone outside their management chain, should they wish it, and we identified three further FCO Services' contacts for staff wishing to raise a concern over Fraud and Theft, Data handling and Conduct.

### **Staff engagement**

Staff engagement is essential to our being able to operate as a successful organisation. The underlying risk is that poor staff engagement and motivation levels do impact overall business delivery and customer satisfaction levels, so positive engagement underpins future performance. After significantly increasing the staff engagement index in the 2012/13 Your Say staff survey the 2013/14 result remained at the same level. FCO Services did, however, achieve Investors in People re-accreditation in March 2013.

We are committed to making FCO Services a better place to work and will continue to focus on the implementation of local engagement action plans to address leadership and management issues that are specific to business areas. These will be monitored by the Operational Review Boards and the Staff Engagement Programme Board. Local engagement plans will be supported by strengthened embedded HR business partner resource and corporate initiatives, such as developing an engagement plan for the wider

senior leadership cadre, a new Personal Development Review process that incorporates talent management covering all employees, the leadership and management development programme and the contractor review and replacement programme.

We have also held our first One Team event in May 2014 to promote joint working across business areas and have developed our employee recognition scheme in terms of annual variable payments reflecting contribution and overall business performance and in-year line management.

Supplementing initiatives that have been in place for some time (such as targeted community interventions to promote diversity and our successful apprenticeship scheme), priorities for 2014/15 include developing our intranet and social media presence and our employer value proposition.

### **Contractors and agency staff**

FCO Services continued success in growing its business means that it needs to utilise a significant number of contractors and agency staff to deliver its broad range of services, supplementing both the skill set and capacity of permanent staff. As an essential part of our workforce interims provide flexibility for the development of new business bids, the delivery of projects and covering key vacancies, as well as sourcing specialists skills that are not readily available through the usual employment market.

We recognise the risk in becoming too dependent on interim, contractor staff. We continue to examine and manage the cost and tenure of this part of our workforce, ensuring that procedures are in place to actively manage contractor replacement and the internal transfer of skills. In addition, we are looking to make greater use of our supply chain to deliver packages of work rather than continue to rely

on contractors. Nevertheless, this specialist resource will continue to be an important element in the delivery of our services.

Following HM Treasury's review of the tax arrangements of public sector appointees in May 2012 FCO services took unilateral action to flow down an additional contract clause securing the right to obtain assurances over the compliance of individual Contractors with HMRC regulations. We continue to ensure that we are compliant by requiring our individual contractors, both new and existing, to confirm that:

- a. they have obtained a professional understanding of their risk profile for IR35, that they comply with the IR35 legislation on the payments received from FCO Services and that in accordance with their tax obligations that all due payments in accordance with HMRC IR35 regulations have been made and will continue to be made as applicable; or
- b. they understand their obligations under IR35 Legislation and are reimbursed for services delivered to FCO Services through PAYE.

An update on the status of the individuals and the outcomes of the assurance process are set out in the tables below:



**Table 1: For all off-payroll engagements as of 31 March 2014, for more than £220 per day and that last for longer than six months.**

	FCO Services
No. of existing engagements as of 31 March 2014	252
Of which...	
No. that have existed for less than one year at time of reporting.	80
No. that have existed for between one and two years at time of reporting.	72
No. that have existed for between two and three years at time of reporting.	40
No. that have existed for between three and four years at time of reporting.	14
No. that have existed for four or more years at time of reporting.	46

*Note:*

*We have a number of contractors whose contracts have been extended to provide specialist skills (particularly in relation to the development of Cloud products) or to maintain continuity on long term customer projects.*

**Table 2: For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2013 and 31 March 2014, for more than £220 per day and that last for longer than six months**

	FCO Services
No. of new engagements, or those that reached six months in duration, between 1 April 2013 and 31 March 2014	80
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	80
No. for whom assurance has been requested	80
Of which...	
No. for whom assurance has been received	80
No. for whom assurance has not been received	0
No. that have been terminated as a result of assurance not being received.	0

**Table 3: For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2013 and 31 March 2014**

	FCO Services
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	0
No. of individuals that have been deemed “board members, and/or, senior officials with significant financial responsibility”, during the financial year. This figure should include both off-payroll and on-payroll engagements.	0

## *8. Overall summary*

The Head of Internal Audit has reported to me that there is clear evidence of a strengthening internal control framework. However, the trend of improvement is not as marked as in the previous year, with an increase in the percentage of Moderate Assurance opinions, compared to those with High Assurance opinions.

In some respects this may be seen as a sign of our improving ability to recognise those areas of potential risk which require an in depth review by internal audit.

Certainly there are some underlying risks which will always require close management, such as customer relationships, revenue pipeline, staff engagement, and duty of care, and these are being managed at an increasing level of maturity.

Other risks, particularly in the operational areas, can surface unexpectedly, and it is important that we continue to learn the lessons from such instances, and ensure we have robust escalation processes in place so that they are quickly identified and brought under close management.

My review, supported by the advice I have received from the Head of Internal Audit, indicates that during 2013/14, we have continued to make steady progress in managing both underlying, as well as emerging, risks through our risk management framework.

### **Christopher Moxey**

Chief Executive and Accounting Officer  
27 June 2014

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

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

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

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

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

**Christopher Moxey**

*Chief Executive and Accounting Officer*

*27 June 2014*

# 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 2014 under the Government Trading Funds Act 1973.*

The financial statements comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes.

These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

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

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Trading Funds Act 1973.

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

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

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

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

## Opinion on regularity

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

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of FCO Services' affairs as at 31 March 2014 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

## Opinion on other matters

In my opinion:

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

## Matters on which I report by exception

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

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

## Report

I have no observations to make on these financial statements.

## Sir Amyas C E Morse

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

1 July 2014

# Statement of Comprehensive Income

for the year ended 31 March 2014

	Note	2013/14 £000	2012/13 £000
Revenue	2	157,036	141,172
Cost of sales	5	(125,752)	(105,914)
<b>Gross surplus</b>		<b>31,284</b>	35,258
Operating expenses	5	(27,458)	(28,924)
<b>Operating surplus</b>		<b>3,826</b>	6,334
Loss on disposal of property, plant and equipment		(26)	(10)
<b>Surplus for the financial year before voluntary exit scheme</b>		<b>3,800</b>	6,324
Voluntary exit scheme	4(c)	0	9
<b>Surplus before financing</b>		<b>3,800</b>	6,333
Financing income	6	102	97
Financing costs	6	(99)	(178)
<b>Net financing</b>		<b>3</b>	(81)
<b>Surplus for the financial year</b>		<b>3,803</b>	6,252
Dividend	7	(6,047)	(945)
<b>Retained (deficit) / surplus for the financial year</b>		<b>(2,244)</b>	5,307
<b>Other comprehensive net income</b>			
Net gain on the revaluation of property, plant and equipment		(29)	343
<b>Total comprehensive income for the financial year</b>		<b>(2,273)</b>	5,650

All income and expenditure are derived from continuing operations.  
The notes on pages 75 to 101 form part of these accounts.

# Statement of Financial Position

as at 31 March 2014

	Note	2013/14 £000	2012/13 £000
<b>Non-current assets</b>			
Intangible assets	8	435	369
Property, plant and equipment	9	11,601	8,943
<b>Total non-current assets</b>		<b>12,036</b>	9,312
<b>Current assets</b>			
Inventories	10	2,774	2,823
Trade and other receivables	11(a)	28,981	21,014
Cash and cash equivalents	12	25,546	32,049
<b>Total current assets</b>		<b>57,301</b>	55,886
<b>Total assets</b>		<b>69,337</b>	65,198
<b>Current liabilities</b>			
Trade and other payables	13(a)	(37,060)	(30,286)
Provisions due within one year	16	-	
<b>Total current liabilities</b>		<b>(37,060)</b>	(30,286)
<b>Total Assets less current liabilities</b>		<b>32,277</b>	34,912
<b>Non-current liabilities</b>			
Other Payables	14(a)	(160)	-
Provisions due after one year	16	(635)	(206)
Financial liabilities	17	(951)	(1,902)
<b>Total non-current liabilities</b>		<b>(1,746)</b>	(2,108)
<b>Assets less liabilities</b>		<b>30,531</b>	32,804
<b>Taxpayers' equity</b>			
Public dividend capital		4,981	4,981
General reserve		253	152
Revaluation reserve		191	321
Income and expenditure account		25,106	27,350
<b>Total taxpayers' equity</b>		<b>30,531</b>	32,804

## Christopher Moxey

Chief Executive and Accounting Officer  
27 June 2014

*The notes on pages 75 to 101 form part of these accounts.*

# Statement of Cash Flows

for the year ended 31 March 2014

	Note	2013/14 £000	2012/13 £000
<b>Cash flows from operating activities</b>			
Surplus on ordinary activities before dividend payable		3,803	6,252
Adjustments for non-cash transactions	18	2,638	2,697
Net interest (receivable) / payable	6	(3)	81
Decrease / (increase) in inventories		49	(1,045)
Increase in trade and other receivables		(7,967)	(3,302)
less movements in receivables relating to items not passing through the income statement			
- Accrued deposit interest		(2)	(3)
Increase / (decrease) in trade and other payables		6,934	(4,363)
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		-	2,000
- Dividend payable		(102)	(210)
- Accrued loan interest		19	62
Reversal of provisions		-	-
Increase in provisions		429	206
<b>Net cash inflow from operations</b>		<b>5,798</b>	<b>2,375</b>
<b>Cash flows from investing activities</b>			
Purchases of intangible assets	8	(293)	(98)
Purchases of property, plant and equipment	9	(5,110)	(4,095)
Disposals of property, plant and equipment		12	56
<b>Net cash outflow from investing activities</b>		<b>(5,391)</b>	<b>(4,137)</b>
<b>Cash flows from financing activities</b>			
Loans repaid to FCO		(951)	(2,950)
Government grant income		-	-
Interest paid		(118)	(242)
Interest received		104	102
Dividend paid		(5,945)	(735)
<b>Net financing</b>		<b>(6,910)</b>	<b>(3,825)</b>
<b>Net decrease in cash and cash equivalents in the period</b>		<b>(6,503)</b>	<b>(5,587)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	12	<b>32,049</b>	37,636
<b>Cash and cash equivalents at the end of the period</b>	12	<b>25,546</b>	32,049

The notes on pages 75 to 101 form part of these accounts.



# Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2014

	Public Dividend Capital £000	General Reserve £000	Revaluation Reserve £000	Government Grant Reserve £000	Income and Expenditure Account £000	Total Reserves £000
Balance at 1 April 2012	4,981	56	74	-	22,043	27,154
<b>Changes in taxpayers' equity for 2012/13</b>						
Unrealised net surplus on revaluation of property, plant and equipment			343			343
General reserve transfer - depreciation charge difference in year on revalued cost basis compared to historic cost basis		96	(96)			-
Release to Income and Expenditure Account of Government Grants due to Change in Accounting Policy						-
Retained surplus for the financial year	-	-	-	-	5,307	5,307
Total recognised income and expense for 2012/13	-	96	247	-	5,307	5,650
Balance at 31 March 2013	4,981	152	321	-	27,350	32,804
<b>Changes in taxpayers' equity for 2013/14</b>						
Unrealised net surplus on revaluation of property, plant and equipment			(29)			(29)
General reserve transfer - depreciation charge difference in year on revalued cost basis compared to historic cost basis		101	(101)			-
Retained surplus for the financial year	-	-	-	-	(2,244)	(2,244)
Total recognised income and expense for 2013/14	-	101	(130)	-	(2,244)	(2,273)
<b>Balance at 31 March 2014</b>	<b>4,981</b>	<b>253</b>	<b>191</b>	<b>-</b>	<b>25,106</b>	<b>30,531</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

## 2013/14

### 1. Accounting policies

#### 1.1 Basis of accounting

These financial statements have been prepared in accordance with the Accounts Direction issued by HM Treasury on 20 December 2013, 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 2013/14 Government Financial Reporting Manual (FRoM) and Trading Funds Accounts Guidance, as issued by HM Treasury.

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

#### 1.2 Accounting Convention

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

#### 1.3 Revenue

Revenue represents the fair value of consideration received or receivable from clients for goods and services provided, 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 is recognised on a percentage of completion basis when the outcome of a contract can be estimated reliably. If a contract outcome cannot be estimated reliably, revenues are recognised equal to costs incurred, to the extent that costs are expected to be recovered. The stage of contract completion is usually determined by reference to the cost incurred to date as a proportion of the total estimated cost.

Provision is made for all contract losses where the conditions of IAS 11 and 37 are met.

#### 1.4 Dividend

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

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

#### 1.5 Value added tax

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

## *1.6 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 interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

The depreciation policy for depreciable leased assets is consistent with that for owned assets and is calculated in accordance with IAS16 and IAS 38.

Finance charges are recognised and expensed as a Financing Cost.

## *1.7 Inventories, Work in Progress and Contracts*

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

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

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

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

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

## *1.8 Property, plant and equipment*

Property, plant and equipment are stated at fair value at the Statement of Financial Position date using appropriate indices or at valuation. Depreciation is restated proportionately with any change in the gross carrying amount so that the carrying amount after revaluation equals its revalued amount. The minimum level for capitalisation of a single tangible asset is £3,000, subject to grouping conventions where appropriate. Furniture and fittings are not capitalised. Fixtures are defined as substantial modifications to buildings occupied by FCO Services which enhance the economic usefulness of the building.

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

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

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

Information technology	2 to 5 years
Transport equipment	2 to 8 years
Plant and machinery	5 to 20 years
Fixtures	25 years

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

## 1.9 Intangible assets

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

Where an active market does not exist, income generating assets are valued at the lower of depreciated replacement cost and value in use. This valuation method is considered to be a proxy for fair value.

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

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

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

Software licences	3 to 5 years
Research & Development	3 to 5 years

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

### 1.10 Research and development

Research and development costs exclude those incurred on behalf of a customer as part of a specific project which are directly chargeable to the customer on whose behalf the work is undertaken. Internally funded development expenditure is capitalised in the Statement of Financial Position where there is a clearly defined project, the expenditure is separately identifiable, the project is technically and commercially feasible, all costs are recoverable by future revenue and the resources are committed to complete the project. Such capitalised costs are amortised over the forecast period of sales resulting from the development (taken to be 3-5 years). All other research and development costs are expensed to the Statement of Comprehensive Income in the period in which they are incurred. If the research phase cannot be clearly distinguished from the development phase, the respective project-related costs are treated as if they were incurred in the research phase only and expensed.

### 1.11 Government grants

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

### 1.12 Bad debts provision

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

### 1.13 Provisions

FCO Services provides for legal and constructive obligations which are of uncertain timing or amount at the Statement of Financial Position date on the basis of best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rates in real terms (reference PES (2013 07)):

Short-term	Between 0 and up to and including 5 years from the statement of financial position date (SOFP)	-1.90%
Medium-term	After 5 years and up to and including 10 years from the SOFP date	-0.65%
Long-term	Exceeding 10 years from the SOFP date	2.20%

### 1.14 Pension Costs

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

### *1.15 Foreign exchange gains and losses*

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

### *1.16 Contingent liabilities*

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

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

### *1.17 Jointly controlled assets*

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

## 2. Revenue

### 2a. Total Revenue

	2013/14 £000	2012/13 £000
Foreign and Commonwealth Office	97,400	90,374
Other UK Government bodies and other UK and International organisations	59,636	50,798
	<b>157,036</b>	141,172

### 2b. Construction Contracts

	2013/14 £000	2012/13 £000
Contract revenue recognised in the period	1,995	1,369
Costs incurred and recognised profits (less losses) to date	446	1,389
Advances received	-	441
Retentions	-	-

## 3. Segmental Reporting

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

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

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

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

Analysis of Operating Surplus by Service Delivery Group	Client Delivery £000	Operations £000	Services & Logistics £000	Total £000
<b>2013/14</b>				
External revenue	51,564	85,261	20,211	157,036
Internal revenue - Charged to Client Delivery	-	610	1,217	1,827
Internal revenue - Charged to Operations	188	-	1,198	1,386
Internal revenue - Charged to Services & Logistics	-	3	-	3
Internal revenue - Charged to Corporate Areas	-	226	34	260
Total revenue	51,752	86,100	22,660	160,512
Cost of sales	(38,582)	(67,050)	(17,548)	(123,180)
Depreciation	(134)	(1,573)	(251)	(1,958)
Amortisation	(87)	(112)	(26)	(225)
Impairments	-	(389)	-	(389)
Internal cost charges	(1,827)	(1,386)	(3)	(3,216)
Total cost	(40,630)	(70,510)	(17,828)	(128,968)
Gross surplus	11,122	15,590	4,832	31,544
Operating expenses	(10,026)	(13,555)	(3,892)	(27,473)
Allocated internal cost charges	(85)	(141)	(34)	(260)
Depreciation	(3)	(5)	(1)	(9)
Amortisation	(1)	(1)	-	(2)
Total Operating Expenses	(10,115)	(13,702)	(3,927)	(27,744)
Surplus before financing	1,007	1,888	905	3,800
<b>2012/13</b>				
External revenue	46,083	69,091	25,998	141,172
Internal revenue - Charged to Client Delivery*	-	-	1,653	1,653
Internal revenue - Charged to Operations*	-	-	236	236
Internal revenue - Charged to Services and Logistics*	-	-	-	-
Internal revenue - Charged to Corporate Areas*	-	-	-	-
Total revenue	46,083	69,091	27,887	143,061
Cost of sales	(31,835)	(51,491)	(19,909)	(103,235)
Depreciation	(109)	(1,354)	(281)	(1,744)
Amortisation	(5)	(288)	(24)	(317)
Impairments	-	(618)	-	(618)
Internal cost*	(1,653)	(236)	-	(1,889)
Total cost	(33,602)	(53,987)	(20,214)	(107,803)
Gross surplus	12,481	15,104	7,673	35,258
Operating expenses	(9,621)	(13,638)	(5,658)	(28,917)
Allocated internal cost charges*	-	-	-	-
Depreciation	(1)	(2)	(1)	(4)
Amortisation	(1)	(2)	(1)	(4)
Total Operating Expenses	(9,623)	(13,642)	(5,660)	(28,925)
Surplus before financing	2,858	1,462	2,013	6,333

\* Restatement of FY 12/13 showing the additional disclosure of transactions between service delivery groups



### 3. Segmental Reporting (continued)

Analysis of Assets less Liabilities by Service Delivery Group	Client Delivery £000	Operations £000	Services & Logistics £000	Corporate £000	Total £000
<b>2013/14</b>					
<b>Segment Assets</b>					
Intangible assets	51	68	23	-	142
Intangible additions in year*	6	59	-	228	293
Property, plant and equipment	(305)	6,195	775	19	6,684
Property, plant and equipment additions in year*	1,016	3,183	296	422	4,917
Inventories	1,794	341	639	-	2,774
Trade and other receivables	13,396	8,084	3,299	4,202	28,981
Cash and cash equivalents	-	-	-	25,546	25,546
<b>Segment Liabilities</b>					
Current liabilities	(9,994)	(14,348)	(2,458)	(10,260)	(37,060)
Non current other payables	-	-	-	(160)	(160)
Non current provisions	-	(500)	-	(135)	(635)
Non current financial liabilities	-	-	-	(951)	(951)
<b>Segment assets less liabilities</b>	<b>5,964</b>	<b>3,082</b>	<b>2,574</b>	<b>18,911</b>	<b>30,531</b>
<b>2012/13</b>					
<b>Segment Assets</b>					
Intangible assets	127	124	18	2	271
Intangible additions in year*	11	56	31	-	98
Property, plant and equipment	392	3,516	933	7	4,848
Property, plant and equipment additions in year*	52	3,880	140	23	4,095
Inventories	1,804	433	586	-	2,823
Trade and other receivables	13,411	3,174	3,926	503	21,014
Cash and cash equivalents	-	-	-	32,049	32,049
<b>Segment Liabilities</b>					
Current liabilities	(12,296)	(6,072)	(2,624)	(9,294)	(30,286)
Non current other payables	-	-	-	-	-
Non current provisions	-	-	-	(206)	(206)
Non current financial liabilities	-	-	-	(1,902)	(1,902)
<b>Segment assets less liabilities</b>	<b>3,501</b>	<b>5,111</b>	<b>3,010</b>	<b>21,182</b>	<b>32,804</b>

Financial Year 12/13 is restated to show the additional disclosure of asset additions in year and split of current and non current liabilities

\*Additions in the year, for FY13/14 and FY12/13, are gross. Depreciation/amortisation related to the additions is shown on the related disclosure line.

## 4. Staff numbers and costs

### 4(a) Staff numbers

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

Staff numbers			2013/14
	Permanent	Other*	Total
Service Delivery	765	330	1,095
Sales and Marketing	26	33	59
Corporate Services	95	49	144
<b>Total Staff Numbers</b>	<b>886</b>	<b>412</b>	<b>1,298</b>
Capitalised Staff	(3)	(17)	(20)
<b>Net Staff Numbers</b>	<b>883</b>	<b>395</b>	<b>1,278</b>
			2012/13
	Permanent	Other*	Total
Service Delivery	702	283	985
Sales and Marketing	26	20	46
Corporate Services	95	39	134
<b>Total Staff Numbers</b>	<b>823</b>	<b>342</b>	<b>1,165</b>
Capitalised Staff **	(4)	(11)	(15)
<b>Net Staff Numbers</b>	<b>819</b>	<b>331</b>	<b>1,150</b>

\*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

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

	Permanent** £000	Other* £000	2013/14 Total £000
Salaries / agency staff and fee paid officers	38,123	33,857	71,980
Social security costs	2,816	51	2,867
Other pension costs***	5,431	17	5,448
<b>Total staff costs</b>	<b>46,370</b>	<b>33,925</b>	<b>80,295</b>
Capitalised staff costs	(178)	(2,079)	(2,257)
<b>Total net staff costs</b>	<b>46,192</b>	<b>31,846</b>	<b>78,038</b>
			2012/13
	Permanent** £000	Other* £000	Total £000
Salaries / agency staff and fee paid officers	34,649	26,047	60,696
Social security costs	2,576	42	2,618
Other pension costs***	4,964	-	4,964
<b>Total staff costs</b>	<b>42,189</b>	<b>26,089</b>	<b>68,278</b>
Capitalised staff costs	(259)	(1,489)	(1,748)
<b>Total net staff costs</b>	<b>41,930</b>	<b>24,600</b>	<b>66,530</b>

\*Other comprises agency staff and fee paid officers.

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

\*\*\* For FY 2013/14 reconciling items equal to £13,563 for accruals and invoice payment for staff transferring in from an OGD. Restatement for FY 2012/13 for allocation of pension costs for fee paid staff - Permanent is £4,959,074 and Other is £5,154.

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

There have been no exit packages in FY 2013/14 or in FY 2012/13

#### 4(d) Pensions

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but FCO Services is unable to identify its share of the underlying assets and liabilities.

A full actuarial valuation was carried out at 31 March 2007 and an actuarial valuation is currently underway, with an effective date of 31 March 2012. This valuation is being conducted in line with directions made by HM Treasury, made under the Public Service Pensions Act 2013. The full results of the valuation, which will also set an employer cost cap for the scheme, will be published in the coming months. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation ([www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)).

For 2013/14, employers' contributions of £5,445,045 were payable to the PCSPS (2012/13 £4,950,890) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2013/14 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 £16,672 (2012/13 £17,110) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay.

Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £933 (2012/13 £952), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service 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 (2012/13 £nil). Contributions prepaid at that date were £nil (2012/13 £nil).

In the 12 months to March 2014 no individuals (2012/13 one individual) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2012/13 £943).

## 5. Cost of sales and operating expenses

	Cost of sales*	Operating expenses*	2013/14 Total	Cost of sales*	Operating expenses*	2012/13 Total
	£000	£000	£000	£000	£000	£000
Net staff costs	28,733	17,459	46,192	25,300	16,630	41,930
Net Agency staff and fee paid officers**	28,017	3,829	31,846	20,143	4,457	24,600
Training and recruitment	550	572	1,122	326	368	694
Travel	11,995	876	12,871	10,988	591	11,579
Consultancy	-	-	-	-	-	-
Professional services**	2,821	515	3,336	1,883	642	2,525
Legal Services	192	34	226	-	46	46
Communications	1,301	639	1,940	1,264	921	2,185
Other supplies, services & facilities management	2,319	372	2,691	3,243	339	3,582
Management charges from the FCO	1,845	230	2,075	1,887	233	2,120
IS Hardware	6,878	381	7,259	2,107	260	2,367
IS Software	20,879	205	21,084	18,358	2,269	20,627
Other Machinery and Equipment Under £3k	1,057	251	1,308	1,943	240	2,183
Security Equipment	4,662	33	4,695	3,894	481	4,375
Work in progress decrease	-	-	-	-	-	-
Freight	7,132	-	7,132	6,131	-	6,131
Maintenance	3,938	961	4,899	5,300	434	5,734
Operating leases - land & buildings	-	18	18	-	18	18
Operating leases - other	-	8	8	-	18	18
Accommodation charges***	439	686	1,125	468	731	1,199
Loss/(profit) on currency exchange	-	2	2	-	(5)	(5)
Other	-	209	209	-	(227)	(227)
Insurance	395	70	465	-	370	370
Depreciation	1,959	9	1,968	1,744	4	1,748
Amortisation of grant income	-	-	-	-	-	-
Amortisation of intangible assets	223	4	227	317	4	321
Impairment losses on fixed assets	417	-	417	318	-	318
Impairment losses on intangible assets	-	-	-	300	-	300
Auditors' remuneration and expenses (no non-audit work)	-	95	95	-	100	100
<b>Total costs</b>	<b>125,752</b>	<b>27,458</b>	<b>153,210</b>	105,914	28,924	134,838

\* More detailed analysis of costs provided for FY 2013/14. (Restatement of FY 12/13 into new categories using the same percentage allocations for both Cost of Sales and Operating expenses as used in FY 12/13).

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

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

The total amount of research and development expenditure recognised as an expense during the period was £31,000 (2012/13 £955,519). This includes staff costs and an appropriate recovery of overheads.

## 6. Financing income and costs

	2013/14 £000	2012/13 £000
<b>Financing income</b>		
Government Banking Service interest	102	97
	<b>102</b>	<b>97</b>
<b>Financing costs</b>		
Working Capital Loan interest	-	(40)
Vesting Day Loan interest	(96)	(134)
Finance Lease Charges	(3)	
Other Interest Payable	-	(4)
	<b>(99)</b>	<b>(178)</b>
<b>Net financing</b>	<b>3</b>	<b>(81)</b>

*Interest is payable at a fixed rate to the Foreign and Commonwealth Office (see note 17).*

## 7. Dividend

	2013/14 £000	2012/13 £000
Statutory dividend	1,047	945
Discretionary dividend	5,000	-
Dividend payable	<b>6,047</b>	<b>945</b>

*The dividend is payable to the Foreign and Commonwealth Office.*

## 8. Intangible assets

	Assets under development	Research & Development	Software licences	Total
2013/14	£000	£000	£000	£000
<b>Cost or valuation</b>				
At 1 April 2013	114	827	362	1,303
Additions	210	-	83	293
Assets brought in to use	(114)	-	114	-
Revaluation	-	-	-	-
As at 31 March 2014	210	827	559	1,596
<b>Amortisation</b>				
At 1 April 2013	-	698	236	934
Provided during the year	-	86	141	227
Disposals	-	-	-	-
Impairments	-	-	-	-
Revaluation	-	-	-	-
As at 31 March 2014	-	784	377	1,161
<b>Net book value</b>				
As at 31 March 2014	210	43	182	435
As at 31 March 2013	114	129	126	369
Owned as at 31 March 2014	210	43	182	435

## 8. Intangible assets (continued)

	Assets under development	Research & Development	Software licences	Total
<b>2012/13</b>	£000	£000	£000	£000
<b>Cost or valuation</b>				
At 1 April 2012	132	827	246	1,205
Additions	98	-	-	98
Assets brought in to use	(116)	-	116	-
As at 31 March 2013	114	827	362	1,303
<b>Amortisation</b>				
At 1 April 2012	-	122	191	313
Provided during the year	-	276	45	321
Impairments	-	300	-	300
As at 31 March 2013	-	698	236	934
<b>Net book value</b>				
As at 31 March 2013	114	129	126	369
At 31 March 2012	132	705	55	892
Owned as at 31 March 2013	114	129	126	369



## 9. Property, plant and equipment

	Assets under construction £000	Fixtures £000	Information technology £000	Transport equipment £000	Plant and machinery £000	Total £000
<b>2013/14</b>						
<b>Cost or valuation</b>						
At 1 April 2013	3,880	441	5,908	1,452	5,077	16,758
Additions	2,658	322	1,419	278	240	4,917
Assets brought in to use	(3,107)	-	2,610	-	497	-
Leased asset additions *	-	-	193	-	-	193
Disposals	-	(11)	(3)	(95)	(131)	(240)
Revaluation	-	-	(155)	(16)	82	(89)
As at 31 March 2014	<b>3,431</b>	<b>752</b>	<b>9,972</b>	<b>1,619</b>	<b>5,765</b>	<b>21,539</b>
<b>Depreciation</b>						
At 1 April 2013	120	27	3,134	1,037	3,497	7,815
Provided during the year	-	30	1,212	146	567	1,955
Provided for leased asset during the year *	-	-	13	-	-	13
Disposals	-	(9)	(3)	(68)	(123)	(203)
Impairments	-	-	387	17	2	406
Revaluation	-	-	(96)	(12)	60	(48)
As at 31 March 2014	<b>120</b>	<b>48</b>	<b>4,647</b>	<b>1,120</b>	<b>4,003</b>	<b>9,938</b>
<b>Net book value</b>						
As at 31 March 2014	<b>3,311</b>	<b>704</b>	<b>5,325</b>	<b>499</b>	<b>1,762</b>	<b>11,601</b>
As at 31 March 2013	<b>3,760</b>	<b>414</b>	<b>2,774</b>	<b>415</b>	<b>1,580</b>	<b>8,943</b>
Owned/Leased as at 31 March 2014	<b>3,311</b>	<b>704</b>	<b>5,325</b>	<b>499</b>	<b>1,762</b>	<b>11,601</b>

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

All assets have been revalued at 31 March 2014 using appropriate indices.

\* 31 March 2014 leased asset acquired under a finance lease. NBV of £180,318.64 and depreciation of £12,879.90 (FY12/13 £nil no assets of this type).

## 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>2012/13</b>						
<b>Cost or valuation</b>						
At 1 April 2012	1,901	287	3,813	1,451	4,818	12,270
Additions	3,365	154	379	100	97	4,095
Assets brought in to use	(1,386)	-	1,151	-	235	-
Leased asset additions	-	-	-	-	-	-
Disposals	-	-	(34)	(109)	(64)	(207)
Revaluation	-	-	599	10	(9)	600
As at 31 March 2013	3,880	441	5,908	1,452	5,077	16,758
<b>Depreciation</b>						
At 1 April 2012	-	14	1,694	923	3,002	5,633
Provided during the year	-	13	1,021	161	553	1,748
Provided for leased asset during the year	-	-	-	-	-	-
Disposals	-	-	(34)	(54)	(53)	(141)
Impairments	120	-	203	-	-	323
Revaluation	-	-	250	7	(5)	252
As at 31 March 2013	120	27	3,134	1,037	3,497	7,815
<b>Net book value</b>						
As at 31 March 2013	3,760	414	2,774	415	1,580	8,943
As at 31 March 2012	1,901	273	2,119	528	1,816	6,637
Owned as at 31 March 2013	3,760	414	2,774	415	1,580	8,943

## 10. Inventories

	2013/14 £000	2012/13 £000
Raw materials and consumables	2,557	2,823
Work in progress	217	-
	<b>2,774</b>	<b>2,823</b>
Amount of inventory write down	<b>(28)</b>	<b>(15)</b>

## 11. Trade receivables and other current assets

### 11(a) Analysis by type

	2013/14 £000	2012/13 £000
<b>Amounts falling due within one year:</b>		
Trade receivables	11,200	10,302
VAT	4,262	-
Other receivables	97	34
Prepayments and accrued income	13,422	10,678
	<b>28,981</b>	<b>21,014</b>

Included within prepayments and accrued income is £7,744,000 from the FCO (2012/13 £5,673,000).

Included within prepayments and accrued income is £120,603 from construction contracts (2012/13 £nil).

## 11. Trade receivables and other current assets (continued)

### 11(b) Intra-Government balances

	2013/14 £000	2012/13 £000
Foreign and Commonwealth Office	11,909	11,285
Other central government bodies	11,414	4,694
Local authorities	135	90
Public Corporations	31	48
<i>Subtotal: intra-government bodies</i>	<b>23,489</b>	16,117
Balances with bodies external to government	5,492	4,897
Total trade receivables and other current assets	<b>28,981</b>	21,014

## 12. Cash and cash equivalents

	2013/14 £000	2012/13 £000
Balance at 1 April	32,049	37,636
Net change in cash and cash equivalents	(6,503)	(5,587)
Balance at 31 March	<b>25,546</b>	32,049

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

## 13. Trade payables and other liabilities

Trade payables and other current liabilities

### 13(a) Analysis by type

	Note	2013/14 £000	2012/13 £000
<b>Amounts falling due within one year:</b>			
Trade payables		2,211	3,023
Accruals *		17,467	12,409
Payments on account **		15,036	11,374
Other payables ***		348	729
VAT		-	855
Dividends payable		1,047	945
Loans repayable in one year	17	951	951
		<b>37,060</b>	<b>30,286</b>

\* Included within accruals is £4,375,000 (2012/13 £373,000) due to FCO in respect of payroll.

\*\* Included within payments on account is £4,569,000 from the FCO (2012/13 £7,663,000).

\*\* Included within payments on account is £nil from construction contracts (2012/13 £441,125).

\*\*\* Included in other payables is £320,000 (2012/13 £744,000) due to FCO in respect of management charges and accommodation.

\*\*\* Included in other payables is £43,000 finance lease (2012/13 £nil)

### 13(b) Intra-Government balances

	2013/14 £000	2012/13 £000
Foreign and Commonwealth Office	12,235	13,077
Other central government bodies	2,952	3,813
Local Authorities	12	26
Public Corporations	2	-
Subtotal: intra-government bodies	15,201	16,916
Balances with bodies external to government*	21,859	13,370
<b>Trade payables and other current liabilities</b>	<b>37,060</b>	<b>30,286</b>

\* Included in bodies external to government is £43,000 finance lease (2012/13 £nil)

## 14. Trade payables and non current liabilities

### 14(a) Analysis by type

	2013/14 £000	2012/13 £000
<b>Amounts falling due after one year:</b>		
Finance Lease	160	0

### 14(b) Intra-Government balances

	2013/14 £000	2012/13 £000
<b>Foreign and Commonwealth Office</b>	-	-
Other central government bodies	-	-
Local Authorities	-	-
Public Corporations	-	-
Subtotal: intra-government bodies	-	-
Balances with bodies external to government	160	-
Trade payables and other non current liabilities	160	-

## 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:

	2013/14 £000	2012/13 £000
<b>Buildings</b>		
Expiry within one year	-	-
Expiry after 1 year but not more than 5 years	84	-
Expiry thereafter	-	102
	<b>84</b>	<b>102</b>
<b>Other:</b>		
Expiry within one year	4	3
Expiry after 1 year but not more than 5 years	17	-
Expiry thereafter	-	-
	<b>22</b>	<b>3</b>

There are no obligations under operating leases for land.

## 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:

	2013/14 £000	2012/13 £000
<b>Buildings</b>		
Expiry within one year	-	-
Expiry after 1 year but not more than 5 years	-	-
Expiry thereafter	-	-
Less interest element	-	-
Present Value of obligations	-	-
<b>Other</b>		
Expiry within one year	-	-
Expiry after 1 year but not more than 5 years	203	-
Expiry thereafter	-	-
Less interest element	23	-
Present Value of obligations	181	-

Present Value of obligations under finance leases comprise:

	2013/14 £000	2012/13 £000
<b>Buildings</b>		
Expiry within one year	-	-
Expiry after 1 year but not more than 5 years	-	-
Expiry thereafter	-	-
Total Present Value of obligations	-	-
<b>Other</b>		
Expiry within one year	-	-
Expiry after 1 year but not more than 5 years	181	-
Expiry thereafter	-	-
Total Present Value of obligations	181	-

*There are no obligations under finance leases for land.*



## 16. Provision for liabilities and charges

	2013/14 £000	2012/13 £000
Balance at 1 April	206	-
Provided in the year	500	206
Provisions reversed in the year	(71)	-
Balance at 31 March	<u>635</u>	<u>206</u>

## 17. Financial liabilities

	2013/14 £000	2012/13 £000
<b>Loans</b>		
Repayable in under a year	<u>951</u>	951
Repayable in one to two years	951	951
Repayable in two to five years	-	951
Repayable after five years	-	-
	<u>951</u>	<u>1,902</u>

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

Loans comprise:

	Total outstanding £000	Interest rate %	Date Drawn	Due within 12 Months Note 13(a) £000	2013/14 Due after 12 months £000
<b>Loans</b>					
Vesting Day Loan	1,902	4.03%	01/04/08	951	951
Working Capital Loan	-	4.01%	01/04/08	-	-
	<u>1,902</u>			<u>951</u>	<u>951</u>

## 18. Adjustments for non-cash transactions

	Note	2013/14 £000	2012/13 £000
Loss on disposal of property, plant and equipment		26	10
Amortisation	8	227	321
Depreciation	9	1,968	1,748
Impairment of tangible assets	5 & 9	406	323
Revaluation Impairment of tangible assets	5	11	(5)
Impairment of intangible assets	8	-	300
		<b>2,638</b>	<b>2,697</b>

## 19. Capital commitments

Contracted capital commitments not provided in these accounts

	2013/14 £000	2012/13 £000
Property, plant and equipment	560	393
Intangible assets	-	-
	<b>560</b>	<b>393</b>

## 20. Other financial commitments

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

## 21. Contingent liabilities disclosed under IAS 37

At 31 March 2014 contingent liabilities existed in respect of employment £50,000 (2012/13 £82,702) and commercial disputes £nil (2012/13 £nil). While the outcome of these matters cannot be precisely foreseen it is anticipated the matters will be resolved within the next financial year.

## 22. Financial instruments

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

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

### *Credit risk*

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

### *Liquidity risk*

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

### *Interest rate risk*

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

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

### *Foreign currency risk*

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

## 23. Losses and special payments

In 2013/14 the costs falling into the categories of losses and special payments were below the £300,000 level requiring separate disclosure. (In 2012/13 there were no costs falling into the categories of losses and special payments).

## 24. Related party transactions

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

In addition, FCO Services has had various material transactions with other Government Departments and other Central Government bodies. Most of these transactions have been with the Home Office, UK V&I and NCA.

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.

### **Christopher Moxey**

Chief Executive and Accounting Officer

27 June 2014

## 25. Events after the reporting period

On 2 June 2014, the Government of Kuwait informed FCO Services, through the British Ambassador, that although they remained positive in principle about engaging with the UK Government on a G2G programme, they felt at the present time the current programme should be halted, and unspent funds returned to them.

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



# FCO SERVICES

Part of the Foreign and Commonwealth Office

## For more information about FCO Services

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