

FCO Services Annual Report & Accounts 2010/11

# Securing the future in challenging times





**FCO Services**  
**Annual Report & Accounts 2010/2011**

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“We and our global allies see FCO Services as a partner of choice for the range of secure services it provides - it is a jewel in the FCO Crown.”

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

# Foreword by Henry Bellingham MP,

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

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

As a government we have identified a range of very clear priorities to protect Britain's interests and serve its needs: building the country's economic security, safeguarding its national security and, specifically for the FCO, supporting and protecting British nationals around the world. FCO Services has a key role to play in all these areas and has already begun to demonstrate what it can do. The environmental and sustainability agendas are also shaping how government does business. FCO Services has been mindful of all these themes in developing its strategy for business.

I continue to be extremely impressed at how FCO Services has combined the very best of the public sector with private sector commercial ethos. Despite operating in one of the most difficult economic climates in recent memory, FCO Services has once again delivered against its formal targets and demonstrated its viability as a sustainable business. Improvements in efficiency and effectiveness over the past three years have enabled it to maintain the value for money it offers, whilst at the same time managing to both absorb the inevitable impact of the necessary reductions in public spending and still exceed its surplus target. I have seen for myself the

innovative and cost-effective solutions that FCO Services has developed to combat the threat of cyber security, a key strategic objective for this government. These investments will not only improve the security of our global network but also offer significant efficiency savings, enabling the coalition government to deliver on its own commitments for reducing expenditure.

At a time when government departments will increasingly have to look at ways of working more imaginatively together, FCO Services can be a key part of the solution. The success it has already achieved in growing their business outside of the FCO is extremely encouraging. FCO Services earns a quarter of its income from UK government departments and other customers in the wider market. It is also bidding for and securing contracts overseas. Over the coming years the work it does internationally with other governments and organisations is expected to be a key area for expansion.

It is a mark of its achievements and professionalism that the FCO and our global allies see FCO Services as a partner of choice for the range of secure services it provides.

I pay full tribute to FCO Services staff who are extremely professional. The organisation has been through an enormous amount of change over the past three years as it developed from an internal government department to a more commercially-focused trading organisation. FCO Services employees have embraced this change. They are now seeing

the benefits as the organisation generates ever greater efficiencies and opportunities. This kind of ethos is not only valuable to the organisation but could be a model 'centre of excellence' for the rest of government.

2011/12 will continue to be a challenging environment and I have set the organisation challenging targets to achieve. However, I can see considerable potential for future expansion. FCO Services' results for 2010/11 give me every confidence that under the stewardship of its chief executive and his management team, the ambitious targets for 2011/12 can be achieved.

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



## Foreword by Chris Moxey, Chief Executive, FCO Services

*2010/11 has been a challenging year for all. Economic uncertainty and significant reductions in public expenditure have presented considerable challenges to our organisation. As a Trading Fund, FCO Services does not receive direct public funding and relies solely on the revenue derived from the various services provided under the agreements we have with the FCO and our customers in the wider market.*

Following the Spending Review 2010 settlements, UK government departments face significantly reduced budgets, responding to a determined drive for greater efficiency. Uncertainty about these outcomes and their consequences on programme expenditure has led to a period of real challenge for us as a business, driving the need for the transformation of our development strategy and a continuing focus on wider areas for growth.

The FCO remains our largest customer and, at £78.2m in 2010/11, this critical relationship represents 76% of our business. In 2010/11 the income derived from the FCO was severely depressed, down some 24% from last year reflecting a combination of a tightening of client budgets, the completion of the FCO's next generation ICT programme, and greater competition with the private sector.

This decline has created significant pressure on our organisation to strengthen client relationships and to identify new business opportunities elsewhere across government and abroad. We continue to develop strong links with our customers in the defence, intelligence and law enforcement sectors, and recent new business gains will see significant expansion in the work we do internationally with other governments and organisations that have needs for our range of secure services.

Our drive to grow business relationships in the wider market continues to show strength, wherein income has broadly held to that last year, and overall, having risen 83% since the first year as an Agency in 2006. Against this backdrop, we reinforced our core commitment to delivering public value, offering real savings to our customers, and by focusing on service improvement and innovation.

I am delighted to report the achievement of the majority of our formal financial targets. This year was a demanding year that called for robust management of our costs and resilience from our staff and, as results from our annual staff survey indicate, they have remained engaged and motivated.

***Our financial results for 2010/11 show an operating surplus after exceptional costs, but before interest, of £5.06m (exceeding our formal target of £4.1m) on a turnover of £102.5m, equating to a net margin of 4.9%; this compares with last year's operating surplus of £6.07m on a turnover of £126.8m, a return of 4.8%. Growing margins, while managing a significant decline in revenue, has been made possible by accurate forecasting supported by good visibility of our revenue pipeline, a truly flexible workforce and strong cost control.***

***We also exceeded our formal target for return on capital employed, as well as meeting our full contribution to the FCO's Comprehensive Spending Review 2007 commitment, in delivering £14.6m cumulative cash savings since 2008 (against a target of £12m). Changes to the structure and management of our organisation designed to foster a multi-skilled and flexible workforce, have contributed to our achievement of our formal target of 76% utilisation of revenue generating staff. Our customer experience programme, led by feedback and generating continual improvement, saw our achieving the formal customer satisfaction target of 85%.***

We have acted swiftly to protect value by reducing costs, down 19% from last year and some 30% since achieving Executive Agency status in 2006. This in a trading climate where FCO spending with us has reduced significantly, an impact only partially ameliorated by growth in income derived from the wider market.

The indicators of cultural change over the same five year period are encouraging; staff engagement has risen from 53% to 67%, staff recommending FCO Services as a good place to work has grown from a disappointing 37% to an encouraging 56%, and pride in the organisation has risen from 43% to 67%.

Since achieving Executive Agency status in 2006 our focus has been on embedding organisational change, developing capability, and the pursuit of new business relationships in the wider market, both in the UK and abroad.

For the FCO, our owner and principal customer, FCO Services exists to supply security related services and, in so doing, to provide improved value for money with a more professional and flexible FCO Services workforce. Our shared aim is for FCO Services to be a preferred supplier of fit-for-purpose services to the FCO – operating as an efficient business, offering value for money to the FCO, while maximising opportunities with other customers and enabling the FCO itself to work as an effective and demanding customer.

The devolvement of authority and responsibility has been central to the change we have achieved and has resulted in significantly improved organisational capability. Including:

- a customer-aligned organisation structure and engagement model, incorporating commercial processes that unify the business and support the proactive management of risk;
- an HR strategy that has set firm structural foundations to support capability development and behavioural change, bringing an investment in our staff through targeted training schemes across the organisation;
- a feedback-driven customer satisfaction improvement programme, and a Technical Services Centre that delivers better project outcomes in terms of both cost and quality, together with Centres of Technical Expertise that promote service and process innovation.

For our wider customer base, our secure services strategy has led to us driving efficiency and innovation to create a cost-effective platform from which to deliver quality services, which produce value and a distinct competitive position. The highlights on page 12 and group reports in section 2 (page 14) provide examples of just some of these growing services.

We have refreshed our corporate strategy and engaged as widely as possible across central government to promote our capabilities and confirm the relevance of our strategic aspirations. The foundations have been securely laid and our organisational and service capabilities provide the bedrock on which to grow. We are confident that, with the continued support of our owner and many customers, we will do just that. Over the next three years we intend to grow our work in the wider, international market significantly. In 2011/12, our challenge continues as it began; to seek and deliver innovative solutions which meet the ever-changing needs of our customers, demonstrating outstanding value in all that we do.

Finally and most importantly, the real credit for FCO Services' performance goes, unequivocally, to every member of our staff - a team of people who are immensely proud to be a part of the FCO family, and who have clearly shown their ability to embrace change while carrying passion for their work in creating public value.

**Chris Moxey,**  
Chief Executive,  
FCO Services

# Our customers trust us to meet their security needs across the globe.

**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.*

## **Who we are**

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

Operating globally, our security-cleared people design and deliver secure services that meet the demanding needs of our customers. Our unique expertise, gained over 60 years, enables us to be the partner of choice for government customers seeking global solutions, understanding their security needs, the threats they face and the need for best value and cost efficiencies in today's climate of austerity.

# We provide our services through delivery teams, grouped into three operating divisions: Client Delivery, Operations and Services and Logistics.

*We supply tailored services to meet the demanding needs of our customers worldwide, in some of the most challenging environments, through secure ICT, secure logistics and the provision of a secure working environment to protect people, assets and information.*

## **We keep people safe and their environment secure**

Our customers rely on us to provide their teams around the world with a safe and secure working environment. From the management of secure construction projects to the installation and ongoing support of protective systems, our global network of technical specialists is on hand wherever it is needed to ensure our customers' working environment is safeguarded with the highest standards in security.

## **We safeguard data and communications**

Whether it is ensuring the integrity of ICT networks, the secure transportation of official documents and mail, or the accurate exchange of information between countries, our specialist teams play an essential role in keeping our customers communicating securely. We play a vital role in facilitating a global exchange of information and provide our customers with cutting-edge communications technology.

# Our highlights of 2010/11

*This year we set out to focus on the government's efficiency agenda, pursuing improved productivity, cost savings, and increased collaboration in service provision across government.*

**A year of achievement has provided us with a solid foundation of organisational capability that is proving critical in steering our business through the cost and revenue pressures that stem from the current economic climate.**

Efficiency, effectiveness and delivering public value

*Last year we said we would enhance our competitive position through improvements in our efficiency and effectiveness.*

In 2010/11 our revenue fell by 19% due to a major ICT project for the FCO coming to an end, as well as pressures on customer spending arising from significant budget cuts across government.

Despite this significant decline in revenue, we became more efficient, maintaining our financial margins and again exceeding our formal operating surplus target.

## **We achieved this by:**

- Accepting the impact the financial downturn would have on customer budgets early on and successfully predicting how this would impact across our business, implementing targeted measures to manage our costs down accordingly and maintaining tight cost control. We designed new processes to enable greater flexibility in our workforce and released over half of our contractor resources early in the year, managing capacity to match future workload.
- Acting swiftly to protect the FCO's stakeholder value by heavily reducing our costs, not just in delivery terms, but also by tightly controlling and driving down overheads. Overall our corporate costs reduced by 19% this year.
- Tracking and interpreting our spending behaviours and adjusting our priorities and strategies through increasing supplier competition and building our relationship with the procurement community. Focused procurement action enabled us to achieve our savings targets.

Creating revenue and delivering to the customer

*Last year we said we would focus revenue growth to gain a larger market share through consolidation of relationships with existing customers and the development of new customers within traditional markets.*

We knew this year would be challenging and early on we recognised the significant pressure on our organisation to strengthen customer relationships and to identify new business opportunities across government and internationally.

During this challenging year, in which budgets and spending have significantly dropped across UK government, we succeeded in maintaining our presence with the FCO and in growing our share in wider markets. Our fall in revenue came almost entirely from the FCO (falling from £102.7m to £78.2m in 2010/11), which in large part represented the end of a major ICT project. Despite the general pressure on government spending, our revenue from non-FCO customers increased marginally from £24.2m to £24.3m. In dealing with budgetary pressures our customers in both UK and international government are turning to us as part of their solution, presenting us with real opportunities for stability and growth.

## **We achieved our growth in market share by:**

- Renewing our corporate strategy, focusing on engaging across central government to promote our capabilities, and by introducing a new customer-aligned business structure and engagement model. This led to our winning significant new contracts with new government customers and with the UK's close allies in the global community.
- Developing new products to deliver better value to customers, meeting their needs in new ways, improving efficiency and maintaining standards of delivery.
- Developing our collaboration agreement with the MOD's Secure Services Group, delivering increased efficiencies and improved service through cross-government working.

- Investing in research and development, developing specialist products in the ICT and cyber security markets. We created new ICT solutions to maintain our priorities as a thought leader in the delivery of secure services.
- Achieving internationally recognised accreditations, which promote our commitment to quality and align us more competitively and commercially. This year we achieved ISO9001 quality management certification in the areas of Perimeter and Protective Security and Secure Disposal, British Standards Institute BS25999 accreditation and British Safety Council Health and Safety 4-star accreditation.

### Investing in our people

*Last year we said that, while we would reduce our costs and improve our efficiency, we would not stop investing in our business, viewing investment in our people and their skills as essential to our strategy.*

- We encouraged increased cross-team working and invested in developing the skills of our people to supply a multi-skilled and flexible workforce who can provide an even more effective and efficient service to our customers.
- We invested in our people through training schemes across the business, supported by a new government best practice core competency framework and appraisal scheme.
- We introduced an IT operational transformation programme that embedded ITIL best practice amongst other management and process changes.



### Response in a crisis

*We have global reach and local knowledge of conditions all over the world, with people based in over 60 locations. We have a rapid response capacity, supporting the FCO, with technical staff on 24 hours' notice to go wherever in the world their expertise is needed.*

This year saw unprecedented levels of global crisis incidents. Our experts were on hand to provide much needed technical and consular support to the FCO, British nationals and other governments, both during the Middle East evacuations in Libya, Egypt, Bahrain and Tunisia and following natural disasters in New Zealand and Japan.

Last financial year, we supplied technical experts and accompanying equipment to support the FCO's rapid deployment teams on 14 separate deployments. Several volunteers from FCO Services were deployed to the crisis areas carrying essential equipment such as satellite phones, IT and radios, and were responsible for setting up and maintaining essential communications with the UK, and ensuring that communication and technical equipment was available and operating.

In April 2010, volcanic ash clouds brought many airlines to a halt, impacting our secure overseas mail services to embassies across the world. Realising the implications for flights, we provided regular updates to our customers on expected arrangements and delays and, once air space was reopened, brought diplomatic bag services back on track.

Our project management experts co-ordinate multi-skilled teams, providing absolute value for money, while ensuring the highest levels of security are retained and enhanced for the customer.



**Danny Payne,**  
Client Delivery Director

# Our Client Delivery Group

...has continued to provide our customers with secure facilities on an international scale, whilst operating in a demanding and financially constrained environment.

## Who we are - What we do

*Client Delivery has responsibility for managing all commercial and delivery aspects of multiple, project-based programmes on a worldwide scale. Our Technical Services Centre (TSC), which opened in October 2009, integrates around 400 technical experts, deploying them flexibly to deliver project services across our business. Our Chief Engineer heads our Centre of Technical Expertise (CoTE), providing a leading technical edge, creating barriers to competitor entry and enhancing brand value through research and development and expert design assurance.*

We focus on three service areas: Estates, Electronic and Protective Security, and ICT.

Our teams in estates provide professional services from consultancy to design and construction. Operating internationally, our design and engineering teams provide customers with an end to end service, taking projects from concept to detailed design, and combining extensive global experience with industry-recognised best practice and accreditation. Our specialist engineering services include seismic strengthening, structural engineering, blast protection, modern and historic interior design and refurbishment of buildings. Project managers and construction managers support these teams to ensure we provide our customers with high quality estates services delivered to time and to budget.

Electronic, protective and perimeter security specialists design and deliver highly secure perimeter and protective systems, operating anywhere from the UK to the most hostile locations in the world. Our secure buildings experts integrate security into the fabric of customers' buildings. We provide customers with design and build services, and install a wide range of security measures from secure conference rooms to bespoke doors, anti-probe walls and counter-eavesdropping rooms and telephone enclosures, to protect their assets from cyber and physical attack. Our capabilities extend across multiple systems, including fully integrated CCTV, thermal imaging, access control, incident alarms and public address. We also design and build guardhouses, barrier systems, bomb blast walls and security hardened residential pods.

Our ICT project services teams include developers, analysts and technical and solutions architects, who design and build a range of bespoke ICT solutions for our customers, from biometric databases to secure hosting environments. Our ICT solutions all meet the demanding standards of CESG, the National Technical Authority for Information Assurance. We also provide a secure ICT communications service, designing and deploying secure telephony services for customers across government. These services have been integral to high security operations, while reducing travel and contributing to the UK effort to reduce carbon.

Project teams are supported by our Business Management Office, which provides project and programme support services and financial administration.

## What we achieved – Our business performance

*At the beginning of the year we faced challenges of economic and political uncertainty as a new government was elected and spending restrictions were implemented. We successfully navigated our business through this period through the meticulous control of resources and costs.*

Following the publication of the Spending Review 2010, budgetary uncertainty diminished and requests for project work began to flow. Once again, our ability to scale and manage our resource profile enabled us to respond in a highly efficient manner.

In response to the uncertainty and declining revenues from the FCO we broadened our customer portfolio beyond the UK market. We have now successfully bid for several major international projects with other governments and organisations, which will commence in 2011/12.

Delivering a professional service and increasing standardisation and efficiency, through services review and refinement remain, our prime drivers in Client Delivery.

Faced with conflicting demands and priorities, management of our people and capabilities has never been more vital. The creation of skills groups under dedicated line managers within the TSC enabled a more flexible and efficient approach to resource deployment across Client Delivery. The outcome of these initiatives is that we have a much clearer picture of resource utilisation and available capacity. As a result we have been able to drive out considerable savings for our customers both in terms of cost and environmental impact, maintaining a consistently positive contribution to the business during a very challenging period.

## How we did it – Our highlights

*The security of our customers' staff and their families and of their physical assets overseas continues to be our highest priority.*

### **Managing and delivering a first-class global secure service.**

Our professional multi-skilled teams have wide-ranging capabilities and experience in secure construction and in technical security, and have again provided a first-class worldwide service in the form of essential repair work, enhancing security and installing new energy-efficient equipment in British Embassies as far-flung as Azerbaijan, Georgia, Jamaica and Iraq. Our refined project management teams co-ordinate multi-skilled work, all the time ensuring absolute value for money on multi-million pound budgets, while assuring the highest levels of security provision are retained and enhanced for the customer.

### **Key projects this year have included a major project in Kingston, Jamaica.**

This was delivered to budget while the building was still occupied. The roof of the building was replaced, efficient new air-conditioning installed and public areas improved. Security was improved through the provision of a modern and efficient entrance, improvements to the vehicle access routes, and the provision of security-rated windows in the refurbished façade.

### **Protecting assets in Baghdad.**

Our professional construction services teams faced complex and logistical challenges late last year as the FCO received an urgent request to relocate the boundary wall of the Embassy compound in Baghdad, and to redeploy protective and physical security on-site. Close liaison between contacts in the country and our technical experts in the UK was vital to ensure continuous security for staff, and to protect the

safety of the technical installers and contractors who were working in an exposed position on the wall. Despite an increasingly tense environment and short timescales, the project was completed within the projected period of three months, and embassy operations were uninterrupted.

### **Providing secure ICT networks for our government partners.**

Following the completion of the roll-out of the next generation of secure ICT to the FCO, our focus has been on collaborating further with partners across government and with governments with whom the UK has close links. We are continuing to strengthen our relationships, maximising operational and cost efficiencies and contributing further to our government's global security agenda.

We are the technical supplier of IT services to UKBA International Group (IG), which processes visa applications for foreign nationals wishing to visit Britain. UKBA IG configured their visa application model and adapted it for the Australian government, enabling shared use of UKBA's visa application centres with the Australian Department of Immigration and Control (DIAC). As the supplier to UKBA IG we were able to lead the IT contract, customising IT and tailoring it to meet DIAC's security and business requirements. Looking ahead, we aim to secure contracts with other Commonwealth countries using similar models.

**A global confidential network.** We continued our programme of secure international ICT network provision with the completion of a number of projects, including the roll-out of an overseas confidential network to 16 countries for the Serious Organised Crime Agency. The delivery marked the end of a three year project that involved FCO Services designing, building and deploying a system that allowed the customer to operate on its own secure network.

### Protecting our environment

**internationally.** The government's increasing environmental focus, alongside its national security agenda and drive for efficiencies within public spending, relies on solutions that reduce carbon emissions, while still providing more with less. Utilising our successful 'programmes not projects' model of highly-skilled, multi-discipline teams, and following on from the success of the VOICE programme in the previous financial year, we built on the VOICE product and introduced the Voice Implementation Programme (VIP).

VOICE is a public address system which provides automated announcements for emergency evacuation and manual control for everyday announcement and paging. Contributing towards a significant reduction in air travel by our technical staff, VIP is an environmentally friendly programme model which has facilitated the installation of over 70 systems to date. Focusing on regional activity and efficient resource planning, teams were able to regionalise programme installation. By bulk buying hardware, anticipating costs through forward planning and negotiating with suppliers, we ensure best value for our customers.

### Shared services to deliver government projects efficiently.

Last year, we responded quickly to the government's shared services approach by signing a collaboration agreement with Security Services Group – a delivery arm of the Ministry of Defence. With our joint aim being to deliver the highest standards in perimeter and protective security, and co-operating on resourcing and procurement, our partnership will offer a defined and recognised cost-effective service for our customers, and shared utilisation of workforce for our business.

## Where we are going – The future

*Building on our strengths, we will support FCO Services' growth agenda and continue to make improvements in our professionalism, performance and service delivery.*

In order to support the organisation's goals, we have identified key priorities and structural changes for the year ahead.

Working with our customers, we will strengthen relationships with the aim of growing our business, particularly in ICT and Security. We will address customer confidence in our products, prices and performance, using customer feedback to prioritise and plan service improvements. Through effective and focused planning, we will reposition our security offering in the international security market.

To support the effective delivery of projects and programmes we will also implement a number of changes this financial year. To lead our delivery programme we will set up a programme

directoriate, led by newly-appointed programme directors. These will lead and deploy project delivery teams from our TSC and supply chain.

Our Centre of Technical Expertise (CoTE) will develop a broader technical service including design authority, outline design, consultancy, bidding, estimating and quality assurance. We will also be developing our high security offerings, aiming to increase our role as one of the lead authorities for the UK government. We will launch our security consultancy in the summer.

We will continue to strengthen our relationships internationally with other governments and international organisations and expect to see significant expansion as a result.

Given the economic climate and intense competition in our marketplace, 2011/12 will be challenging. We are focused to succeed and will continue to improve our services for our customers, investing in our capability, our people and our technologies.

**Our partnership with SSG will offer a defined and recognised cost-effective service for our customers and shared utilisation of workforce for our business.**



Cyber attack has been highlighted as one of the greatest threats to national security, and customers look to our security experts to provide them with the latest technology and services to keep their assets and information secure.



**David Williams,**  
Operations Director

# Our Operations Group

...had a strong year which has seen the completion and roll-out of high profile, secure projects and intensive research and development into new areas.

## Who we are - What we do

*Operations Group is responsible for the efficient management and commercial performance of products and services, process improvement and the development of resources across FCO Services. Our experts in global secure technical services, ICT operations and property management deliver high quality day-to-day services and develop new solutions to meet changing customer needs.*

Our cyber and technical security service operates as the UK National Authority for Counter-Eavesdropping (UKNACE), and provides a complete countermeasures capability protecting our customers' information, networks, buildings and people.

Overseas, our global secure technical services network of specialists provides support for ICT, communications and physical security systems for the FCO and other government partners at around 250 locations worldwide. New service level agreements last year provided much improved clarity over tasking arrangements and considerable reductions in costs through the revision of support arrangements and appropriate resourcing levels.

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

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

Our business support unit provides administrative support and financial processing to Operations and Services and Logistics and, in some cases to the wider business.

## What we achieved – Our business performance

*This year saw challenging financial uncertainty across government. Our focus was on clarifying and refining methods of working to continue to offer services that provide increased value for money to customers and reduce cost to the environment.*

New ways of working lowered flight costs and reduced our carbon footprint. We strengthened our processes across the group by continuously striving to streamline and refine our methods and structures, while at the same time expanding our capabilities to deliver unique secure services.

Our success in delivering greater value for money, in terms of both cost reduction and improved quality, can be seen in the growth of revenue in a challenging financial environment.

## How we did it – Our highlights

*In a year in which the government's defence and security review highlighted cyber attack as one of the greatest threats to national security, and as hostile activity increases, our experience and expertise in technical and protective security has never been more important or relevant.*

### Keeping Assets and Information

**Secure.** Our customers across government and worldwide look to our integrated teams of security experts to provide the latest technology and services to keep their assets and information secure. Keeping ahead of the game is crucial and our intensive research and development, training, and service development programmes ensure we remain current.

Integral to our security capabilities lies our state-of-the-art cyber and convergence centre which was officially opened by HRH The Duke of York in November. Developed in close collaboration with other security partners across government, the facility is now live, providing customers with high levels of physical security at significantly lower costs than traditional physical security.

**Creating a protective monitoring solution.** Working alongside the cyber and convergence centre, our secure ICT team has developed an ICT secure operations centre. Designed to monitor customers' computer systems 24/7, the centre offers a solution that is compliant with Good Practice Guide (GPG) 13, the framework for treating risks to systems. The solution includes mechanisms for collecting ICT log information and configuring logs to provide an audit trail of security-relevant events of interest.

**Investing in secure ICT.** In secure ICT provision, our focus has been on investing in research and development, infrastructure and hardware to develop products and services for multiple customers at low cost. Customers are given a range of financial options for leasing services, the infrastructure and hardware for which are largely held and maintained by FCO Services, providing them with the ability to access secure solutions without any hardware investment of their own. This gives us a strong advantage in a climate where all government customers are working with reduced budgets.

**Remote mobile access to secure information.** A key achievement is our newly created Secure Mobile Solution. We can now provide customers across government with a secure and remote extension of their ICT infrastructure, allowing them access, via secure laptops, to their confidential or secret data wherever they are in the world. Based around our core infrastructure and encryption, we offer a fully-managed, flexible and secure mobile capability for customers' classified networks.

### Managing a secure data centre.

Our single largest non-FCO customer in the ICT field is the UK Borders Agency (UKBA). From our secure data centre, we operate the central infrastructure for the entire global visa processing operation and our support networks ensure end-to-end connectivity. In collaboration with UKBA's commercial partners at worldwide visa application centres, all biometric (fingerprint and photographic) data is sent to our central database. From here we facilitate routing to partners across government for security checking and onward processing. Last year, over 2.5 million applications were dealt with through our systems.

### Advising on optimum use of funds.

Making the best use of limited budgets is high on the agenda for the FCO this year, particularly in an area as vital as health and safety maintenance. To help focus on key issues and obtain the necessary funding, our property management team has worked with the FCO on the prioritisation of health and safety maintenance work, utilising a model that prioritises work on a rising scale. This will ensure that assets throughout the FCO estate meet relevant health and safety standards and that duty of care to staff and visitors is maintained.

**Sustaining our world.** We all have a responsibility to consider our impact on the environment, and sustainability issues are high on our and our customers' agendas. Our sustainable operations support team support customers globally, providing advice and solutions on a wide range of environmental and health and safety issues.

The carbon calculator is an online tool which enables the FCO to better understand the impact its operations have on the environment. It provides a means of establishing carbon footprint and measuring performance against it over time. It was designed to take account of global differences in energy supply and is adaptable for each location around the world. The tool has been used to inform funding decisions and establish the FCO's carbon footprint for the first time. As a result of using this tool around the world, the FCO has been able to measure its carbon reduction efforts, and in some cases has been able to account for a 50% reduction in carbon emissions.

In a complementary project for the FCO, the team contributed to a design guide for new buildings on the FCO estate. We supplied expert knowledge in international best practice sustainable design and construction, and ensured a coherent approach to environmental issues and energy efficiency on major projects.

During the last year earthquakes have rarely been out of the news, and paramount importance is placed on the safety of staff and their families who live and work in the large inventory of buildings throughout the FCO's estate in seismically vulnerable areas. We have been involved in a seismic review programme on behalf of the FCO's Estates and Security Department to assess all office and residential buildings in high risk areas. This has ensured that FCO properties in earthquake-prone zones are in an acceptable condition in terms of stability and overall structural safety.

## Where we are going – The future

Our Operations Group made considerable progress in developing its capabilities in the past year, and it will build on this success by delivering further improvements.

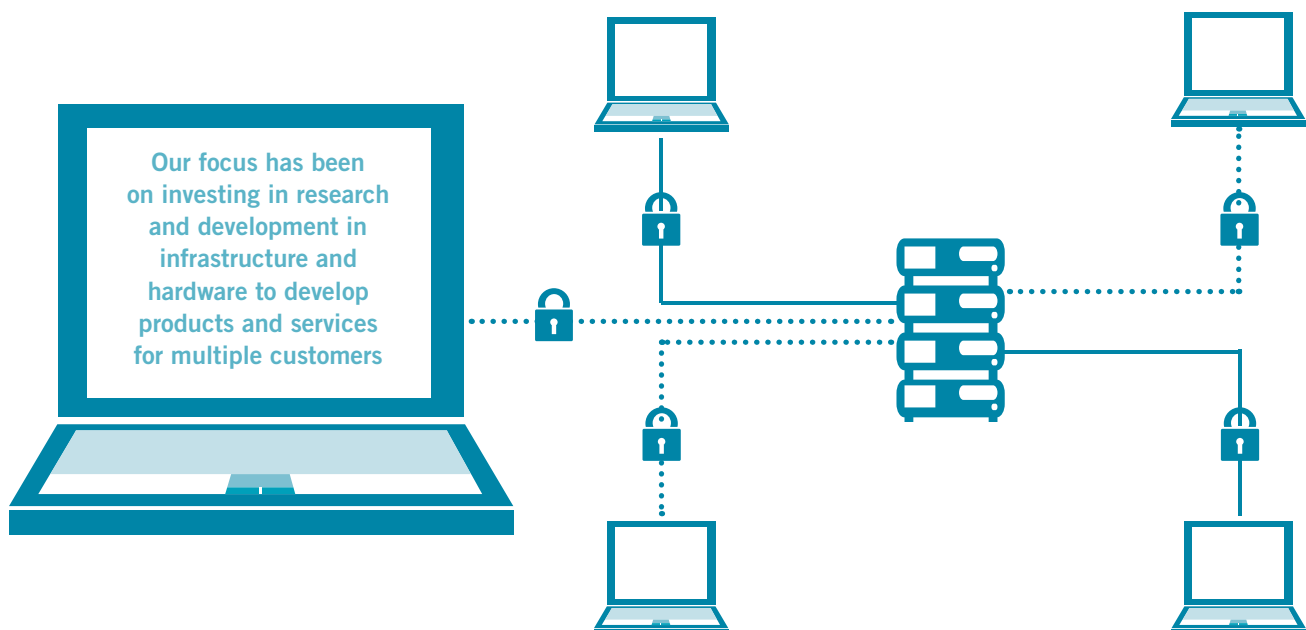
We need to take a different approach to the services we operate globally in order to reflect the changing needs of the FCO and other customers as they adapt to the impact of the 2010 Spending Review. We will move to a more rationalised structure, allowing us to make better use of skilled resources and to provide services without the cost and delay associated with deploying resources from the UK.

In the rapidly changing field of ICT, we will make significant changes in our capabilities by investing in cloud-based solutions and introducing new services, reflecting the direction

set in the 2011 government ICT strategy. These new services have considerable implications for the way that ICT is delivered and will require investment in service management processes and not just the technology itself. Once these services are launched over the next financial year, we will be able to offer very low cost, flexible solutions to the FCO and our customers in the wider market, in the UK and abroad.

Our cyber and technical security operations will also benefit from further development, as we maintain up to date capabilities that reflect the ever-changing threat.

Through these further investments and improvements, we will ensure that the services we deliver continue to meet the needs of our customers as their own strategies and operations change.



By consolidating and streamlining our processes, we provide our customers with integrated services that will meet their requirements, while reducing their costs and the impact on the environment.



**Nigel Morris,**  
Services and  
Logistics Director

# Our Services and Logistics Group

...organises the logistics of a worldwide government department - a complex and multi-layered operation.

## Who we are - What we do

*Services and Logistics Group delivers secure logistics, national security vetting and translation and interpreting services across the UK and internationally.*

The secure logistics experts are continuing a service which has over 800 years' experience of carrying diplomatic mail. Our depth of experience, combined with security cleared people and the latest technology, means that our customers can send and receive mail and equipment securely, to the most difficult environments, confident in the knowledge that it has not been compromised during transit. We provide a range of options including reliable and rapid air freight and door to door secure delivery services in the UK and overseas.

The Queen's Messengers - our diplomatic couriers - are highly regarded and experienced and can deliver classified material around the globe effectively and securely.

Our secure, flexible and cost-effective disposal service for sensitive information guarantees our customers an environmentally friendly service with a fully documented audit trail, now ISO9001 quality accredited.

The national security vetting team is highly respected, and one of the authorised suppliers of specialist vetting services to government, with 50 years of vetting expertise. We offer a comprehensive range of vetting and review services at all levels required by UK government.

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

## What we achieved – Our business performance

*Economic constraints this year have presented significant challenges to our customers, causing them to operate with considerably reduced budgets and resources. As a consequence, we reviewed our logistics and disposal services to ensure that we continue to handle, transport and dispose of their confidential material in as cost-effective a way as possible.*

By consolidating our freight, streamlining our processes, and using a range of transportation channels to retain flexibility, we are providing our customers with integrated services that will meet their requirements, while reducing their costs and the impact on the environment. We are working closely with our customers and our commercial partners to establish scheduling priorities, reducing the frequency of services where appropriate, in order to deliver best value for money and maximise the efficiency of transporting every consignment.

Our national security vetting operations remain actively engaged with the wider vetting community to evaluate further efficiencies that can be achieved in government security clearances and procedures, whilst maintaining quality and flexibility of service.

## How we did it – Our highlights

*Our diplomatic bag service is undergoing modernisation. As the FCO changes its structure and the way that it operates overseas, we are supporting it by redesigning our processes to be more transparent and drive efficiencies.*

**Consolidating logistics to achieve public value.** This can be seen in the new door-to-door diplomatic bag service that is currently under trial at 11 British embassies overseas. This service removes the need to arrange collection locally from the airport, with deliveries door to door, freeing up embassy staff and providing a more cost and time effective service. Following the pilot, we will consult customers and end users, make any necessary improvements and then aim to roll out the service globally.

In April 2011, our secure disposal service was recommended for certification against ISO9001 standards in quality management. Defining and documenting our processes as part of the certification procedure has led to improvements in our efficiency across the whole of our logistics service, and will allow us to align ourselves more commercially to customers, offering robust and sustainable solutions.

**Exceeding environmental impact innovatively.** Being committed to environmental sustainability in all aspects of our work is a priority for our entire organisation, and our logistics teams have ensured that their operations had as low an environmental impact as possible. Fully supporting 10:10, the government campaign which aimed to reduce carbon emissions by 10% in 2010, we succeeded in reducing the carbon emissions of our vehicle fleet by 18%.

Utilising a £250k grant from the Department for Energy and Climate Change (DECC), we significantly upgraded our fleet and purchased two new aerodynamically-styled fuel-efficient trailers, and dual fuel hybrid and electric vehicles. Combined with significantly greater use of road, as opposed to air, freight, these additions contributed to the impressive carbon saving of 64 tonnes over the year.

Our new fuel-efficient ‘teardrop’ trailers broke departmental records by transporting freight the longest distance by road, also ensuring substantial cost and carbon savings. Three lorries and six drivers travelled 5,500 miles to deliver 68 tonnes of classified freight for the refurbishment of the British embassy in Azerbaijan.

### **Trusted secure partner.**

Our reputation as the trusted and secure partner for government departments, is a credential we cherish. Our highly security-aware and vetted people, and rigorous adherence to security policy in the handling of protectively marked material, enables us to remain the supplier of choice for customers for whom the delivery of high-security services and logistics are crucial.

In September 2010, the Vatican requested that our Queen’s Messengers be present throughout the high-profile visit of the Pope to the UK. Working alongside our team of drivers and interpreters, they accompanied the Pope throughout his visit, ensuring that his personal possessions, and those of his delegation, were securely transported around the UK. Delivery of the Pope’s official gift to the Queen was also entrusted to the Queen’s Messengers.

Our London Car Service pool of drivers has won a contract to offer car services to the Department for International Development and continues to receive high praise.

**National security vetting.** Ensuring that government staff are quickly and accurately security vetted is vital for both our customers’, and national security. And with government increasingly being asked to achieve more with less, and delays in clearance meaning delays in appointing staff to new positions, our customers need to see the benefits of new staff quickly. Our wider market share in vetting has continued to increase and now comprises 70% of our work. 22 new customers have been added to our baseline, comprising police forces, the Home Office, BT and the Bank of England.

Our customers expect fast turnaround times for clearances, and our on-line e-forms now include a Developed Vetting (DV) version, which continues to decrease application time and minimise delays. Subsequently, vetting times reduced last year to an average of 43 days for a DV clearance, against 63 days in 2009/10. We also increased the volumes of our Counter-Terrorism and Security Check clearances by over 200% last year.

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

On the translation front, our team further consolidated and improved its rankings in its framework contracts with the European Commission, the European Translation Centre and the European Court of Justice, achieving a 100% score against our evaluations target for European Commission work.

In March 2011 we provided French interpreters at very short notice for the major London conference concerning Libya. It was attended by the Foreign Secretary and other senior government ministers from around the world. During the year, we provided English–French interpreters for the FCO -hosted France-UK summit, a Chinese interpreter who accompanied the Prime Minister throughout his recent high-profile visit to China, and an Arabic interpreter for the state visit of the Emir of Qatar.

We reduced our carbon emissions by **18%**

...gaining a carbon saving of **64 tonnes**



## Where we are going – The future

*Over the coming year, and during times of continuing austerity, Services and Logistics aim to deliver real benefits to our customers by redesigning and modernising our business processes to drive through efficiencies for them.*

Rolling out our door-to-door air freight service to more British embassies will enable us to play our part in reducing the operational burden on them, improving their overall service provision and integrating a number of currently fragmented elements within the overall service.

We will build on our process management following ISO9001 accreditation in quality management of the disposal service. By further developing our integrated supply chain, including improved operating processes, customer services enhancements and tighter contract management, we will reduce costs, whilst maintaining value for money in delivering secure and well trusted services throughout the global network. We will translate this aspiration into our everyday service delivery processes, monitoring and reviewing regularly to improve services further.

Recent investment in buildings infrastructure, and adding new, more efficient vehicles to our fleet, will enable us to operate more effectively, whilst reducing our carbon footprint. We also aim to increase revenue by expanding our customer base and by offering additional services.

We continue to work closely with our partners across government on defining the future structure of vetting services across the whole of government. Our vetting unit has submitted a vision and proposal to illustrate how this might be achieved, which is being considered by the Cabinet Office. We continue to strive to deliver further efficiencies and benefits to the whole of the vetting community.

In Translation and Interpreting, we will consolidate and build on our existing European Union business, further improving our rankings and maintaining our current key performance indicator successes. We also hope to identify and pursue further EU and international translation business under long-term competitive framework contracts.

# Delivering Improvement and Innovation

We are committed to working to recognised industry standards, demonstrating to our customers how we are best placed to meet their needs.

## Customer satisfaction and enhancing the experience

*Recognising that our customers are at the heart of everything we do, we keep a keen focus on the level of service our customers experience.*

This year we met our formal target of 85% customer satisfaction, an achievement made possible by the implementation two years ago of a strategy encompassing structures, roles, systems and processes to ensure the customer service ethic is embedded within our business.

In 2010, we launched our Customer Experience Programme, which aims to improve the way we manage the customer relationship, creating clear and measurable service contracts and customer-focused management information on performance levels. The programme underpins our growth strategy as well as acting as a central mechanism for helping to deliver efficiency and effectiveness across government, by ensuring we engage and involve our people across the business.

### Over the year, as part of this programme we:

- introduced a continuous programme of monitoring across all our key customer interactions. Branded as 'Finger on the Pulse', the surveys provide timely management information on what is important to our customers;
- became members of the Institute of Customer Service. The membership provides us with numerous benefits, including the way in which we measure customer satisfaction, enabling us to benchmark ourselves externally, and offers a range of customer service development and networking opportunities;
- designed an organisation-wide customer service training and development programme, with a new course aimed at frontline employees; and
- launched our first FCO Services Customer Service Awards for our people and teams, recognising their outstanding efforts in delivering customer service.

## Enhancing and investing in innovation

*Our research and development (R&D) capabilities and our commitment to engineering excellence are at the forefront of our business, and sharing our innovative secure ideas across government contributes towards the efficiencies agenda.*

This year, we set up formal governance of our R&D through representatives, a delivery group and a Major Opportunities Committee and over 60 ideas and proposals have been generated across the business for consideration. Our rigorous R&D process ensures that funds are used effectively to deliver products and services that are tailored to the new, more challenging economic environment in which we operate.

A new Secure Mobile Solution was the principal innovation in the R&D field during the year. The secure ICT solution provides our partners across government with the ability to connect remotely to their high security classification information wherever they are in the world. The solution can be customised to suit individual requirements and budgets, enabling our government customers to operate securely and flexibly.

We also invested in the final stages of development of cutting-edge countermeasures equipment. Several governments with whom the UK has close links have expressed significant interest in the technical capability of this equipment.

We announced last year that our Cyber and Technical Security Service, the UK National Authority for Counter-eavesdropping, were working closely with CESG, the National Authority for Information Assurance and Thales UK, to develop a new piece of computer security equipment. The joint development is complete and the product is ready for production now.

During 2010/11 we achieved our formal target for customer satisfaction of

# 85%

## Enhancing and investing in security and information assurance

*Security is at the heart of everything we do and the protection of information is paramount.*

We have achieved full compliance with the requirements of the government's 2009/10 Data Handling Review. This year we undertook a full review of all Information and Security (IS) functions across the organisation.

By drawing information management and assurance together with physical, personnel and IT security into a newly created Corporate Information & Security team we have enabled a more integrated approach to delivering to the highest standards. For our people, this means advice and guidance is easier to access and is more relevant. We have established clear processes to further strengthen our IS governance and the management of our IS assets. This will improve efficiency and support our aim to achieve ISO 27001 certification. We also conducted a successful information assurance maturity assessment with CESG, which underscored the progress we had made over the previous year. The results have contributed to a targeted improvement plan, which will build on our success and help us advance to the next level of information assurance maturity.

## Enhancing and investing in our business continuity

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

We are pleased to report that following rigorous independent examination, we have been awarded the British Standards Institute BS25999 certification for our business continuity management system. We will continue to invest in business continuity, providing ongoing training for our people, testing our plans and keeping our risk assessments and business impact assessments under review.

## Enhancing and investment in our quality management systems

Increasingly our customers are challenging us to demonstrate our commitment to quality and continuous business improvement.

This year we achieved formal certification to the international quality standard ISO 9001:2008 for our perimeter and protective security and secure disposals service lines. We demonstrated our ability to deliver services to customers consistently, continually building improvements into our processes and providing outstanding quality, which led to increased customer satisfaction and reduced costs. Achieving ISO 9001:2008 certification provides internationally recognised evidence that our organisation takes quality seriously and will allow us to operate on a more competitive basis, generating more business to ensure FCO Services' long term security and stability.

## Health and safety

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

We pledged to work with the Health and Safety Executive (HSE) and its partners, and have aligned our internal audit processes to enable the effectiveness of our health and safety systems to be benchmarked against best practice industry standards as set out by the British Safety Council. We are pleased to report that we have received the British Safety Council Four Star award, an internationally recognised certification, used by leading organisations worldwide to benchmark their safety management system against best practice process.

Our people are empowered to contribute towards creating safer work environments. We will continue to deliver nationally accredited health and safety training courses to raise their awareness and enhance their skills and competencies. We have undertaken risk assessments and regular safety inspections of the workplace; as a result we have upgraded some workplaces to reduce the likelihood of accidents and incidents. We are pleased to report no work-related deaths and no major injuries this year.

# Delivering Through Our People

The expertise, engagement and motivation of our people is crucial to our business performance. We ensure that their skills and capabilities are developed and that they are recognised for their achievements.

## Communication and engagement

*This year, with the uncertainties in our external environment and the potential impact on the morale of our people, it has been vital to maintain effective, and cost-effective two-way communications.*

We have brought staff publications in-house and online, ensuring that regular news updates have continued, while making costs savings and reducing our impact on the environment. We also ensure that, if staff have specific needs under the Disability Discrimination Act 1995, these are taken into account in our communications planning.

Our programme of communications activities has continued to be wide-ranging, with a focus on interactive channels. We have held all-staff meetings with our Chief Executive, our minister and the FCO's new permanent under-secretary, to give our people the opportunity to discuss topical issues. Our Chief Executive has also regularly held feedback sessions with staff attending training courses. We have put in place further opportunities for staff to provide feedback with the launch of a new staff suggestion scheme, inviting our people to put forward ideas for business improvements.

Keeping our people up-to-date with business performance has been vital during such a period of uncertainty and we have set up a regular business cascade for managers to share with their teams. We continue to monitor the effectiveness of our communications activities and this year have:

- conducted a comprehensive survey of the effectiveness of our communications and used the outputs to refresh our communications strategy; and
- continued to gather feedback from training courses, online surveys, the Investors in People process, our annual staff survey and the Civil Service People Survey.

Feedback from our annual survey indicates that, despite the challenging environment, our people remain committed and motivated, with engagement remaining on a par with 2009.

## Workforce strategy and planning

*Our HR strategy has focused on developing our key people management policies and processes. We aim to attract, retain, and develop our people with the right skills to maintain a successful Trading Fund.*

Reductions in public spending and controls on pay and recruitment have presented new challenges. Our customers across government are demanding greater value for money and we must continue to respond by providing more for less through our workforce, in a period of heightened job uncertainty and pay restraint. The key challenge for managing our people has therefore been to increase productivity, reduce fixed costs and overheads, whilst maintaining staff morale and motivation and continuing to encourage and recognise individual and team contributions.

We work closely with Milton Keynes College to deliver our successful Technical Apprenticeship Scheme that is committed to growing and developing our own talent to help us face challenges in the future. In September 2010, we recruited 10 new apprentices and currently have 40 apprentices at various stages of their training working across our business. To date we have been able to offer permanent employment to all apprentices who have successfully completed the scheme.

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

During the year, one of our young apprentices presented at a high profile business conference held by Milton Keynes Council and the National Apprenticeship Service. Local employers from the private, public and voluntary sectors joined training providers, employers and young people to hear how taking on an apprentice could boost business.

## Resourcing, recruitment and diversity

*In line with the rest of the civil service, we implemented a freeze on external recruitment which has had an impact on our equality objectives in terms of broadening our diversity profile.*

We planned ahead and over the year embarked on a new appraisal process. We embedded the core behaviours framework and focused on the importance of what we deliver and on delivering an improved service to our customers. We can now measure our objectives and commitment to our customers more robustly, as we encourage emphasis on individual, departmental and organisation priorities and the personal development of our people, to deliver our overall contribution to business performance.

By focusing on a skill-specific and competence-based approach to selection and recruitment, we have been able to define even further how we bring in people with the right skills.

This year, to meet our workforce planning requirements, we welcomed 29 new entrants, the majority of whom were interviewed and were in the vetting clearance stage prior to the recruitment freeze. We also made 32 offers internally in the UK. In our overseas cadre, we appointed 52 people to internal posts.

At the end of March 2011 our average full time equivalent headcount was 1,129. The requirement for contractors further decreased as projects completed and as a result of more streamlined and efficient processes. Employee turnover was 78 through retirement, resignation and the voluntary exit scheme.

We are an organisation that values fairness and equality of opportunities. Our approach to recruitment has built further on our culture of valuing the diversity of our workforce. In 2010/11 our staff included 24.8% women, 6.7% ethnic minorities and 3.9% declaring a disability.

Our diversity team played an important role, working in partnership with our people to promote best practice through awareness courses and involvement in vetting processes. The team engaged in Diversity Practitioner and Civil Service Disability Networks, as well as working collaboratively across government departments to understand the implications of the Equality Act 2010 and to improve awareness and promote equality.

We are a member of the 'Two Ticks' Guaranteed Interview Scheme for people with disabilities, and make adjustments where required during the recruitment process and throughout the individual's employment period.

This year we hosted a successful national event in London for a:gender, the cross government support group for transsexual and intersex staff. We were also jointly involved with the FCO in an event to raise awareness of mental health issues.

### *In September 2010:*



## Learning and development

*We have continued to focus on how we can develop our internal talent cost-effectively through leadership and a core behaviours framework.*

We established our leadership development programme, which is proving to be a success, and invested in technical, professional, commercial and financial process training as well as business skills learning.

We also supported the development and implementation of a shared skills framework which, through the implementation of the TSC, has enabled more effective resource deployment to projects and enhanced career development. This has given our experts the opportunity to broaden their experience and skills through exposure to different types of work and training. And by developing new and improved skill sets, linked closely to our existing and new products and services base, we are able to deliver more cost-effectively for our customers.

Last year we announced that we had received Investor In People (IiP) accreditation, a great achievement. We have built on the IiP certification because we believe high quality, well informed and well trained staff are essential to develop and maintain our business.

This year, to maintain the momentum, we formed a new IiP governance group. We will be formally reassessed for accreditation in 2013 and are carrying out health checks as part of a three year programme of rolling reviews in advance of this. We are preparing for five business areas to be assessed later this year to ensure we retain our high standards in areas such as learning and development, line management and understanding our roles and objectives.

Building and strengthening our people remains at the forefront of our business as it assures our customers that we have a knowledgeable workforce to deliver for them in the long term. Our commitment in investing in the learning and development of our people was benchmarked in a Civil Service wide survey that showed we are a high performer compared to similar sized organisations.

## Recognition and reward

*Despite entering the second year of the public sector two-year pay freeze our turnover levels remain stable. Retention tools that recognise individual and team contributions continue to play a part in maintaining a commercial, customer and performance driven business.*

We continue to make significant investment in learning and development to address current and future business challenges, and in 2010 launched staff suggestion and customer services award initiatives.

## Sickness absence

*The average number of working days lost per employee due to sickness absence was 5.13 in 2010/11.*

We have continued to make improvements in reporting and a more active management of long term absences.

## Raising concerns

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

We encourage our people to report any acts they encounter in the course of their work that they believe to be illegal, improper or unethical. All such approaches are taken seriously and treated in confidence. We will not tolerate the victimisation of anyone who comes forward to raise a genuine concern. The Public Interest Disclosure Act 1998 provides legal protection for employees who make disclosures about suspected malpractice in the workplace. Guidance on raising concerns is freely available to our people and, if anyone feels they are being asked to act in a way that is inconsistent with the Civil Service Code, they can discuss their concerns in confidence with specially nominated colleagues.

In 2010/11, we conducted a review of our policies and procedures, which confirmed that they remain consistent with best practice.



We formed a **new IiP governance group** and are carrying out health checks as part of a three year programme of rolling reviews

# Delivering Our Corporate Social Responsibilities

We are dedicated to conducting business safely and ethically and continue to build on our corporate social responsibility programmes. These aim to provide long-term benefits to our people, customers and the communities we serve, and to the environment in which we all live and work.

## Community relations

*We continue to develop our links with the local community through wider engagement and our people actively engage and volunteer in various initiatives. We have mentored around 250 students from local schools.*

Our commitment continues to the 'Equal Choices for Schools' programme that allows young people from diverse backgrounds in the Milton Keynes area to experience a real working environment.

This year, we took part in:

- 'Workout' days where students have the opportunity to ask us what it's like to work for FCO Services;
- 'Get a job' events where students are introduced to the recruitment process, helping them to fill in an application form and experience a mock interview;
- a 'Business Enterprise' day which involved local businesses helping students to understand what a profitable modern business looks like.

We celebrated receiving Employer of the Year and Outstanding Mentoring awards from Countec Investors in Education Awards 2010, the Milton Keynes Education Business Partnership.

## Environment and sustainability

*Environmental impact is an important aspect of our performance to our customers, stakeholders and our people, and is therefore a clear area of focus for us. It is reassuring for anyone involved in our business to know that the environmental impact of what we do is managed, monitored regularly and improved wherever possible.*

Due to our close links with the FCO, we have maintained a common approach to sustainability. We are included in the FCO family for central government environmental reporting purposes, and we operate within their environmental management system and ISO 14001 certification.

Together we are reducing our environmental impact through cutting waste, energy and water consumption and are on course to meet the challenging long term targets set by government. In the shorter term, we committed to and met the 10:10 challenge with the FCO, which aimed to reduce carbon emissions by 10% in 2010. Our specific contribution was through reducing carbon emissions from our fleet of vehicles, where we achieved an 18% reduction, and flights, where we reduced our emissions by 30%.

As a Trading Fund we have strengthened our internal approach to sustainability; our newly formed Sustainability Committee met several times during the year to drive forward our 'green' agenda and embed it into the organisation's culture. Our people participated in Climate Week through several initiatives. These included collecting money to buy tree plots for carbon from the Woodland Trust and a senior director, our sustainability champion, signing up to a personal 10:10 challenge. Additionally, we encouraged our people to submit ideas through the staff suggestion scheme on how our organisation could help reduce our carbon footprint.

We have, together with our partners in the FCO, encouraged other initiatives such as greener travel to work through car and taxi sharing. We hosted sustainable travel days, inviting Milton Keynes Council to offer the latest advice to our people on green subjects including cycling safety.

More detailed information on the global environmental impact of our operations can be found in Section 2: Delivering value for our customers.

For performance against our sustainable development targets see Appendix A on page 81.



“I am confident FCO Services can develop its position as partner of choice for the FCO and other UK government departments at home and overseas.”

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

# Foreword by Sir Richard Stagg, Chair, FCO Services Board

*FCO Services is operating as a Trading Fund in one of the most difficult economic periods in recent history. Rather than struggling or simply surviving, however, it has succeeded in sustaining and growing its business, generating a surplus in each year of trading and delivering real value to the FCO, its main customer and stakeholder.*

Delivering public value has always been at the heart of how FCO Services operates. This year we demonstrated this commitment by focusing on process improvements, on delivering further efficiencies (including through increased cross-government engagement) and on successfully seeking new business opportunities outside the FCO. It is a considerable tribute to FCO Services that we have managed a 27% reduction in FCO spend since the move to Executive Agency, while continuing to succeed commercially.

Living in India, home to one of the most innovative service sectors in the world, I appreciate the opportunities and challenges FCO Services faces as a global supplier. Never has there been a greater need to use partnerships in order to manage increasingly tight budgets.

The end of year results reflect the dedication of people across FCO Services, who continually strive to improve and to deliver; and to maintain a strong focus on the needs of the FCO and other customers, in these difficult and uncertain times.

As High Commissioner in New Delhi, I have experienced FCO Services' expertise and high standards at first hand. The technical specialists provided secure communications systems for the largest and most complex ministerial visit to India since Independence – led by the Prime Minister. Last autumn, FCO Services supported a range of UK Government agencies which needed to operate in Delhi in the run-up to and during the Commonwealth Games 2010.














In another project, we are building new secure entrances to the High Commission. In advance, a multi-skilled FCO Services team temporarily rerouted IT networks and cabling from entrance points so services were not affected during demolition work, delivering ahead of schedule, cost effectively and with a minimum of disruption, hence our ability to continue to operate successfully. The renovation work paved the way for VOICE, an incident alarm and public address system, which provides timely, automated instructions to keep our people and buildings safe.

The FCO Services' Board has provided both support and challenge to the Chief Executive and to his leadership team throughout the year. The composition of the Board changed on 1 April 2011, when we said goodbye to Steven Rymell who led the reorganisation of Client Delivery and played a prominent role in the introduction of the Technical Services Centre. I would like to thank him for his contribution and commitment to FCO Services – we all wish him well. I am sure Danny Payne will continue to build on his work.

This year, as last, we have seen continued pressure on the public sector to achieve more with less, and we all face further challenges in 2011/12. The key to the future sustainability of FCO Services is undoubtedly the relationship with its major customer and stakeholder, the FCO. Closer engagement with the FCO's new senior leadership team will be vital. I warmly welcome the decision by the FCO Board to ask Matthew Rycroft (their Chief Operating Officer) to lead a review designed to ensure that the relationship is delivering maximum benefit.

I am confident FCO Services can develop its position as partner of choice for the FCO and other UK government departments at home and overseas - and can work increasingly with other governments with whom the UK has close links, who are all seeking customised global secure solutions. With its performance this year, the business has demonstrated both its resilience and its ability to take on the future challenge of delivering innovative, cutting-edge services at the best possible value to all its customers.

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

Board Member	Possible Board Attendance 2010/2011	Actual Board Attendance 2010/2011	Board Member	Possible Board Attendance 2010/2011	Actual Board Attendance 2010/2011
 <b>Sir Richard Stagg</b> Non-Executive Director and Chair	6	6	 <b>Steven Rymell</b> Client Delivery Director	6	5
 <b>Neil Masom OBE</b> Non-Executive Director and Chair of Audit Committee	6	6	 <b>David Williams</b> Operations Director	6	6
 <b>David Kogan</b> Non-Executive Director	6	6	 <b>Nigel Morris</b> Services and Logistics Director	6	5
 <b>Wendy Barnes</b> Non-Executive Director	6	6	 <b>Andrew Camp</b> Commercial Director	6	6
 <b>Stephen Hawker</b> Non-Executive Director	6	6	 <b>Helen Sullivan</b> Finance Director	6	3
 <b>Chris Moxey</b> Chief Executive and Accounting Officer	6	6	 <b>Sarah Cevro</b> Human Resources Director	1	1
			 <b>Philip Worthington</b> Acting Human Resources Director	5	5

**The composition of the Board remains the same as last year, with no new appointments or retirements during the financial year. Steven Rymell, our Client Delivery director, resigned from the Board on 31 March 2011. We welcomed Danny Payne, Technical Services Director and formerly Deputy Director of Client Delivery who assumed responsibility for Client Delivery on 1 April 2011.**

Group Director for HR, Sarah Cevro took an extended leave of absence on 27 June 2010.

We welcomed Philip Worthington to the Board on 28 June 2010, when he took on acting responsibility for HR until Sarah's return.

David Kogan, one of our Non-Executive Directors agreed to serve for a further period of three years from 1 March 2011. His re-appointment ensures that we retain a combination of Non-Executive and Executive Directors with direct experience of the external commercial environment combined with in-depth working knowledge of the organisation.

Members of the Board are required to register those interests and activities which could be interpreted as a conflict of interest. This process allows the FCO Services Board to consider whether these call into question the individual's suitability to be a Member of the Board and, if not, how it discusses specific matters on which a member might have a conflict of interest. The Head of the Secretariat maintains the Register of Director's Interests. Directors register their interests upon appointment, thereafter the Head of the Secretariat asks Directors to update the Register annually. If, in the meantime, a Director's circumstances change s/he must contact the Head of the Secretariat immediately so that the register can be updated. Directors must declare a conflict of interest at meetings if a matter on which a Director has an interest is to be discussed.

1 April 2008, FCO Services was established as a Trading Fund under the Government Trading Funds Act 1973. Overall responsibility for the strategic direction of our organisation rests with the Secretary of State for Foreign and Commonwealth Affairs, who delegated these responsibilities during the year to the FCO Minister then in situ.

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

Our Chief Executive is supported in this by three main bodies:

### The FCO Services Board

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 our performance at a corporate level.

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 Audit Committee

This Committee supports the Board and Chief Executive in the management of risk, internal control and assurance and governance. Meeting at least four times per year, its membership consists of four Non-Executive Directors (one serving as Chair) and the FCO's Finance Director. The Committee is also attended by the Head of Internal Audit and the National Audit Office, as well as members of the Executive Committee.

### The Executive Committee

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

We have met the standards required by HM Treasury and the Cabinet Office relating to corporate governance. The Board, under the direction of the Chair, has established an annual performance management process to evaluate the Board's overall performance and the overall effectiveness, performance and contribution of Board members. The Audit Committee has established a similar process under the direction of its Chair.

We have the following formal performance targets for 2011/12:

**In-year surplus**

(before interest and tax)  
of between  
**1 to 5%**  
of our annual revenue

**A Return on Capital Employed**

of at least  
**3.5%**  
(weighted average)

**Customer Satisfaction**

**Our priorities for 2011/12**

*Today's business environment remains challenging as the FCO and wider government respond to the necessary reductions in public expenditure over the next four years.*

The pressure to do 'more with less' has never been greater and our customers are seeking new ways to meet their business needs. Combined with the UK government's renewed emphasis on both security and accountability, this demanding environment presents us with new opportunities to demonstrate the value we add.

Faced with declining FCO revenue, the critical challenge for us is to compensate with a commensurate growth in revenue from the wider market. As an in-government provider of secure services, with the flexibility and transparency of our Trading Fund operating model, we are well positioned to help existing and new partners across government to deliver their objectives.

We will continue to embrace the opportunities presented by the economic climate around us, through emphasising cross-government coordination, transparency and accountability. Our aim is to implement an even more customer-focused organisation.

**Our priorities over the next year will be:**

- to adapt and invest in our products and services so they are attractive to both new and existing customers, who are in need of security related services, but whose budgets are under pressure;
- to play our part in helping the government to deliver better public services through more effective collaboration and coordination between departments;
- to continue to find ways ourselves to reduce our costs and operate in ways that maximise our value to customers, whilst delivering for our wider stakeholders; and
- to continue to support the government agenda in demonstrating the transparency and accountability of our functions, while protecting the environment.

**Customer**

To put the customer at the heart of everything we do, driving innovation and delivery

**Efficiency**

To be an efficient organisation committed to continuous improvement in operational efficiency

**Finance**

To be a financially successful and commercially sustainable business for government

**People**

To continually invest in staff to build a high performance, customer focussed and innovative culture

rating to be  
at least

2<sup>nd</sup>  
quartile

position of the Public  
Services (National)  
sector of the  
UK Customer  
Satisfaction Index

Efficiency

to achieve at least

2<sup>nd</sup>  
quartile

position in the Office for  
Efficiency and Performance  
benchmarking survey

People

To continually

invest  
in staff

to build a high performance,  
customer focussed and  
innovative culture

## Our key priorities for growth

*We believe it is right to encourage innovation and to seek new, more efficient, ways of meeting customers' needs. In continuing to grow our business, we will support change, focus on the new rather than the old and continue to deliver best value for our partners. To achieve our priorities we will focus on three key priorities for growth:*

### Electronic and Physical Security

We have reviewed our entire range of products in this area to reduce cost, to better meet the bespoke needs of our customers and to deliver the efficiency and security agendas at best value to UK government.

We will continue to collaborate with the Ministry of Defence's Security Services Group (SSG) in order to deliver a joined up service across UK government and to maximise the range of services and geographical coverage available to customers.

### Secure ICT

Building on our position as a specialised provider of bespoke secure ICT services, we will focus on achieving sustainable growth through the research and development of new products and services especially in the fields of secure mobile solutions and cloud-based applications.

We will also continue to expand our expertise in the delivery of ICT service management and integration to support the government's 2011 ICT strategy and our new range of innovative products.

### International Estates

Recognising the government's aim to strategically re-align its diplomatic network, we will continue to shape our services offerings to support what the Foreign Secretary has called the biggest strategic diplomatic advance by Britain in decades.

We will capitalise on recent successes internationally in the fields of property management and construction, by continuing to develop new product offerings and consolidate strong relationships with other governments and organisations that have a need for our range of secure services.

Finally, we will aim to build on our track record and deep expertise in supplying environmentally friendly solutions, helping reduce our customers' impact on the environment by focusing at all times on the sustainability of our practices.

### Our other services and core functions

In addition to these three areas of particular focus, we will continue to undertake structured and targeted reviews of existing products and services to enable us to improve, enhance and protect strong customer propositions right across our business.

The customer will remain at the core of our business ethos, and using our improved customer feedback processes we will gain a deeper understanding of their needs, priorities and strategic direction. We will continue to pursue further efficiencies in our corporate functions, already reduced by 30% since achieving agency status. We will also ensure that we meet the highest standards of public accountability and transparency through publishing our procurement information quickly and effectively.

# Review of Financial Performance

In 2010/11 FCO Services delivered a strong financial performance in its third year as a Trading Fund.

*This has been achieved at a time of spending austerity across government, which affected the majority of our customers, and the subsequent uncertainty of the Spending Review 2010 outcomes which delayed firm decisions by customers on their spending activity.*

As a consequence of these pressures on customers' budgets, FCO Services fell slightly short of meeting its wider market activity performance measure. All the other formal Ministerial financial Key Performance Indicators (KPI) were met, including the successful delivery to the Foreign and Commonwealth Office, for the third year, of Comprehensive Spending Review (CSR) savings of £2m. Over the past three financial years these savings have amounted in total to £14.6m.

## Financial outturn 2010/11

Total revenue achieved in 2010/11 was £102.5m which reflects an overall decrease of £24.3m against revenues last year of £126.8m. We anticipated a downturn early in the year and worked hard to align our costs accordingly. The revenue downturn is primarily attributable to the completion early in the year of a five year IT global rollout for the FCO, and more generally, the difficult trading conditions across government in 2010/11.

Overall FCO Services' revenues can be segmented into FCO revenue (£78.2m), and non-FCO revenue (£24.3m). This means that in 2010/11 23.7% of total revenue was generated from non-FCO customers, compared to 19% in 2009/10. This is a trend that continues to reflect the strategy of the Trading Fund to develop new market opportunities across a broader range of customers, thereby delivering greater value to the FCO and at the same time ensuring its own sustainability.

FCO Services achieved an operating surplus before financing for 2010/11 of £5.1m, a return of 4.9% on revenue of £102.5m. This compares with a surplus before financing for 2009/10 of £6.1m, a return of 4.8% on revenue of £126.8m. This is a creditable result as the current year's figure includes the cost of a voluntary exit scheme of £2m, and has been achieved through driving down costs across both business and corporate areas, focusing particularly on maximising the benefit of using a flexible workforce of contractors.

The segmental performance analysis in Note 3 to the Accounts indicates that Client Delivery has a significantly reduced activity level in comparison with the previous year. This reflects the impact of the completion of a major global IT rollout programme early on in the year, and customers' reluctance to commit to new projects until late in the financial year. The fact that the percentage contribution has remained in line with the previous year is due to effective management of the group's resources throughout the year.

Operations group increased its level of activity but shows a decline in contribution from 10.1% to 9.0% this year. This reflects the cost of the voluntary exit scheme incurred in the year which will produce an efficiency cost saving in future financial years.

Services and Logistics continued to show a loss, albeit, less than last year. The group was impacted by reduced volumes of activity in certain areas, particularly in the earlier months of the year.

**Voluntary exit scheme**

This was an efficiency programme to deliver cost savings from reduced numbers of permanent employees in future financial years. While retaining frontline and business critical roles, 42 employees left voluntarily on 31 March 2011 on Civil Service Compensation Scheme terms. Efficiencies of at least £0.85m per annum will result from not replacing leavers, redesigning jobs and restructuring.

**Financing income and costs**

Interest of £93k was earned in the year from cash on deposit with the Government Banking Service, compared to a value of £114k in 2009/10. This decrease is partly due to a cumulative reduction in balances on deposit.

Financing costs of £0.4m (2009/10 £0.5m) relate to interest on loans from the FCO and the year on year reduction arises from the repayments of the Working Capital Loan.

The resulting net finance charge is £0.3m, compared to £0.4m in 2009/10.

**Surplus for the year**

After taking into account the net cost of financing, FCO Services produced a surplus of £4.8m, a return of 4.6% on revenue. After deduction of the statutory dividend of £0.6m, the retained surplus for the financial year was £4.2m.

**Net assets**

At 31st March 2011, FCO Services' Statement of Financial Position showed total net assets of £23.4m against an opening year position of £19.2m, a positive movement of £4.2m.

The net assets comprise: non-current assets £5.7m (2009/10 £4.6m); inventories £1.4m (2009/10 £1.4m); cash and cash equivalents £42.1m (2009/10 £39.1m); and other net liabilities of £25.8m (2009/10 £25.8m).

**Cash generation**

The level of cash of £42.1m at 31 March 2011 has increased by £3m from the end of the previous financial year. The cash inflow generated from the surplus of £4.8m and the effective management of working capital, funded a net investment in non-current assets of £2.3m, repayment of £4m of working capital loan, and the payment of a statutory dividend of £0.4m.

**Cash management**

Credit management of customers remained robust throughout the year and resulted in consistently low values of '30 plus days overdue' debt. At 31 March, this stood at £21.7k, which represents 0.2% of trade debtors (2009/10 2.4%). Debtor days outstanding were 20 days at the end of March.

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 2010/11, FCO Services achieved an average success rate in meeting this target of 90%. FCO Services is a signatory to the Prompt Payment Code which is administered by the Institute of Credit Management. Details can be found at [www.promptpaymentcode.org.uk](http://www.promptpaymentcode.org.uk). At 31 March, FCO Services had an average of 6.6 days purchases outstanding with suppliers.

Effective cash management ensured that liquidity remained strong, with a quick ratio of 1.9 at the end of March.

# Review of Financial Performance

## Performance against Formal Ministerial Targets

Long term goal	Short term objective	Key Performance Indicator (KPI)	Target 2010/11	Result
We will be a financially successful sustainable business	To be a financially successful and commercially sustainable business for government, delivering value through maximising opportunities with the FCO and expanding non FCO customer base	In year surplus before interest and tax	An in-year surplus before interest and tax of at least £4.1m	£5.1m
		Return on Capital Employed (ROCE)	A Return on Capital Employed of at least 3.5% (weighted average)	23.7%
		Growth in wider market revenue	A wider market revenue growth of 10% on that achieved in 2009/10, assessed on a normalised baseline	Reduction of 3%
To put the customer at the heart of everything we do, driving innovation and delivery	To continually improve customer satisfaction in all aspects of our products and service delivery	Customer satisfaction rating derived from an independent, quantitative customer survey	At least 85% satisfied or very satisfied	85%
Processes, efficiency and effectiveness	To be an efficient organisation committed to continuous improvement in operational efficiency	Contribution to FCO's Comprehensive Spending Review commitments by delivering the agreed level of savings	£12m of cumulative cash savings over three years 2008/09, 2009/10 and 2010/11. Delivered through price stabilisation.	£14.6m
	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)	At least 76%	76%

# Review of Financial Performance

## Financial performance targets

FCO Services' financial performance in 2010/11 has been measured against three key financial performance indicators: in year surplus before interest; Return on Capital Employed (ROCE); and growth in wider market revenue.

### ***In year surplus: target achieved***

FCO Services has exceeded its formal target of a surplus of £4.1m, achieving an actual result of £5.1m. This over performance against the target has been driven by a continued focus to drive down the cost of the corporate areas which are showing a reduction in cost of £4.8m compared to the previous year; and to maximise the utilisation of our staff.

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

ROCE is based on the surplus before financing, expressed as a percentage of average net assets. The result for the year was a ROCE of 23.7% (2009/10 33.7%) compared against a weighted average target in accordance with HM Treasury guidance of 3.5%. Given the service based, non capital intensive nature of the business, ROCE will normally be significantly higher than 3.5%.

## ***Growth in revenue from wider markets: target not achieved***

The ministerial target for developing business in the wider market called for a revenue growth of 10% over last year. While the target growth has not been achieved, our business relationships in the wider market have strengthened.

## **Non financial performance targets**

### ***Customer satisfaction: target achieved***

Our annual independent customer survey showed that 85% of our customers (both the FCO and non-FCO) were satisfied or very satisfied with our performance. This is an improvement by three percentage points against the result of the survey last year of 82%, and achieves our ministerial target of 85%.

### ***Contribution to FCO Comprehensive Spending Review: target achieved***

FCO Services has been able to deliver evidence to the FCO cumulative cash savings of £14.6m based on price stabilisation in respect of services delivered in the three years 2008/09 (£2.2m), 2009/10 (£6.3m), and 2010/11 (£6.1m).

### ***Utilisation rate: target achieved***

Our utilisation rate target of 76% has been met, with an average over the year of 76% utilisation being achieved by revenue earning staff. Staff compliance with time recording has continued to improve as a result of weekly monitoring throughout the year.

## **Pensions**

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

## **Events after the reporting period**

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

## **Auditors**

These accounts have been audited by the Comptroller and Auditor General whose certificate and report appears on page 55. The total audit fee for 2010/11 is £107k (2009/10 £123k). This fee includes an amount of £5k for the audit of the Whole of Government Accounts' return (2009/10 £5k).

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

**Christopher Moxey**  
Chief Executive and  
Accounting Officer  
1 July 2011

# 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 2011. 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 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 Services Level Agreements and contractual agreements;
- the requirement to meet agreed efficiency or headcount targets; and
- individual performance, capability and competence as demonstrated through delivery.

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

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

At the end of the performance year, jobholders assess their own performance against the objectives. Their reporting officers then discuss their performance, summarise the result and make recommendations regarding the

appropriate performance groups to the Pay Panel which determines pay reviews in accordance with prevailing government and Cabinet Office policy.

## Service contracts for executive directors who are civil servants

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

# Remuneration Report

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

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

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

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

**Sarah Cevro** (nee Phelan) (Human Resources Director) currently on a period of absence holds an open-ended appointment until retirement.

**Philip Worthington** was appointed on 28 June 2010 as Acting Human Resources Director until the Human Resources Director returns from the period of absence.

**Steven Rymell** (Client Delivery Director) was appointed on a four year contract commencing on 5 February 2007. He resigned on 31 March 2011.

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

**Andrew Camp** (Commercial Director) holds an open-ended appointment until retirement.

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

## **Service contracts for key management personnel who are not civil servants**

Catesby Interim Ltd provided the services of Kerry Simmonds who was appointed as Major Projects Director on 1 April 2010 until 31 March 2011. His contract was renewed from 1 April 2011 until 31 March 2012.

# Remuneration Report

## Executive Members' Remuneration

	2010/11			2009/10		
	Salary £000	PRP (Note 2) £000	Total Remuneration £000	Salary £000	PRP (Note 2) £000	Total Remuneration £000
Andrew Camp	80-85	Nil	80-85	45-50 (80-85 full year equivalent)	Nil	45-50 (80-85 full year equivalent)
Sarah Cevro (nee Phelan)	70-75 (95-100 full year equivalent)	0-5	75-80 (95-100 full year equivalent)	95-100	5-10	100-105
Nigel Morris	75-80	0-5	80-85	75-80	5-10	80-85
Christopher Moxey	130-135	20-25	155-160	125-130	25-30	150-155
Steven Rymell	110-115	0-5	110-115	110-115	10-15	120-125
Helen Sullivan	70-75	5-10	75-80	70-75	0-5	70-75
David Williams	105-110	5-10	115-120	105-110	Nil	105-110
Philip Worthington (from 28 June 2010)	60-65 (80-85 full year equivalent)	0-5	65-70 (80-85 full year equivalent)	N/A	N/A	N/A

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

**Note 2.** PRP refers to Performance Related Pay.

**Note 3.** Catesby Interim Ltd provided the services of Kerry Simmonds, who has assisted the organisation with a number of major projects throughout the year. The total fees amounted to £140k-£145k (2009/10: £60k-£65k, which equates to £145k-£150k for a full year).

The above table and notes have been subject to audit.

### Salary

'Salary' includes gross base salary; London location allowance; recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation.

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

### Performance-related payments

Individual non-consolidated performance-related payments (PRP) are made as part of the appraisal process. The table above shows the performance related payments paid in 2010-11.

### Benefits in kind

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

# Remuneration Report

## Executive Members' Pension Benefits

	Accrued pension at pension age as at 31/03/11 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/03/11 £000	CETV at 31/03/10 (Restated) (Note 1) £000	Real increase in CETV £000	Employer contribution to partnership pension account £000
Andrew Camp	0-5 plus lump sum of nil	0-2.5 plus a lump sum of nil	32	11	18	-
Sarah Cevro (nee Phelan)	5-10 plus lump sum of nil	0-2.5 plus a lump sum of nil	95	71	15	-
Nigel Morris	30-35 plus lump sum of 90-95	0-2.5 plus a lump sum of 0-2.5	696	662	-	-
Christopher Moxey	10-15 plus lump sum of nil	0-2.5 plus a lump sum of nil	171	130	25	-
Steven Rymell	5-10 plus lump sum of nil	0-2.5 plus a lump sum of nil	101	73	18	-
Helen Sullivan	5-10 plus lump sum of nil	0-2.5 plus a lump sum of nil	134	103	20	-
David Williams	15-20 plus lump sum of nil	2.5-5 plus a lump sum of nil	245	194	36	-
Philip Worthington (from 28 June 2010)	20-25 plus lump sum of nil	0-2.5 plus a lump sum of nil	284	256	7	-

**Note 1.** The actuarial factors used to calculate CETVs were changed in 2010/11. The CETVs at 31/03/10 and 31/03/11 have both been calculated using the new factors, for consistency. The CETV at 31/03/10 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

The above table and notes have been subject to audit.

# Remuneration Report

## Civil Service Pensions

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

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. 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/my-civil-service/pensions/Index.aspx](http://www.civilservice.gov.uk/my-civil-service/pensions/Index.aspx).

## 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 or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

# Remuneration Report

## Real increase in CETV

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

## Non-Executive Directors

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

The Non-Executive Directors, (excluding the Chair person), are appointed by the FCO Services Chief Executive in his capacity as Accounting Officer on fixed appointments; The FCO as sponsor, appoints the Chair following a recommendation from the Chief Executive. Their remuneration and terms are agreed at the time of their appointment, which is normally for three years with the option to be extended under mutually agreed terms. No compensation is payable for early termination.

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

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

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

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

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

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

**Neil Masom** (Chair of the Audit Committee) was renewed on 1 August 2009 on a two year contract as a Non-Executive Director.

**Sir Richard Stagg** (Non-Executive Chair) was appointed on a three-year contract commencing on 1 June 2007 which has been extended to 30 November 2011.

# Remuneration Report

## Remuneration payments to Non-Executive Directors

	2010/11 £000	2009/10 £000
Sir Richard Stagg (note 1)	-	-
Wendy Barnes	15-20	5-10 (15-20 full year equivalent)
Stephen Hawker	15-20	5-10 (15-20 full year equivalent)
David Kogan	15-20	15-20
Neil Masom	15-20	15-20

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

The above table and note has been subject to audit.

**Christopher Moxey**  
Chief Executive and  
Accounting Officer  
1 July 2011

# Statement on Internal Control

## 1. Scope of responsibility

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

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

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

## 2. The purpose of the system of internal control

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

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

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

The system of internal control has been in place in FCO Services for the year ended 31 March 2011 and up to the date of the approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

## 3. Capacity to handle risk

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

FCO Services has a documented risk approach that follows HM Treasury's guidance on risk management and processes, sets out clear responsibilities through the organisation, defines what is meant by risk and risk management

and outlines the key principles underpinning our approach to the management of risk.

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

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

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

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

# Statement on Internal Control

## 4. The risk and control framework

### 4.1 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.

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

To support this approach, we have established a Joint Risk Review and Management Panel, which brings together operational level managers from across the business in order to ensure the effective management of risks and issues below the corporate level. Its primary purpose is to provide assurance independent of the Executive Committee and Audit Committee that risks and issues are being effectively captured and managed in a consistent way across the whole business. The Panel acts as a control and communication mechanism within the risk management process, enabling risk information to be transmitted across the business in a commonly understood format and to agreed, consistent, quality standards.

The Executive Risk Review meeting, which I chair, takes place bi-monthly and brings together Executive Directors to review the

operational level risk registers from across the whole business. Together we refresh the corporate risk register, considering risks highlighted as candidates for escalation, identifying, ranking and agreeing the key risks that we consider threaten the achievement of FCO Services 'main objectives and its ability to prosper as a business. Each identified risk is allocated to an appropriate director and/or Senior manager to own and manage.

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.

### 4.2 System of internal control

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

- The FCO Services Board, which meets bi-monthly to support the Accounting Officer in maximising the organisation's performance, monitoring performance at corporate level, ensuring that the management and controls required to ensure effective governance and control are in place and to provide support, advice and constructive challenge to the executive team in the execution of their duties.

# Statement on Internal Control

- The Executive Committee, which meets regularly to consider the strategic direction, assess key monitoring information and review corporate risks.
- The Audit Committee, which considers all aspects of internal control including the consideration of reports from the internal and external auditors and regular reports from directors and senior managers on operational and financial aspects of their activities.
- The Health and Safety Committee which meets twice a year to consider all aspects of FCO Services' Health and Safety policy and performance, supported by sub-committees for the main operating divisions within the business and clear accountabilities for managers throughout the organisation.
- An annual process of target and budget setting through the Business Plan.
- Monthly monitoring of key performance measures and indicators, including comprehensive packs of trading accounts, HR data and project reports.
- Formal business reviews of operational and financial performance three times year.
- A centrally managed business improvement programme that controls and monitors progress of key business change projects.
- Project management reviews and controls designed to ensure the effective management of key programmes and projects using project management methodologies and intranet-based tools.
- A system of cascaded delegations for capital and revenue expenditure and authority to contract, supported by clear mandate letters, enforced through system controls and exception reports.
- Individual approval of capital expenditure projects.
- Annual letters of assurance provided by members of my executive team, supported by assurances from their senior managers and information asset owners, providing documented assurances of compliance with their operational risk management and internal control responsibilities, identifying any perceived weaknesses and actions to address these.
- A programme of internal audits delivered to Government Internal Audit Standards, providing regular reports and an overall annual opinion on risk management, control and governance within FCO Services.
- External audit provided by the National Audit Office (NAO) who provide internal control comments in their management letters and other reports.
- A Quality Management System since January 2011, covering 10 of our processes, which defines and controls the processes used to deliver services to customers, and audits them to identify continuous improvement opportunities.
- A Sustainability Committee which meets quarterly to consider all aspects of FCO Services' environmental performance, and develops and manages action plans.
- Other specific risk reviews, including health and safety reviews and commissioned third party reviews of particular policies and processes.

# Statement on Internal Control

## 4.3 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 is a Board member and directors have been made accountable and responsible for their information assets. FCO Services is compliant with the mandatory requirements on information security and assurance that are set out in the Security Policy Framework. There has been one minor reported personal data handling incident during the year. The data concerned remained within the internal IT network at all times.

Work to enhance our systems and controls has continued, with the creation of a dedicated information and security team. This team is taking forward a comprehensive programme of work to develop and mature our security and assurance framework, including reference to the Information Security Assurance requirements of the security policy framework and the standards set by ISO 27001. Our compliance with the standards set in the Information Assurance Maturity Model, incorporating the Data Handling Review (DHR) measures, has been

confirmed by a successful CESH assessment which identified FCO Services as an example of best practice in this area.

## 5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the directors within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the FCO Services Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Managing our customer relationships and responding to feedback has continued to be a core part of our strategy and focus. During the year FCO Services became a member of the Institute of Customer Service, providing access to best practice methodologies across industry as well as external benchmarking opportunities with peer groups. In addition, the Senior Responsible Executives and Account Management structures and procedures were strengthened and given higher internal priority, and

management information in relation to service level agreements, and wider customer reporting, has been centralised and standardised.

A new programme of service line 'pulse tests' aimed at gathering customer satisfaction levels when services were delivered, has enabled the organisation to respond to customer needs more pro actively.

Given the ongoing severe pressure on the budgets of our customers across government, we will continue to maintain vigilant oversight of our revenue pipeline. Processes around the pipeline have continued to mature, with the result that we have significantly enhanced visibility of our future revenue workstreams.

Our internal commercial process plays a central part in the effective management and delivery of the organisation's projects, and consequent revenue. Over the year the process has been tightened to ensure compliance and improve effectiveness, through the development of relevant exception reporting. An internal audit on pre-sales and proposition development activity indicated a satisfactory level of compliance, with relatively minor priority actions completed by the end of the year.

Following the internal audit review of competitive tendering, action was taken to further develop procurement policy and guidance, with the result that a new suite of guidance notes and template documents are now available. This has addressed the issue of a

# Statement on Internal Control

lack of consistency in the use of a common procurement policy, which could potentially have led to an increased risk of non-compliance with EU regulations.

Further to our note on the previous year's statement on internal control regarding the management of our stores, we have developed a full inventory policy. We have constituted an Inventory Steering Committee whose remit has been to review and improve controls and processes around inventory. A rolling programme (due for completion by March 2012) is underway to integrate all stores items onto a single database, with all stock controlled and stored in a secure manner consistent with the approved policies and processes.

A review of the controls within our ERP system has highlighted areas where we could make more effective use of system functionality. We have started working on the implementation of appropriate elements of this, which will enable us to reduce a number of onerous manual controls in place, and to use the system more effectively to further strengthen segregation of duties within the finance function.

We have continued our programme to meet all the requirements of the identification and mitigation of business continuity risks, preparation for and management of contingencies, consideration of all statutory, regulatory and contractual obligations and the interests of all our key stakeholders to ensure the welfare of our staff and our ability

to respond effectively to business interruption events. During the last twelve months, we have worked towards British Standards Institute BS25999 for Business Continuity Management. I am pleased to report that we achieved certification this year.

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

**Christopher Moxey**  
Chief Executive and  
Accounting Officer  
1 July 2011

# 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  
1 July 2011

# 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 2011 under the Government Trading Funds Act 1973.**

These comprise the Statement of Comprehensive Income and Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, the Statement of Cash Flows 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 Officer's 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 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. I also 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.

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

## **Opinion on regularity**

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

## **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 2011 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 'Delivering high performance and excellence', 'Delivering stakeholder value' and 'Financial report and accounts' for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

## **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 or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

## **Report**

I have no observations to make on these financial statements.

## **Amyas C E Morse**

Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP  
4 July 2011

# Statement of Comprehensive Income

for the year ended 31 March 2011

	Note	2010/11 £000	2009/10 £000
Revenue	2	102,529	126,837
Cost of sales	5	(68,092)	(89,744)
<b>Gross surplus</b>		<b>34,437</b>	37,093
Operating expenses	5	(27,343)	(31,005)
<b>Operating surplus</b>		<b>7,094</b>	6,088
Loss on disposal of property, plant and equipment		(2)	(12)
<b>Surplus for the financial year before voluntary exit scheme</b>		<b>7,092</b>	6,076
<b>Voluntary exit scheme</b>	4(c)	<b>(2,030)</b>	-
<b>Surplus before financing</b>		<b>5,062</b>	6,076
Financing income	6	93	114
Financing costs	6	(393)	(513)
<b>Net financing</b>		<b>(300)</b>	(399)
<b>Surplus for the financial year</b>		<b>4,762</b>	5,677
Dividend	7	(572)	(3,447)
<b>Retained surplus for the financial year</b>		<b>4,190</b>	2,230
<b>Other comprehensive income</b>			
Net gain on the revaluation of property, plant and equipment		6	120
<b>Total comprehensive income for the financial year</b>		<b>4,196</b>	2,350

All income and expenditure are derived from continuing operations.  
The notes on pages 61 to 80 form part of these accounts.

# Statement of Financial Position

as at 31 March 2011

	Note	2010/11 £000	2009/10 £000
<b>Non-current assets</b>			
Intangible assets	8	779	308
Property, plant and equipment	9	4,925	4,270
<b>Total non-current assets</b>		<b>5,704</b>	4,578
<b>Current assets</b>			
Inventories	10	1,431	1,393
Trade and other receivables	11(a)	12,532	12,036
Cash and cash equivalents	12	42,070	39,056
<b>Total current assets</b>		<b>56,033</b>	52,485
<b>Total assets</b>		<b>61,737</b>	57,063
<b>Current liabilities</b>			
Trade and other payables	13(a)	(32,543)	(28,748)
Provisions due within one year	15	-	(316)
<b>Total current liabilities</b>		<b>(32,543)</b>	(29,064)
<b>Total assets less current liabilities</b>		<b>29,194</b>	27,999
<b>Non-current liabilities</b>			
Financial liabilities	16	(5,803)	(8,754)
<b>Total non-current liabilities</b>		<b>(5,803)</b>	(8,754)
<b>Assets less liabilities</b>		<b>23,391</b>	19,245
<b>Taxpayers' equity</b>			
Public dividend capital		4,981	4,981
General reserve		23	(36)
Revaluation reserve		64	117
Government grant reserve		248	298
Income and expenditure account		18,075	13,885
<b>Total taxpayers' equity</b>		<b>23,391</b>	19,245

The notes on pages 61 to 80 form part of these accounts.

**Christopher Moxey**  
Chief Executive and Accounting Officer  
1 July 2011

# Statement of Cash Flows

for the year ended 31 March 2011

	Note	2010/11 £000	2009/10 £000
<b>Cash flows from operating activities</b>			
Surplus on ordinary activities before dividend payable		4,762	5,677
Adjustments for non-cash transactions	17	1,123	1,025
Net interest payable	6	300	399
(Increase)/decrease in inventories		(38)	662
(Increase)/decrease in trade and other receivables		(496)	10,240
<i>less movements in receivables relating to items not passing through the income statement</i>			
- Accrued deposit interest		-	1
Increase/(decrease) in trade and other payables		3,795	(8,125)
<i>less movements in payables relating to items not passing through the income statement</i>			
- Working capital loan from FCO reclassified between non-current liabilities and current liabilities		1,049	(2,000)
- Dividend payable		(125)	(240)
- Accrued loan payable		80	36
Reversal of provisions		(316)	-
Increase in provisions		-	316
<b>Net cash inflow from operations</b>		<b>10,134</b>	<b>7,991</b>
<b>Cash flows from investing activities</b>			
Purchase of intangible assets	8	(522)	(196)
Purchase of property, plant and equipment	9	(1,791)	(2,285)
Proceeds of disposal of property, plant and equipment		19	2
<b>Net cash outflow from investing activities</b>		<b>(2,294)</b>	<b>(2,479)</b>
<b>Cash flows from financing activities</b>			
Working capital loan repaid to FCO		(4,000)	(2,000)
Government grant income		-	298
Interest paid		(472)	(549)
Interest received		93	113
Dividend paid		(447)	(3,207)
<b>Net financing</b>		<b>(4,826)</b>	<b>(5,345)</b>
<b>Net increase in cash and cash equivalents in the period</b>		<b>3,014</b>	<b>167</b>
<b>Cash and cash equivalents at the beginning of the period</b>	12	<b>39,056</b>	38,889
<b>Cash and cash equivalents at the end of the period</b>	12	<b>42,070</b>	39,056

The notes on pages 61 to 80 form part of these accounts.

# Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2011

	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 2009	4,981	(122)	83	-	11,655	16,597
<b>Changes in taxpayers' equity for 2009/10</b>						
Unrealised net surplus on revaluation of property, plant and equipment	-	-	120	-	-	120
General reserve transfer - depreciation charge difference in year on revalued cost basis compared to historic cost basis	-	86	(86)	-	-	-
Government grant receipts*	-	-	-	298	-	298
Retained surplus for the financial year	-	-	-	-	2,230	2,230
Total recognised income and expenses for 2009/10	-	86	34	298	2,230	2,648
Balance at 31 March 2010	4,981	(36)	117	298	13,885	19,245
<b>Changes in taxpayers' equity for 2010/11</b>						
Unrealised net surplus on revaluation of property, plant and equipment	-	-	6	-	-	6
General reserve transfer - depreciation charge difference in year on revalued cost basis compared to historic cost basis	-	59	(59)	-	-	-
Government grant depreciation	-	-	-	(50)	-	(50)
Retained surplus for the financial year	-	-	-	-	4,190	4,190
Total recognised income and expenses for 2010/11	-	59	(53)	(50)	4,190	4,146
<b>Balance at 31 March 2011</b>	<b>4,981</b>	<b>23</b>	<b>64</b>	<b>248</b>	<b>18,075</b>	<b>23,391</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 Government Grant Reserve relates to property plant and equipment. The grant is recognised as income over the life of the asset by way of a reduced depreciation charge. The Income and Expenditure Account is used to account for the accumulated surplus of the Trading Fund.

\*The FCO £63,000 and the Department of Energy and Climate Change £235,000. The notes on pages 61 to 80 form part of these accounts.

# Notes to the Accounts

## 2010/11

### 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 22 December 2010, pursuant to section 4(6) of the Government Trading Funds Act 1973, which requires the Trading Fund to comply with the accounting principles and disclosure requirements of the 2010/11 Government Financial Reporting Manual (FReM) and Trading Funds Accounts Guidance, as issued by HM Treasury.

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

#### 1.2 Accounting convention

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

#### 1.3 Revenue

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

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

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

Provision is made for all contract losses where the conditions of International Accounting Standards (IAS) 37 are met.

#### 1.4 Dividend

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

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

#### 1.5 Value added tax

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

#### 1.6 Operating leases

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

#### 1.7 Inventories

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

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

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

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

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

# Notes to the Accounts

## 2010/11

### 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 as at the Statement of Financial Position date; any movements in valuation during the year are taken to the revaluation reserve or treated as impairments where appropriate.

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

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

Asset lives have been set in the following ranges:

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

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

### 1.9 Intangible assets

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

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

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

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

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

Asset lives have been set in the following range:

*Software licences* – 3 to 5 years

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. All other research and development costs are expensed to the income statement in the period in which they are incurred. If the research phase cannot be clearly distinguished from the development phase, the respective project-related costs are treated as if they were incurred in the research phase only and expensed.

### 1.11 Government grants

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

# Notes to the Accounts

## 2010/11

### 1.12 Bad debts provision

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

### 1.13 Provisions

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

### 1.14 Pension costs

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

Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, FCO Services recognises the contributions payable for the year.

### 1.15 Foreign exchange gains and losses

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

### 1.16 Contingent liabilities

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

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

## 2. Revenue

	2010/11 £000	2009/10 £000
Foreign and Commonwealth Office	78,200	102,675
Other UK Government bodies and other organisations	24,329	24,162
	<b>102,529</b>	<b>126,837</b>

# Notes to the Accounts

## 2010/11

### 3. Segmental Reporting

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

**Client Delivery Group** manages all commercial and delivery aspects of multiple, project-based programmes

including installations, ICT projects and technical architecture and project management construction.

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

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

Analysis of Operating Surplus by Service Delivery Group	Client Delivery £000	Operations £000	Services & Logistics £000	Total £000
<b>2010/11</b>				
External revenue	38,059	44,465	20,005	102,529
Internal revenue	-	-	2,534	2,534
Total revenue	38,059	44,465	22,539	105,063
Cost of sales	(22,700)	(27,346)	(18,046)	(68,092)
Internal cost	(2,008)	(526)	-	(2,534)
Total cost	(24,708)	(27,872)	(18,046)	(70,626)
<b>Gross surplus</b>	<b>13,351</b>	<b>16,593</b>	<b>4,493</b>	<b>34,437</b>
Operating expenses	(11,985)	(12,575)	(4,815)	(29,375)
<b>Surplus before financing</b>	<b>1,366</b>	<b>4,018</b>	<b>(322)</b>	<b>5,062</b>
<b>2009/10</b>				
External revenue	63,536	40,807	22,494	126,837
Internal revenue	-	-	3,477	3,477
Total revenue	63,536	40,807	25,971	130,314
Cost of sales	(43,423)	(24,226)	(22,095)	(89,744)
Internal cost	(2,619)	(858)	-	(3,477)
Total cost	(46,042)	(25,084)	(22,095)	(93,221)
<b>Gross surplus</b>	<b>17,494</b>	<b>15,723</b>	<b>3,876</b>	<b>37,093</b>
Operating expenses	(15,100)	(11,591)	(4,326)	(31,017)
<b>Surplus before financing</b>	<b>2,394</b>	<b>4,132</b>	<b>(450)</b>	<b>6,076</b>

Internal revenue is charged at full cost plus a mark-up. In 2009/10 internal revenue was included within cost of sales and is now shown under a separate heading.

# Notes to the Accounts

## 2010/11

### 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>2010/11</b>					
<b>Segment Assets</b>					
Intangible assets	126	288	95	270	779
Property, plant and equipment	453	3,379	1,078	15	4,925
Inventories	757	360	314	-	1,431
Trade and other receivables	5,552	3,537	3,098	345	12,532
Cash and Cash Equivalents	-	-	-	42,070	42,070
<b>Segment Liabilities</b>					
Current liabilities	(9,970)	(4,550)	(1,755)	(16,268)	(32,543)
Non current financial liabilities	-	-	-	(5,803)	(5,803)
<b>Segment assets less liabilities</b>	<b>(3,082)</b>	<b>3,014</b>	<b>2,830</b>	<b>20,629</b>	<b>23,391</b>
<b>2009/10</b>					
<b>Segment Assets</b>					
Intangible assets	14	-	126	168	308
Property, plant and equipment	428	2,795	991	56	4,270
Inventories	481	566	346	-	1,393
Trade and other receivables	5,064	2,595	3,534	843	12,036
Cash and Cash Equivalents	-	-	-	39,056	39,056
<b>Segment Liabilities</b>					
Current liabilities	(7,562)	(546)	(309)	(20,647)	(29,064)
Non current financial liabilities	-	-	-	(8,754)	(8,754)
<b>Segment assets less liabilities</b>	<b>(1,575)</b>	<b>5,410</b>	<b>4,688</b>	<b>10,722</b>	<b>19,245</b>

# Notes to the Accounts

## 2010/11

### 4. Staff numbers and costs

#### 4(a) Staff numbers

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

Staff Numbers	Permanent	Other*	Total
<b>2010/11</b>			
Service Delivery	819	152	971
Sales & Marketing	30	12	42
Corporate Services	92	24	116
	<b>941</b>	<b>188</b>	<b>1,129</b>
<b>2009/10</b>			
Service Delivery	809	295	1,104
Sales & Marketing	21	10	31
Corporate Services	97	40	137
	<b>927</b>	<b>345</b>	<b>1,272</b>

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

	Permanent £000	Other* £000	Total £000
<b>2010/11</b>			
Salaries/agency staff and fee paid officers	35,898	15,995	51,893
Social security costs	2,452	38	2,490
Other pension costs	5,547	-	5,547
<b>Total staff costs</b>	<b>43,897</b>	<b>16,033</b>	<b>59,930</b>
Capitalised staff costs	(270)	(166)	(436)
<b>Total net staff costs</b>	<b>43,627</b>	<b>15,867</b>	<b>59,494</b>
<b>2009/10</b>			
Salaries/agency staff and fee paid officers	36,746	29,018	65,764
Social security costs	2,535	-	2,535
Other pension costs	5,477	-	5,477
<b>Total staff costs</b>	<b>44,758</b>	<b>29,018</b>	<b>73,776</b>
Capitalised staff costs	-	-	-
<b>Total net staff costs</b>	<b>44,758</b>	<b>29,018</b>	<b>73,776</b>

\*Other comprises agency staff and fee paid officers.

# Notes to the Accounts

## 2010/11

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

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

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10
<£10,000	-	-	-	-	-	-
£10,000 - £25,000	-	-	10	-	10	-
£25,000 - £50,000	-	-	20	-	20	-
£50,000 - £75,000	-	-	10	-	10	-
£75,000 - £100,000	-	-	...	-	...	-
£100,000 - £125,000	-	-	...	-	...	-
£125,000 - £150,000	-	-	...	-	...	-
£150,000 - £175,000	-	-	...	-	...	-
<b>Total number of packages by type</b>	-	-	<b>40</b>	-	<b>40</b>	-
<b>Total resource cost (£000)</b>	-	-	<b>2,030</b>	-	<b>2,030</b>	-

Numbers are rounded to the nearest ten, and numbers less than five are represented by "...".

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

# Notes to the Accounts

## 2010/11

### 4(d) Pensions

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

For 2010/11, employers' contributions of £5,526,000 were payable to the PCSPS (2009/10 £5,468,000) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every

four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2010/11 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £18,715 (2009/10 £13,000) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition,

employer contributions of £1,109 (2009/10 £900), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the Statement of Financial Position date were £nil (2009/10 £nil). Contributions prepaid at that date were £nil (2009/10 £nil).

In the 12 months to March 2011 no individuals (2009/10 two individuals) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2009/10 £3,000).

# Notes to the Accounts

## 2010/11

### 5. Cost of sales and operating expenses

	2010/11			2009/10		
	Cost of sales £000	Operating expenses £000	Total £000	Cost of sales £000	Operating expenses £000	Total £000
Net staff costs	25,368	18,259	43,627	26,327	18,431	44,758
Agency staff and Fee Paid Officers*	14,070	1,797	15,867	25,462	3,556	29,018
Training and recruitment	433	450	883	26	1,194	1,220
Travel	7,705	716	8,421	12,905	637	13,542
Consultancy	-	876	876	-	2,257	2,257
Professional services*	2,242	181	2,423	1,635	-	1,635
Communications	1,311	308	1,619	1,510	433	1,943
Supplies, services & facilities management**	8,064	2,596	10,660	11,127	2,443	13,570
Work in progress decrease	351	-	351	225	-	225
Freight	4,463	-	4,463	6,416	5	6,421
Maintenance	2,695	903	3,598	2,815	800	3,615
Operating leases - Land & Buildings	-	18	18	-	18	18
Operating leases - Other	-	18	18	-	1	1
Accommodation charges***	351	549	900	342	534	876
Profit on currency exchange	-	(3)	(3)	-	(2)	(2)
Other	-	486	486	-	516	516
Depreciation	1,033	15	1,048	954	-	954
Amortisation of grant income	(50)	-	(50)	-	-	-
Amortisation of intangible assets	-	67	67	-	59	59
Impairment losses on non current assets	56	-	56	-	-	-
Auditors' remuneration and expenses (no non-audit work)	-	107	107	-	123	123
<b>Total costs</b>	<b>68,092</b>	<b>27,343</b>	<b>95,435</b>	<b>89,744</b>	<b>31,005</b>	<b>120,749</b>

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

\*\* Includes £2,648,000 in respect of management charges from the FCO (2009/10 £2,708,000).

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

The total amount of research and development expenditure recognised as an expense during the period was £550,000 (2009/10 £677,000). This includes staff costs and an appropriate recovery of overheads.

# Notes to the Accounts

## 2010/11

### 6. Financing income and costs

	2010/11 £000	2009/10 £000
<b>Financing income</b>		
Government Banking Service interest	93	114
	<b>93</b>	<b>114</b>
<b>Financing costs</b>		
Working Capital Loan interest	(201)	(321)
Vesting Day Loan interest	(192)	(192)
	<b>(393)</b>	<b>(513)</b>
<b>Net financing</b>	<b>(300)</b>	<b>(399)</b>

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

### 7. Dividend

	2010/11 £000	2009/10 £000
Statutory dividend	572	447
Discretionary dividend	-	3,000
Dividend payable	<b>572</b>	<b>3,447</b>

The dividend is payable to the Foreign and Commonwealth Office.

# Notes to the Accounts

## 2010/11

### 8. Intangible assets

	Assets under development £000	Software licences £000	Total £000
<b>2010/11</b>			
<b>Cost or valuation</b>			
At 1 April 2010	150	232	382
Additions	522	-	522
Transferred from property, plant and equipment	26	-	26
Assets brought in to use	(26)	26	-
Disposals	-	(21)	(21)
As at 31 March 2011	672	237	909
<b>Amortisation</b>			
At 1 April 2010	-	74	74
Provided during the year	-	67	67
Disposals	-	(11)	(11)
As at 31 March 2011	-	130	130
<b>Net book value</b>			
As at 31 March 2011	672	107	779
As at 31 March 2010	150	158	308
Owned as at 31 March 2011	672	107	779

# Notes to the Accounts

## 2010/11

### 8. Intangible assets (continued)

	Assets under development £000	Software licences £000	Total £000
<b>2009/10</b>			
<b>Cost or valuation</b>			
At 1 April 2009	-	162	162
Additions	150	46	196
Transferred from property, plant and equipment	24	-	24
Assets brought in to use	(24)	24	-
Disposals	-	-	-
As at 31 March 2010	150	232	382
<b>Amortisation</b>			
At 1 April 2009	-	15	15
Provided during the year	-	59	59
Disposals	-	-	-
As at 31 March 2010	-	74	74
<b>Net book value</b>			
As at 31 March 2010	150	158	308
As at 31 March 2009	-	147	147
Owned as at 31 March 2010	150	158	308

# Notes to the Accounts

## 2010/11

### 9. Property, plant and equipment

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

All assets have been revalued at 31 March 2011 using appropriate indices.

# Notes to the Accounts

## 2010/11

### 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>2009/10</b>						
<b>Cost or valuation</b>						
At 1 April 2009	139	-	945	1,112	3,342	5,538
Additions	743	80	836	70	556	2,285
Assets brought in to use	(88)	-	24	16	48	-
Transferred to intangible assets	(24)	-	-	-	-	(24)
Disposals	(2)	-	(13)	(121)	(41)	(177)
Revaluation	-	-	204	58	74	336
As at 31 March 2010	768	80	1,996	1,135	3,979	7,958
<b>Depreciation</b>						
At 1 April 2009	-	-	638	672	1,371	2,681
Provided during the year	-	-	250	138	566	954
Disposals	-	-	(14)	(108)	(41)	(163)
Revaluation	-	-	148	35	33	216
As at 31 March 2010	-	-	1,022	737	1,929	3,688
<b>Net book value</b>						
As at 31 March 2010	768	80	974	398	2,050	4,270
As at 31 March 2009	139	-	307	440	1,971	2,857
Owned as at 31 March 2010	768	80	974	398	2,050	4,270

# Notes to the Accounts

## 2010/11

### 10. Inventories

	2010/11 £000	2009/10 £000
Raw materials and consumables	1,431	1,321
Work in progress	-	72
	<b>1,431</b>	<b>1,393</b>
Amount of inventory write (back)/down	<b>(3)</b>	<b>84</b>

Included within work in progress is £nil in respect of the FCO (2009/10 £27,000)

### 11. Trade receivables and other current assets

#### 11(a) Analysis by type

	2010/11 £000	2009/10 £000
<b>Amounts falling due within one year:</b>		
Trade receivables	8,871	6,027
VAT	-	188
Other receivables	157	393
Prepayments and accrued income	3,504	5,428
	<b>12,532</b>	<b>12,036</b>

Included within prepayments and accrued income is £1,749,000 from the FCO (2009/10 £2,472,000).

#### 11(b) Intra-Government balances

	2010/11 £000	2009/10 £000
Foreign and Commonwealth Office	7,521	4,835
Other central government bodies	3,086	5,978
Local authorities	64	-
<i>Subtotal: intra-government bodies</i>	<b>10,671</b>	<b>10,813</b>
Balances with bodies external to government	1,861	1,223
<b>Total trade receivables and other current assets</b>	<b>12,532</b>	<b>12,036</b>

# Notes to the Accounts

## 2010/11

### 12. Cash and cash equivalents

	2010/11 £000	2009/10 £000
Balance at 1 April	39,056	38,889
Net change in cash and cash equivalents	3,014	167
<b>Balance at 31 March</b>	<b>42,070</b>	<b>39,056</b>

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

### 13. Trade payables and other current liabilities

#### 13(a) Analysis by type

	Note	2010/11 £000	2009/10 £000
<b>Amounts falling due within one year:</b>			
Trade payables		1,096	637
Accruals		9,010	10,131
Payments on account*		11,646	8,008
Other payables**		6,070	5,525
VAT		1,198	-
Dividends payable		572	447
Loans repayable in one year	16	2,951	4,000
		<b>32,543</b>	<b>28,748</b>

\* Included within payments on account is £10,189,000 from the FCO (2009/10 £5,968,000).

\*\* Included in other payables is £1,651,000 (2009/10 £533,000) due to FCO in respect of management charges and accommodation.

# Notes to the Accounts

## 2010/11

### 13. Trade payables and other current liabilities (continued)

#### 13(b) Intra-Government balances

	2010/11 £000	2009/10 £000
Foreign and Commonwealth Office	20,706	17,722
Other central government bodies	1,971	2,401
<i>Subtotal: intra-government bodies</i>	<b>22,677</b>	20,123
Balances with bodies external to government	9,866	8,625
<b>Trade payables and other current liabilities</b>	<b>32,543</b>	28,748

### 14. Commitments under leases

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

#### Obligations under operating leases comprise:

	2010/11 £000	2009/10 £000
<b>Buildings</b>		
Expiry within one year	-	-
Expiry after 1 year but not more than 5 years	-	-
Expiry thereafter	138	156
	<b>138</b>	156
<b>Other</b>		
Expiry within one year	10	-
Expiry after 1 year but not more than 5 years	29	1
Expiry thereafter	-	-
	<b>39</b>	1

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

# Notes to the Accounts

## 2010/11

### 15. Provision for liabilities and charges

	2010/11 £000	2009/10 £000
Balance at 1 April	316	-
Provided in the year	-	316
Provision reversed in the year	(316)	-
<b>Balance at 31 March</b>	<b>-</b>	<b>316</b>

### 16. Financial liabilities

	2010/11 £000	2009/10 £000
<b>Loans</b>		
Repayable in under a year	2,951	4,000
Repayable in one to two years	2,951	2,951
Repayable in two to five years	2,852	4,852
Repayable after five years	-	951
	<b>5,803</b>	<b>8,754</b>

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

#### Loans comprise:

Loans	Total outstanding £000	Interest rate %	Date drawn	Due within 12 Months Note 13(a) £000	2010/11 Due after 12 Months £000
Vesting Day Loan	4,754	4.03%	01/04/2008	951	3,803
Working Capital Loan	4,000	4.01%	01/04/2008	2,000	2,000
	<b>8,754</b>			<b>2,951</b>	<b>5,803</b>

# Notes to the Accounts

## 2010/11

### 17. Adjustments for non-cash transactions

	Note	2010/11 £000	2009/10 £000
Loss on disposal of property, plant and equipment		2	12
Amortisation	8	67	59
Depreciation	9	1,048	954
Amortisation of grant income	5	(50)	-
Impairment		56	-
		<b>1,123</b>	<b>1,025</b>

### 18. Capital commitments

Contracted capital commitments not provided in these accounts	2010/11 £000	2009/10 £000
Property, plant and equipment	492	-
Intangible assets	26	-
	<b>518</b>	<b>-</b>

### 19. Other financial commitments

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

### 20. Contingent liabilities disclosed under IAS 37

At 31 March 2011 contingent liabilities existed in respect of employment £29,000 (2009/10 £11,000) and commercial disputes £nil (2009/10 £91,000). While the outcome of these matters cannot be precisely foreseen it is anticipated the matters will be resolved within the next financial year.

### 21. Financial instruments

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

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

### Credit risk

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

### Liquidity risk

The Trading Fund is not exposed to a liquidity risk as long as its annual surplus is sufficient to clear the loan and interest repayments. The level of capital expenditure payments are managed to be met from available cash balances.

# Notes to the Accounts

## 2010/11

### Note 21 (continued)

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 income and expenditure account in the year.

### 22. Losses and special payments

During the year, costs falling into the categories of losses and special payments were below the level, of £250,000, at which they needed to be reported separately (2009/10 below the level requiring separate disclosure).

During the year a claim of £125,000 for loss of equipment was abandoned. In addition £125,000 was written off in respect of this item in 2009/10 (total write off £250,000).

### 23. Related party transactions

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

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

Tim Gardner, and subsequently Alison Currie, served on the Audit Committee of FCO Services during the period. They both acted as Finance Director of the FCO, which is the sponsoring department and a major customer.

Kerry Simmonds, Major Projects Director, is a director of Catesby Interim Ltd, which provided interim management services to FCO Services. The total value of the fees payable to Catesby Interim Ltd is shown in the Remuneration Report. At the year end an amount of £16k was outstanding due to Catesby Interim Ltd.

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

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

### 24. Events after the reporting period

In accordance with the requirements of IAS 10, Events after the Reporting Period, events after the statement of financial position date are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

There were no reportable events between the end of the reporting period and the date the accounts were authorised for issue.

# FCO Services commentary on sustainability performance

## 2010/11

This year, FCO Services is reporting sustainability performance within the Annual Report and Accounts for the first time. This will increase transparency and accountability, by systematically reporting performance against sustainability targets, and by normalising performance to allow comparison between years and across government departments and other public bodies. Additionally, this reporting will create an incentive to demonstrate reductions in both environmental impact and related costs.

FCO Services shares its accommodation, facilities management, ICT and a range of other support services with the FCO. This report accounts for FCO Services' specific effects on the environment where it is possible to determine this, and uses a headcount basis to apportion the effects where this is not possible. The methodology for the split has been fully agreed with the FCO. For the purposes of this section, the headcount used is 2,705 in the FCO and 1,129 in FCO Services.

### Normalised performance (see table below)

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

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

The headcount of 1,129 includes contractors and agency personnel. It also includes staff working in the data centre, which is not covered in the emissions data (see Note 1). Revenue in 2010/11 was £102.5m and includes both FCO and non-FCO customers, and data centre revenue.

### Our normalised performance figures for 2010/11

Area of Impact	2010/11 Consumption per £ revenue	2010/11 Consumption per full time equivalent (FTE)
Carbon dioxide emissions from offices	32.2 grams CO <sub>2</sub> per £ of revenue	2.925 tonnes of CO <sub>2</sub> per FTE
Carbon dioxide emissions from vehicles	3.22 grams CO <sub>2</sub> per £ of revenue	0.293 tonnes of CO <sub>2</sub> per FTE
Water consumption	0.18 litres water per £ of revenue	15.941 cubic metres water per FTE
Waste	4.55 grams waste per £ of revenue	0.413 tonnes waste per FTE

# FCO Services commentary on sustainability performance

## 2010/11

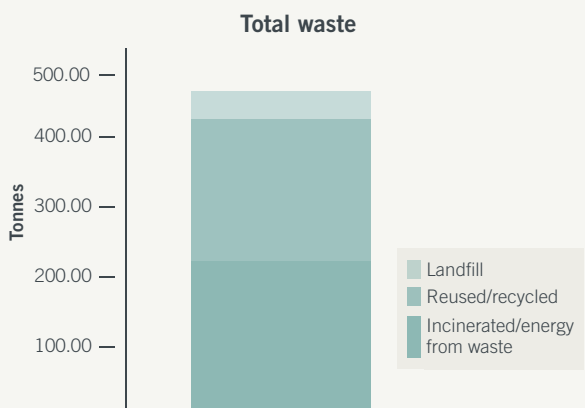
### Sustainability report for the year ended 31 March 2011

#### Greenhouse gas emissions



		2010/11	
		kWh	tCO2
<b>Carbon from offices</b> (Scope 1 and 2 emissions)	Electricity (non-renewable)	4,859,357	2,627
	Electricity (renewable)	0	0
	Gas	210,742	39
	Heating oil	739,168	186
	Biodiesel	345,219	0
	District heating	1,849,436	451
		<b>8,003,922</b>	<b>3,302</b>
<b>Vehicles</b> (Scope 3 emissions)	Business mileage	265,109	107.18
	Fleet	513,586	169.23
	Taxi (London)	88,080	27.67
	Taxi (Milton Keynes)	73,700	26.20
		<b>940,475</b>	<b>330.28</b>

#### Waste



		2010/11	
		Tonnes	
<b>Total waste</b>		<b>466.3</b>	
Hazardous waste		59.8	
Total waste by disposal method	Landfill	44.6	
	Reused/recycled	198.4	
	Incinerated/energy from waste	223.1	

**Performance commentary (including targets)**

FCO Services carbon from offices has been estimated based on a percentage of total FCO consumption, using headcount as the basis for the split. Carbon from vehicles is based on actual figures for FCO Services. The FCO and FCO Services implemented a substantial programme of carbon reduction activities in 2010/11 which resulted in significant reductions in emissions as highlighted in the management commentary. FCO and FCO Services are subject to the Sustainable Operations on the Government Estate (SOGE) targets. The FCO achieved its target to cut carbon emissions from offices by 12.5% by 2010/11 compared to 1999/2000 levels; achieving a reduction of 14.4%. Over the course of 2010/11, the FCO family reduced carbon emissions on the office estate by 17% compared to 2009/10, a cut of 2,338 tonnes. A new combined greenhouse gas emission target for all UK operations for 2014/15 will be set. In addition to the SOGE targets, in 2010 the FCO voluntarily signed up its UK operations to the civil society led 10:10 commitments to reduce carbon emissions from air travel, road travel, electricity and fossil fuels by 10% in 2010. FCO Services reduced its emissions from its fleet by 37.5 tonnes carbon dioxide (tCO<sub>2</sub>) in calendar year 2010 against a 10:10 target of 20.6 tCO<sub>2</sub>. Private mileage Co<sub>2</sub> emissions went up by 19% over the same period. FCO Services' has little direct control over the carbon emissions of the accommodation and desktop IT it uses, as they are supplied and maintained by the FCO. FCO Services overseas operations are not subject to formal sustainability targets, and are not covered in this report.

**Controllable impacts commentary**

FCO Services purchase of fully electric and hybrid vehicles has reduced fleet emissions in this period. FCO Services also invested in teardrop trailers for its fleet of lorries, and whilst this has reduced actual carbon emissions, it is not reflected in the figures which are based on standard emission conversion factors based on engine size.

**Performance commentary (including targets)**

FCO Services waste has been estimated based on a percentage of total FCO waste, using headcount as the basis for the split. Total FCO waste arisings increased from 1,198 tonnes in 2009/10 to 1,597 tonnes but remained below the 2010/11 target of 1,765 tonnes. The recycling rate increased from 34% in 2009/10 to 43%, above the 2010/11 target recycling rate of 40%. This was largely due to increased re-use of furniture, increased re-use and recycling of some categories of IT waste and a new initiative to compost green waste at our Hanslope Park site.

**Controllable impacts commentary**

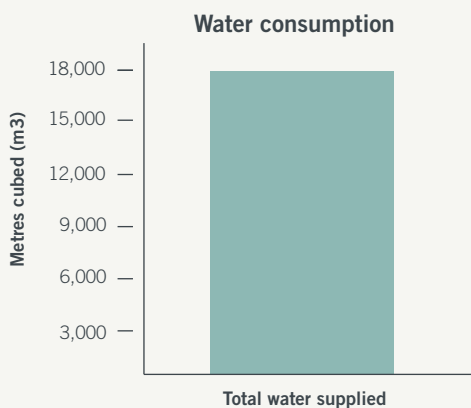
Controllable impacts include water use in washrooms, canteens, evaporative cooling for the data-centre and building and vehicle cleaning. A water audit has been conducted to identify further opportunities for water saving. FCO Services has limited control over the water it uses, as office accommodation is supplied and maintained by the FCO.

# FCO Services commentary on sustainability performance

## 2010/11

### Sustainability report for the year ended 31 March 2011 (continued)

#### Finite resource consumption - Water



		2010/11
		Metres cubed (m3)
<b>Water Consumption</b>	Supplied	17,997
	Extracted	0

#### Biodiversity

Having no site of special scientific interest on its estate, the FCO had no formal sustainable operations in the government estate (SOG) biodiversity target in 2010/11. The FCO has, however, improved its commitment to biodiversity in 2010/11, particularly at the Hanslope Park site in Buckinghamshire where there is most opportunity. We have actively increased the meadow areas and habitats for species at the site. An integrated programme of biodiversity projects and forward action plan has been introduced. A new marshland area is planned for sensitive biodiversity to flourish and it is hoped to manage two bee hives close to site in the future. The site continues to maintain a pond full of flora and fauna whilst attracting butterflies, dragon flies and birds. The protected 'ha-ha' provides a unique habitat for frogs and other small animals. Bird feeders and bird boxes have been introduced and managed by staff and the nursery on site. A full grounds management plan for replanting, increased meadow areas and tree management has

been implemented more vigorously through increased awareness and training. There has been a noticeable improvement in biodiversity with increased sightings of birds and animals, whilst continuing to maintain a managed estate and raising staff awareness. FCO Services fully supports these initiatives.

#### 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.

Sustainability criteria are applied in our selection of suppliers and to inform FCO Services requirements. Practical examples of this last year include placing a requirement for continued improvement in the carbon emissions performance of FCO Services' private hire vehicle supplier. This will result in the use of newer lower emissions vehicles.

The management of our supply contracts is equally important to us and in the last year robust carbon reporting regimes have been established with our travel and freight transport suppliers.

#### Governance

Sustainable operations within the FCO was overseen in 2010/11 by a Sustainability Board chaired at director level, at which the FCO Services director responsible for sustainability attended. In addition, FCO Services have a sustainability committee, which deals with FCO Services sustainability strategy, targets, performance and specific issues.

Data collection methods and controls are documented through the monitoring and measurement procedure in the FCO's Environmental Management System (EMS.) This procedure is subject to annual audit by staff trained in environmental auditing. The EMS is also externally accredited to ISO14001.

**Performance commentary (including targets)**

FCO Services water consumption has been estimated based on a percentage of total FCO consumption, using headcount as the basis for the split. The FCO's SOGE target was to reduce its water consumption by 25% by 2020 compared to 2004/05. The FCO's water consumption was 61,117 in 2010/11, a reduction of 12% on 2009/10 but still higher than the 2004/05 baseline of 60,739 cubic metres.

**Controllable impacts commentary**

Controllable impacts include water use in washrooms, canteens, evaporative cooling for the data-centre and building and vehicle cleaning. A water audit has been conducted to identify further opportunities for water saving. FCO Services has limited control over the water it uses, as office accommodation is supplied and maintained by the FCO.

**Notes:**

1. The 'carbon from offices' figures exclude emissions from the FCO Services data centre. Emissions in 2010/11 amounted to 3,595 tons of carbon dioxide. These emissions only occur as a result of customer demand for ICT service provision.
2. Emissions from flights are not included in this report. Carbon offsets are purchased for all flights originating in the UK.
3. Department for Environment, Food and Rural Affairs (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.
4. Office electricity consumption includes electricity consumed in charging FCO Services owned electric vehicles.



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## FCO SERVICES

Part of the Foreign and Commonwealth Office

### For more information about FCO Services

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