



**FCO SERVICES**

Part of the Foreign and Commonwealth Office

FCO Services  
**Annual Report  
and Accounts 2012/13**  
(for the year ended March 2013)

**FCO Services**

# Annual Report and Accounts 2012/13

(for the year ended 31 March 2013)

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## **Annual Report and Accounts 2012/2013**

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# Foreword by Mark Simmonds MP

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

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

I was appointed an FCO Minister in September 2012, at a time when the government continued to face a range of economic and security challenges. Since my appointment, I have been impressed with the way in which a former departmental unit has continued to implement the commercial processes, skills and attitude necessary to succeed in a challenging economic climate.

My portfolio covers a wide-ranging global reach and I have travelled extensively to these areas since taking up office. During my visits to Embassies and High Commissions around the world, I have experienced at first hand the expertise and impact of the work that FCO Services does, and wish to express my gratitude for all the support they give in assisting the FCO to deliver its key agendas overseas. The FCO continues to be its core customer, stakeholder and owner, and the close co-operation and collaboration that maintains and strengthens the relationship is vital to the success and achievement of both.

This government has identified a clear range of policy priorities to protect Britain's interests. Aside from the core services the organisation provides, FCO Services has engaged with the FCO on a number of these priorities, notably those of prosperity and national security through the work they are undertaking with our foreign allies and in the development of a shared platform overseas.

Sharing resources is an important commercial and political strategy for the government and specifically for the FCO. We are keen to explore opportunities for sharing premises

with other governments provided that we continue to represent our national interests and maintain focus on security. Given the impressive range of work that FCO Services is undertaking in the fields of estates and protective security, the organisation has demonstrated that it is well placed to help support the government's shared service and efficiency agenda.

FCO Services has had another successful year in financial terms, and it has also been a year of investment. The strategy it set out in 2011 highlighted the need to expand and modernise its products and services, particularly in the IT space. The result of this has been the development of various secure cloud offerings which will begin to bear fruit in the coming financial year. FCO Services should rightfully be proud of the innovative products it has designed within government.

All of these developments have been shaped and carried out by the staff of FCO Services and those who they work with in the FCO. They have continued to deliver in what remain difficult circumstances for our economy and for civil servants and of this they should be proud. Their pioneering work is critical to protecting the UK diplomatic network and its delivery.

As this report demonstrates, FCO Services achieved all of the formal targets it was set at the beginning of the year and has continued to develop both its customer base and its offerings. The combination of these should ensure this success continues into 2013-14.

## **Mark Simmonds MP**

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

# Foreword by Chris Moxey

## Chief Executive, FCO Services

*As we enter the third and final year of our 2011-14 Corporate Plan we can be encouraged by the progress made against our core strategic aims. We set out our strategy and forecasts in the midst of the most difficult economic climate in recent times. Despite this, we've managed to over-deliver year on year and the outturn detailed in this report is some way ahead of what we envisaged three years ago, confirming the direction of travel.*

Focusing on the needs of our owner and primary customer, the FCO, we have exceeded our expectations in the amount of work we deliver to them, including a number of high profile and strategically important projects which aid the pursuit of diplomatic excellence. Key to this over the coming year will be the transition to and delivery of the new Regional Technical Support Service (RTSS). This service will see a step change in both the way we deliver global support services and the value for money we provide.

I mentioned last year the work we were doing to transform the IT services we provide and it was exciting to see our offerings go live on the Government G-Cloud earlier this year. It is gratifying to see the market responding so positively with over 60 public sector organisations now using our cloud platform.

On Estates and Security, an area which appeared to be in decline only a few years ago, we have again gone from strength to strength. Aside from delivering almost double the planned level of work for the FCO, we have further grown our wider market client base with a number of exciting opportunities in the pipeline. Aside from continuing to deliver projects for our colleagues in Canada, in some of the most difficult parts of the world, we have also had success in developing opportunities with some of the UK's key allies across the globe.

Our operational and service delivery teams have also continued to deliver in what has been a difficult period. In a year which saw the UK deliver one of the most successful Olympics in recent memory, our Vetting, IT Support and Logistics teams played their part, ensuring the right people were in the right place with the right equipment.

All of these achievements add to the growing understanding of who FCO Services is and what it does, not only in the UK but across the world. These credentials have helped enormously in terms of developing opportunities with a widening range of partners across HMG.

It is a testament to our staff and their support of our strategy that we have achieved all that we have and I'm confident that with their help, we will continue to be successful as we move into 2013/14.

**Christopher Moxey**

*Chief Executive, FCO Services*

# Lead Non-Executive Director Report

Sir Richard Stagg, Chair of the FCO Services Board

*Throughout the last financial year, we have continued to face a challenging operating environment. Our customers across government have faced increasing pressures on their budgets. Inevitably this pressure has, in turn, been felt by FCO Services. I believe, however, that our robust business strategies have put the organisation in a good position to respond effectively. I am delighted that FCO Services, in reaching the major milestone of five successful years as a Trading Fund, has continued to grow and to perform strongly.*

I have chaired the FCO Services Board for six years. I believe the Board continues to represent a good mix of public and private sector experience and has provided constructive challenge and guidance to the Chief Executive and his team.

During the year, the Board has focused on a number of the key strategic challenges facing the organisation. We have, in particular, continued to give priority to some of the critical areas identified last year: strengthening our relationships with other governments and international organisations; harnessing the opportunities to capitalise on our strategic investments in cloud computing technologies; and partnering with the FCO as it changes its overseas support model to maximise efficiency and minimise cost.

The Board has made a number of changes to strengthen both the executive team and Board oversight. In December, Neil Masom took on the role of Interim Deputy Chief Executive. As a long standing Non-Executive and Chair of the Audit and Risk Committee, he has great insight into the organisation and the Board will continue to draw on his expertise as we look to capitalise on new opportunities. In recognition of the important role which strategic partnering plays in the delivery of

our strategy, the executive team has been strengthened by the appointment in March of Andy Collier as Procurement and Commercial Contracts Director.

The work of the Board has also undergone changes this year. With the organisation looking to develop government to government contracts (most notably with Kuwait), the Board has set up a Committee specifically to oversee these potentially exciting opportunities. Stephen Hawker, who has been on the Board since 2009, has agreed to chair this Committee and reports back to us on a regular basis. Wendy Barnes has taken on the role of Chair of the Audit and Risk Committee (was the Audit Committee). The Board remain grateful for the diligent oversight provided by her and the Committee's other members.

Last year, we committed to increase the visibility of the Board throughout the organisation, - in part through holding Board meetings in Hanslope Park, so that the majority of staff had the chance to attend a "meet the Board" session.

It is no secret that money remains tight and, as the government prepares to set departmental budgets, it is clear that we will continue to operate in straitened times. However, as this report shows, the staff who make up FCO Services have worked hard to make this year a success. I have every confidence that they will respond to any future challenges with commitment, professionalism and agility – ensuring that FCO Services remains a reliable partner to the Foreign and Commonwealth Office and a trusted provider of services to other departments, to international institutions and to friendly foreign governments.

**Sir Richard Stagg,**

*Chair, FCO Services Board*

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

With over sixty years' experience working in government and for government, we understand the stringent security requirements that are placed on our customers. By developing close relationships at all levels, and building a deep understanding of their needs, we aim to be the partner of choice for those seeking global security advice and solutions.

## Who we are

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

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

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

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

## How we are organised

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

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



## **What we do**

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

### *Secure ICT*

In the fast-evolving world of information technology, our specialist ICT teams play an essential role in enabling our customers to communicate securely, providing secure networks, deploying and supporting them anywhere in the world. We invest in leading cutting-edge technologies and develop solutions and services that protect government assets to the highest impact levels, including cloud services, secure desktops and mobile solutions and secure operation centres.

### *Secure estates and construction*

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

### *Protective security*

Our international network of technical specialists take an integrated, layered approach to protecting people and critical assets, ensuring our customers' working environments are safeguarded with the highest standards in security. This includes security advice, counter eavesdropping, perimeter security, intruder detection and secure conference rooms.

## *Secure logistics and services*

Organising the logistics of a worldwide government department is a complex and multi-layered operation, and our customers need the confidence that their consignments have not been compromised in transit. Our experienced, security-cleared teams transport official mail and equipment globally to remote and challenging environments, and offer a disposal service for protectively-marked information. Our National Security Vetting team is one of the authorised suppliers of specialist vetting services to government and offers a comprehensive range of vetting services. Our Translation and Interpreting section provide written translations and confidential interpreting for UK government departments and international organisations.

In addition to these core services, a significant part of our work this year has been in the development of two emerging areas:

### **The Regional Technical Support Service (RTSS)**

Piloted last year as a direct response to the FCO's Working Differently agenda, the RTSS will transform the way we deliver IT and technical security support and the diplomatic bag overseas. Our multi-disciplinary technical support teams operate regionally from four Regional Service Hubs, providing a single, combined service to the FCO and other government departments at British embassies overseas.

### **Government-to-Government contracts**

Establishing ourselves as a key partner in the government's prosperity agenda, we are developing a new Government-to-Government model that will strengthen the UK's security interests and enable collaboration across the UK security industry. As part of this, we have secured a major initiative with Kuwait for the provision of specialist services to support the delivery of the Kuwait Security Programme. We aim in due course to explore similar arrangements with other governments, with whom the UK has close and valued relationships.

## What we aim to achieve

As the UK and world economic situation continues to be challenging, the identification of further operating efficiencies and opportunities for reductions in spending remain a major focus across government, helping to drive down the budget deficit and support economic growth. Our government customers will undoubtedly be affected by further budget cuts.

We aim to be the provider of choice to the FCO for our range of secure products and services. Our partnership continues to grow, and enabling the FCO to deliver their critical priorities is core to our future strategy. We will concentrate on supporting the FCO's Diplomatic Excellence programme, which includes working differently, reducing bureaucracy and working co-operatively.

We also supply to customers in the wider market, supporting the government's key agendas of prosperity and national security. The wider Civil Service Reform agenda renews emphasis on new ways of working across government, with less being done centrally and more weight being put on shared services, different operational models and working without and beyond walls. We strive to play an important role in the delivery of these principles and will continue to develop strategic relationships with key officials across government.

### Our priorities for 2013/14 include:

- Rolling out and embedding our Regional Technical Support Service (RTSS) globally, transforming the way we deliver IT, the diplomatic bag and technical security services to the FCO at posts overseas. This will deliver a significant enhancement in value for money to the FCO, and create a solid platform from which to capture further opportunities with international partners.
- Improving and further investing in our cloud computing capabilities, aligning our offerings closely to the government's ICT strategy. We will add more services to our growing cloud portfolio, notably PSN360, our secure cloud-based version of Microsoft 365, and market these widely across the public sector.
- Building on our pioneering relationship with the governments of Canada, Australia and New Zealand; strengthening our links to other governments and widening our product portfolios with these countries. We will continue to engage with other governments including Kuwait, finalising our Government-to-Government model and harnessing major opportunities for the UK defence and security industries.

We will pursue business development using the well established pillar strategies in each of our key service areas. We aim to maintain our proven commercial process, taking new business from sales opportunity, through the project delivery stage and finally to operational support. We will also focus on improving customer service, expanding on and using our monthly pulse tests to inform improvements in reducing bureaucracy.

# How we have performed:

## Corporate overview

### **Our highlights of 2012/13**

*This year we set out to strengthen relationships with our customers, drawing on our unique partnership with the FCO to support their key priorities and maximise opportunities across government.*

In last year's Annual Report, we described how, building on solid foundations formed since gaining Trading Fund status in 2008, we concentrated on looking ahead, investing in new capabilities and modernising our business to pave the way for a strong future. By continuing to drive efficiencies across the board and by actively positioning our products and services to our wider market customers, we consolidated our standing; significantly increasing our revenue, and delivering best value.

Through a targeted programme of investment in new products and capabilities we have sought to address our customers' needs, identifying innovative new service offerings that would place us in a priority position as government experts in secure service provision, and developing brand new capabilities that broaden our portfolio.

In 2012/13 we began to reap the rewards of the investment programme and have established a solid platform, from which we are now delivering real results. In spite of continuing budgetary pressures on all government departments, our revenue has increased this year from £129.0m in 2011/12 to £141.2m in 2012/13. Responding to competitive pressures, we have seen a slight narrowing of our margins, yet have achieved an operating surplus this year before financing of £6.3m in comparison to £4.6m in 2011/12.

As our investments have delivered new capabilities, new opportunities across government have become tangible customers, and we have continued to invest in order to refine our services to precisely meet their needs. Our cash balances, whilst remaining robust, have therefore again fallen, from £37.6m at the end of 2011/12 to £32m at the end of 2012/13, largely as a result of this continued emphasis and focus on our research and development programme.

Despite increasingly fierce competition in the ICT and security fields, our wider market customer base continues to grow. We have tightened our prices and strategically engaged with new government customers – both from the UK and overseas – and have achieved a growth in revenue this year from our non-FCO customers, increasing from £46.8m in 2011/12 to £50.8m in 2012/13. At the same time, our revenue from the FCO has increased from £82.2m in 2011/12 to £90.4m in 2012/13, demonstrating our strong relationship.

In our last Annual Report, we set out our business priorities for 2012/13.

## **Sustained investment and building infrastructure – ICT**

*Last year we said we would harness opportunities to roll out new technologies in ICT, supporting government agendas to work more efficiently and collaboratively.*

As government departments are being asked to do more with less, technology plays a key role in allowing business needs to be met while simultaneously reducing costs.

Last year, we made significant changes to our capabilities, investing in cloud-based solutions and introducing new services that have considerable implications for the way ICT is delivered. We developed our Government Secure Application Environment (GSAE), providing a platform that will give UK government departments more choice in who they use to deliver their ICT solutions, at a competitive price. Our suite of cloud services are now accredited by the Government Procurement Service, providing government customers with a simplified procurement process and an assurance of our trusted status.

Alongside our services, our GSAE platform has facilitated the means for our public sector clients to access small to medium enterprises (SMEs), providing cutting-edge technology within the protective cloak of government-grade security. Similarly the platform provides a route for SMEs to market their products to government, enabling greater access and collaboration across the public sector.

In creating this platform, we:

- Continued to invest in new technology which will enable departments to make efficiency savings without the risk of compromise to data
- Developed new solutions that promote flexible 21st century working

- Proactively worked with a number of SMEs and larger software providers who are seeking to make their technologies available to the public sector on our platform
- Host several private sector suppliers on our platform, providing customers with the choice they need to obtain the optimum range of services for their individual requirements along with the best value for money.

## **Connecting with global governments**

*Last year we said we would strengthen our commercial relationships with other governments and international organisations, channelling our efforts into developing new end-to-end services in estates and security.*

Our international government partners need to manage complex requirements in an age of economic challenge and evolving security threats.

Last year we continued our drive to be the first choice of service provider for estates and protective security. We developed framework agreements with a number of friendly foreign governments, strengthening existing connections and paving the way for the provision of professional and trade services, including project management, engineering and installation works for the construction, refurbishment and maintenance of worldwide estates.

Alongside our work with our current global partners, we are developing an innovative new Government-to-Government model that supports the government's security strategy, creating opportunities for British industry and promoting the highest standards of security expertise, programme management and procurement practices. Leveraging the London 2012 Olympic and Paralympic games legacy to promote economic growth, our new model will enable collaboration with a number of British industry partners in the supply of end-to-end security solutions that are compliant with the highest standards of international law.

We have developed this strong position by:

- Drawing on our close relationship with the FCO to establish stronger connections with other friendly foreign governments such as Canada, Australia, and New Zealand, mutually developing infrastructure to co-work, deliver efficiencies and share economies of scale
- Providing our unique expertise in secure construction and protective security to other government partners, delivering, amongst others, large-scale estates projects in Kabul and Islamabad for the Canadian government
- Working together with international partners in the field of logistics, developing better, more collaborative ways of delivering our material around the world.

### **Supporting our customers' capability to work globally and securely**

*Last year we said we would support the FCO as it changed its overseas model, maximising efficiency and minimising cost.*

As an integral part of the FCO, we have a unique understanding of their needs and values. Working alongside FCO colleagues in the UK and at over 250 posts around the world, we understand the pressures of operating in difficult overseas environments. Last year, the FCO approached us to support their Working Differently agenda - focusing on changing the way they work to make more efficient and effective use of staff, and on using technology to reduce at-post tasks.

In partnership with the FCO, our teams designed a service model that unifies a number of operations previously delivered by various parts of FCO Services and the FCO. Piloted last year, the Regional Technical Support Service (RTSS) extends these operational capabilities, both in scope and geographic coverage, delivering increased IT and technical security support, as well as the complete diplomatic bag service.

Vital to expanding the scope of the service has been a drive for increased efficiency. The service will be bigger and better and will pass on significant cost savings to the FCO.

We have done this by:

- Redesigning the service from the ground up, making sure our delivery methods are robust, sustainable and relevant to the modern world
- Consolidating services to drive consistency, efficiency and effectiveness
- Adapting to local circumstances, creating a service that is configurable, flexible and responsive
- Taking the management out of the UK and placing regional managers around the globe, closer to the customers, putting their needs first and enabling a fast, professional response.

# Supporting the global spotlight

*Watched by the world and scrutinised at all levels, the London 2012 Olympic and Paralympic Games had a far-reaching impact. A huge number of organisations from across government came together to ensure that the UK delivered one of the most successful Games in history. Our logistical support and secure technology allowed this collaboration between organisations and, along with the many voluntary roles played by our people, proved that we were a vital component in the Games.*

## **Logistical Support**

Our Mail and Messenger teams deal with mail for the whole of the FCO in London and are responsible for delivering urgent mail to Ministers. For the duration of the Games, the Olympic Route Network and Games Lanes around Whitehall meant road closures, heavy traffic and potential disruption to our essential logistical services, and we had to consider ways of working differently. Forward planning and consultation with the appropriate bodies ensured that we were able to negotiate special access for our vehicles, deploy a night time working pattern and continue to deliver our essential services.

## **Vetting**

In the run-up to the Games, clearance cases for our Vetting team doubled, with over 9,000 additional clearances required by customers across government. All were urgent with the same tight deadline – being ready for London 2012.

Communication with our customers has always been a priority and the team used the opportunities presented to them to build even stronger customer relationships, setting up a dedicated customer relations team to respond to all customer enquiries. By working together to prioritise workloads, focusing on hitting deadlines and fine balancing non-Olympic cases, we maintained high levels of service with minimal disruptions.

## **ICT support**

Our dedicated ICT helpdesk experts provided 24/7 IT support for the FCO's Olympic unit in London throughout the entire Games period. The scope of the service included first and second line assistance and ensured that IT services and systems ran at an optimal level. Already familiar with the hardware deployed throughout the building, and having provided similar services during previous crises such as tsunamis and 9/11, our teams have an in-depth knowledge of the FCO environment and were the first choice to provide this essential support .

## **People – Visits Officers and Games Makers**

Staff across our organisation volunteered to be Visits Officers, assisting the FCO's Protocol Directorate with the visits programmes for heads of state or government who were in London for the Games. This prestigious, front-line role, involving co-ordinating programmes of events directly with embassies, arranging access and escorting VIP guests to and from Olympic venues, aimed to ensure that high-profile visitors left the UK with a favourable impression. Many other staff volunteered as Games Makers, employing a diverse range of skills to 'make the Games happen'.

# Global Projects - Client Delivery

**Our Client Delivery Group operates globally to design and deliver major projects and programmes in Secure ICT, Global Estates and Technical and Physical Security Systems. Our multi-skilled project teams have designed and delivered 742 projects in over 100 countries worldwide.**

## What We Do

This year, we have seen growth in our international markets in secure estates and construction. This has required a flexible and ambitious strategy, designed to maintain our core FCO business whilst significantly expanding our capability in overseas professional services. This includes organisational development of our structure, producing an end-to-end Professional Services design and delivery group as well as Cloud Computing capability, a Cyber team and Advisory Services in both ICT and Security.

**Our Programme Directorate and Programme Management Group** has made a positive impact on how we manage our portfolios, with increased emphasis on customer engagements and delivery excellence. Our programme directors have developed strong supply chains and have a flexible approach to contracting to ensure doing business with us is as easy as possible.

**The Professional Services Centre (PSC)** brings together design, engineering and construction management capability in the Estates and Security areas

- **Our Estates teams** provide our customers with a service incorporating the full project lifecycle - from concept design and professional services advice, to carrying out feasibility studies and implementing project delivery. We have become more flexible this year, tailoring our contract and management processes to suit our customers' needs. Expert at working as design and build contractor,

prime integrator, sub-package manager or deployment manager, we also act as client agent to successfully manage our clients' main contractors.

- **Our Protective Security specialists** design and deliver highly secure perimeter and protective systems around the world. We provide a full range of systems that support technical and physical security, including fully integrated CCTV, thermal imaging, access control, incident alarms and public address. Our counter-eavesdropping rooms and acoustically shielded telephone enclosures ensure the most confidential of discussions can take place without compromise. We design and build guardhouses, barrier systems, bomb blast walls and windows and security hardened residential pods. Our secure buildings experts provide an end-to-end secure service that fully integrates our clients' security needs into the fabric of their buildings.

**Our Technical Services Centre (TSC)** is a key part of Client Delivery and provides security cleared technical experts to deliver end-to-end production capability for extensive installation work around the world. Across FCO Services the TSC provides staff to deliver business transformation in support of our corporate objectives in areas such as ICT hosting systems support and technical helpdesk cover.

**Our IT Solutions Development professionals** focus on providing new technologies capability such as state-of-the-art virtualised G-Cloud technologies and complex secure technical architecture in global ICT

networks. We have multi-disciplined teams who, embracing new technologies and 'modern ways of working' principles, have designed innovative touchdown hubs that will become the future of government shared environments and flexible working.

**Our Portfolio, Programme and Project Office (P3MO)** is our centre of project excellence. Building on industry standard methodology, it brings together both project delivery and assurance through a new group of programme controls and planning capability, expanding and bringing together project cost control and estimating under the cost engineering group.

**Our Chief Engineer's Office** delivers engineering assurance and standards as well as future-proofing our organisation through targeted research and development activities. The chief engineer draws upon the expert knowledge of our staff throughout FCO Services. They are the professional lead for all our professional heads, guiding and advising on professional development and complex technical matters and approvals.

## **Our Highlights**

*Providing quality global services 24/7  
365 days a year*

We have defined our strategies for developing our estates and protective security business over the next three years. These strategies define our target markets, our target customers and how we will be developing ourselves and our services and products to an ever expanding client base.

Since our strategy was launched 12 months ago, we have seen significant growth in our estates and protective security business - successfully winning projects and delivering innovative solutions to live operational issues, ranging from communications to protective security. We have continued to broaden our customer portfolio beyond the UK market, securing several major international projects.

Throughout the year our project teams have demonstrated unparalleled experience by delivering our clients' projects on time and to budget regardless of political or climatic environment. We successfully delivered critical customer projects in key political locations including Tripoli, Kinshasa, Port of Spain, Jakarta, Tel Aviv and Islamabad as well as the official British Residence in Brussels. Our teams of experts transformed the residence building on Rue Ducale, creating a shared operating platform that serves three missions and provides accommodation for visiting world leaders.

**We work in close partnership with the FCO** successfully delivering over 700 major projects all over the world supporting missions overseas, and enhancing security for overseas staff. This includes three very large high classification programmes, tailored to meet the unique requirements of the FCO and international partners across government. We are carrying out a programme to assess seismic hazards on the FCO global estate relating to the welfare and life safety of FCO staff operating across the world. Our teams are making adjustments to embassies across the world providing opportunities for more flexible working practices and making best use of the available space.

In San Salvador and Bishkek, our teams provided project, engineering and cost management services to establish new embassies in the region.



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

Our programme teams have been active throughout the year installing secure ICT across the world for the FCO, for key UK government departments such as HM Revenue and Customs (HMRC), the Serious Organised Crime Agency (SOCA), the UK Border Agency (UKBA) and the Ministry of Justice; as well as for foreign governments such as New Zealand and Canada. We have been heavily involved in a variety of aspects of the programme for replacement telephony systems in all FCO posts globally. Our new ICT Advisory Service continues to go from strength to strength.

### *Providing new technologies in a secure environment*

Our specialist technical teams have developed a confidential mobile solution that can be implemented anywhere in the world, using a range of alternative technologies to allow connection back to host systems in the UK. This product has been implemented on behalf of government partners such as HMRC in a range of international locations. Our programme teams have also built a secure government IL3 and IL4 cloud environment, upon which an increasing variety of applications are being offered to government organisations who wish to utilise modern integrated and collaborative solutions within a secure environment.

### *Building future business*

Our strategy has successfully built on our robust relationship with the FCO. We have also grown our business in the wider market by focusing on friendly foreign governments and partners across government overseas offering new products and services to meet customer demand.

The FCO recently signed a framework agreement which enables us to support the Canadian Foreign Service overseas for the next 10 years. This has been the culmination of a number of years building the relationship with the Canadians at all levels. We are currently working on a number of projects for them overseas and in the UK.

Following this model, we are strengthening our relationship with the Australian and New Zealand governments. We have won a framework to provide our estates services worldwide to Australia alongside global competitors and two major projects in the Middle East.

Alongside these existing connections, we have developed a strong relationship with the European External Action Service (EEAS) and are delivering our first project for them in Colombo.

### *Apprentices*

Our long standing and highly successful Technical Engineering Apprentice programme has continued to deliver qualified engineers into FCO Services, many of whom go on to fulfil long and varied careers with us. We were proud to be included in the Top 100 Apprenticeship Employers list which was announced at the National Apprenticeship Awards in 2012. In the same process we were awarded the Central Eastern Large Employer of the Year Award and came second in the National Awards, a publicly acknowledged demonstration of our commitment to the development of our employees.

## The Future

We will continue to invest in research and development to develop and launch a range of products that ensure we maintain our technological advantage. We have invested in several secure products and systems which are in planning and in some cases now in delivery, including investment in digital radio technology that has led to a major worldwide programme.

We will be delivering major security and estates programmes for the FCO, including secure communications rollout, significant construction works, a large seismic programme as well as security adjustments to the government estate around the world. Enhancements to our online ordering functionality are planned to make it easier for customers to order from us.

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

Following earlier use of 'Agile' techniques for certain IT development projects, we have now moved to a position where all developments use an Agile approach as default. This is a tailored approach developed internally that merges the most beneficial elements of Agile with the necessary rigour needed for governance and control.

This tailored approach is also integrated with the FCO Services' Enterprise Delivery Model (EDM) to ensure smooth acceptance into operational service. We are also increasingly developing more of our applications using products such as Microsoft Dynamics and the latest version of Sharepoint in order to gain the benefits of using standard functionality to speed up delivery. All of these advancements are part of a continuous improvement process for our IT development capability.

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

Our new production centre, set up in 2012, is making a positive impact on how we manage our production solutions. We are continually improving our production methods and practices to ensure that we apply the most cost effective solutions to our end-to-end delivery processes.

We are into phase three of an international programme to deliver a major Cyber Security system.

# Live Services - Operations

**Our Operations Group has had a strong year, continually improving its range of services and broadening its customer base. As well as strengthening and extending our ICT capabilities, this year the group has developed a new global overseas support model to support the FCO.**

## What We Do

Operations Group is responsible for the efficient management and commercial performance of a broad and unique range of services. Our experts in global 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, buildings and people.

Our ICT teams provide highly competitive and innovative cloud services at different security levels. These services use the same technologies as companies providing service on the internet but are delivered through government networks and so allow organisations to achieve the same step change economies and improvements in reliability and flexibility even where higher security standards need to be met.

We also provide software services, including widely used products at higher security levels than the public offering, and with 'sovereign' hosting in our own data centres. We already provide a class-leading and highly flexible mobility solution using a laptop computer at Confidential and will in the coming year introduce other devices, including tablets and lightweight laptops linked to our cloud services.

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.

Overseas, our network of specialists provides support for ICT, communications and physical security systems for the FCO and other government partners at around 240 locations worldwide. In the coming year, we will carry out a top to bottom transformation of this capability to integrate it with the diplomatic bag service and extend its coverage. This will support the FCO's Working Differently initiative, and free resources at Posts to carry out frontline diplomatic work.

## Our Highlights

### *Developing new technologies.*

In 2011 the government announced its ICT Strategy and vision for better, cheaper ICT delivered using internet technologies and shared between organisations. Reflecting the ICT Strategy, we launched the Government Secure Applications Environment (GSAE) at Impact Level 3 (Restricted) in the same year. Based on technologies used by internet providers, this IT capability delivers shared service IT solutions with high levels of reliability and low levels of cost.

The original set of services is now fully mature and supports many organisations across the public sector. Some of these services are provided by software suppliers who use our GSAE capability as a channel into the market, where it would not be economic for them to invest in their own capability to meet government security standards. We are

therefore promoting competition in the supply of IT services, supporting the government's ambition to increase access to Small and Medium-Sized Enterprises (SMEs).

In the light of the success of the original IL3 GSAE platform, and in response to demand, we have expanded the capability to provide the same services at both Impact Level 2 (Protect) and Impact Level 4 (Confidential). The service at IL4 has been combined with the fruits of an earlier investment in IT capabilities, a highly versatile mobility solution based on a laptop computer that can use multiple access channels (eg broadband, satellite).

The new "shared services gateway" allows different organisations to deploy cost effective mobility devices that connect to their own Confidential IT systems and is attracting considerable interest. The first deployments of the solution will be completed in mid-2013.

Also in the IT arena, we have implemented an equivalent of Microsoft's Office365 offering at Restricted. This service will be launched in mid-2013 and will allow public sector organisations to realise the benefits of the Office365 cloud service where security requirements are higher than those of services delivered over the Internet.

### *Delivering global services*

To help meet its changing operational requirements, and as part of its Working Differently agenda, the FCO asked FCO Services to provide a revised global overseas support model to transform the way IT, diplomatic bag and technical security services are delivered at embassies and missions overseas.

Together the FCO and FCO Services designed a model that was tested through a pilot in the Asia Pacific region. The pilot ran for six months last year, covering 22 posts, with the aim of shaping the final operating model, and ensuring it met the FCO's needs.

The pilot was successful and at the end of 2012 the FCO decided to roll out the new service model globally. The new Regional Technical Support Service (RTSS) combines a number of services which are currently delivered by different parts of FCO Services and the FCO, bringing together our accompanied diplomatic bag service with our network of overseas technical specialists; and providing the FCO and international organisations overseas with a single service. Broadly, RTSS will deliver an end-to-end accompanied diplomatic bag service, maintenance and support of IT within confidential zones, a technical security service, a spares maintenance service and an emergency response service.

We have now entered a transition phase, moving from the old service to the new, and the roll out should be complete by the end of 2013. Five global regions have been agreed and we are planning a phased programme of implementation. Regional Managers have been recruited for each of the regions who will develop the Regional Service Hubs and deploy their customer-focused management and technical teams within their region. By engaging extensively with individual embassies and missions, we aim to fully understand each post's unique circumstances so we can configure the service to their precise business needs.

### *Maintaining asset and information security*

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

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

# The Future

In 2012/13, our principal goal was to build on the foundation we have now created by adding new IT services and to gain new customers. We made considerable progress and in the current year we will seek to expand further the numbers of users of our IT services across the public sector.

While our IT business is now moving to a more mature stage, the principal change in 2013/14 will be in global services. Over the past year, we have worked with the FCO to define a new service for its posts worldwide, that will encompass the technical security, logistics and secure IT services that we already provided and add new capabilities in handling diplomatic bags and maintaining IT.

These changes were piloted successfully in the Asia Pacific region in 2012/13, and the new Regional Technical Support Service (RTSS) will be deployed to all regions over the next year.

The RTSS shifts the balance from a highly centralised set of services to a single integrated service that is managed in the regions, bringing the management of delivery much closer to customers and Posts.

With a deeper understanding of local needs, the RTSS can be much more flexible and responsive than the services it replaces, and our teams will take greater ownership of issues and their resolution, freeing diplomatic staff from activities that take them away from their primary duties. This shift means that the RTSS can be a key enabler of the FCO's Working Differently initiative.

Implementing the RTSS will mean some change in the structure of FCO Services' overseas workforce. In addition to appointing regional managers, we are also introducing staff at a wider range of experience levels than was the case in the past, increasing career options as well as ensuring that we have access to the most cost effective combination of skills and knowledge.

# Live Services - Services and Logistics

**Our Services and Logistics Group delivers Secure Logistics, National Security Vetting and Translation and Interpreting services to world-class standards across the UK and internationally. The group has had a strong year, exceeding its financial targets, maintaining first-rate customer satisfaction scores and significantly improving its staff engagement.**

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## What We Do

Our range of Secure Logistics services enable our customers to send and receive mail and equipment securely, to the most difficult environments anywhere in the world, confident in the knowledge that it has not been compromised during transit.

Our services include:

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

With over 50 years of vetting expertise, the National Security Vetting team is held in the highest regard as one of the two authorised suppliers of specialist, high

quality vetting services to government. We offer a comprehensive range of vetting services at all levels required by government to over 150 customers across the public and private sectors.

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

## Our Highlights

### *Going the extra mile*

Last year we reported that we had redesigned our unaccompanied air freight processes, supporting the FCO as they changed their overseas operations structure as part of their Working Differently agenda. Our door to door unaccompanied diplomatic bag service has been operational in 218 posts worldwide for a year, delivering an end-to-end, fully integrated service, freeing up essential staff time and reducing operational burden to embassies and missions.

We have also introduced more direct post-to-post services. We have developed an efficiency-saving price structure for post-to-post and post-to-UK diplomatic bag deliveries, enabling lower rates and further operational savings for our customers.

Driving efficiency savings for the FCO is paramount to the success of this initiative and we have delivered significant benefits

to every participating post. By applying the principles of Working Differently, the service has focused on protecting value and providing significant reductions both in staff time and effort and in financial terms. An estimated saving of around a million miles in post vehicle mileage for the collection/delivery of air freight AF bags to the local airport, significantly reduces post's fuel costs. Similarly, many thousands of staff hours have been saved on both airport collection/delivery tasks and on administration duties at posts, including no longer having to pay supplier invoices or manage local supplier arrangements.

### *Reducing bureaucracy*

Decreasing the administrative burden on our customers is a key way that we can support the priorities of the FCO and of our other partners across government, and drive continuous improvements across our range of services.

In order to do this, we have:

- introduced a new rate card system, combining several old rate systems into one easy to use process, and bringing with it actual savings to the public purse
- reduced the number of purchase orders required from the FCO in order to pay for service requirements, reducing back office tasks and bureaucracy
- provided ongoing transparency of service initiatives and issues through regular governance meetings with our customer.

### *Supporting the Games*

The London 2012 Olympic and Paralympic Games were identified as a potential risk to Services and Logistics' London operations. We established a close working relationship with the FCO, LOCOG and Transport for London, with the objective of maintaining some levels of vehicle access around Whitehall in order to meet the FCO's need for the continuation of mail and bag services during the Games period.

We contributed to the Operation Stepchange initiative in February 2012, testing reduced vehicle use in London and developed detailed plans for the Games period. These involved Logistics' London teams working differently to take advantage of the midnight to 0600 lift in road restrictions. In addition we were able to secure vehicle access permits for some of the Logistics fleet, enabling us to respond to urgent customer requirements during the periods of road closures without any noticeable disruption to users.

Our vetting teams were also heavily involved in preparations for the Games, providing an unprecedented number of urgent clearances for partners across government who needed security-cleared personnel for London 2012-related work.

### *National Security Vetting*

Ever vital for our customers' security and that of the nation as a whole, our vetting service continues to grow, and this year has delivered more cases to more customers than ever before. Our wider market share in vetting has continued to surge ahead, now comprising more than 70% of our work from over 70 customers (up from 13 in 2009), including police forces and commercial companies working with government. Total vetting cases now stand at 36,000 per year – a quadrupling over the past three years.

As delays in clearance mean delays in appointing staff to new positions, our customers expect us to deliver fast turnaround times for clearances. With significantly increased work volumes in the run up to the London 2012 Olympics, this has been a huge challenge. Nevertheless, by continuously improving and reviewing our working practices, we were able to meet these exceptional challenges and deliver a high quality vetting service through the year.

## *Translation and Interpreting*

Customers requiring the translation of confidential or sensitive material have come to implicitly trust our small team of translators and interpreters and 2012/13 was a highly eventful year. Building on our extensive business with EU institutions, we tendered for, and won, further framework contracts with the European Translation Centre and the European Court of Justice.

We expanded our secure translation footprint by undertaking work for the Serious Fraud Office and other customers, and completed a large volume of politically sensitive work for the FCO and the Home Office. We have developed productive relationships with the French Finance Ministry, the German Foreign Ministry and the German Parliament, and have taken on a substantial volume of well received translation work for these organisations this year.

We have also provided interpretation for a number of high-profile events, including visits by the Presidents of France, Yemen and Indonesia, visits by the Japanese and Russian Foreign Ministers, the Kuwaiti State visit and the reception hosted by HM The Queen at Buckingham Palace for the Heads of State of Russia, Turkey and Brazil. For the G6 Summit in London we fielded eight interpreters covering five official languages, and for the G8 Foreign Ministers Meeting in London we provided 11 interpreters working into and out of Arabic, French, Japanese, Russian and Spanish.



## The Future

Secure Logistics remains at the heart of the mission critical services we provide to the FCO and partners across government, and our focus will continue to be to provide first class services in a timely and cost-effective manner. Logistics play a crucial role in the delivery to the FCO of the Regional Technical Support Service and are set to play a major part in the development and implementation of related global services.

An independent review of our Logistics Services, along with several in-depth audits, were recently undertaken and a new Quality Transformation Programme has been built around the results and recommendations of the reviews. The review involved input from staff and will include the development and implementation of the Logistics elements of the Regional Technical Support Service (RTSS) roll out and the 'Mercury 2014' project – the re-tender of our international freight and logistics contract.

This will identify a global logistics partner to help deliver a truly integrated global logistics network for diplomatic material whilst maintaining the level of security and service for which we have become known. The project aims to consolidate the important gains and efficiencies that we and the FCO have already delivered together.

We will also be looking at our space utilisation and taking a critical look at our processes to assess how further integration and automation can provide continuous improvement. We have invested heavily in staff training, buildings, plant, vehicles, systems and space in recent years and, to ensure the success of the new Quality Programme, will be continually evaluating the levels of investment needed to support progress in all areas of the business.

Vetting services continue to perform strongly, including a highly successful Olympic support role, and form a significant plank in our strategy. The Cabinet Office has launched a fresh review of vetting provision across Whitehall, involving the two principal providers, and we will continue to work closely with them to help define their future structure.

The Translating and Interpreting team continues to be highly regarded, gaining consistently high customer satisfaction ratings. We plan to implement further improvements to our services, widening our range of customers for whom we provide translations of confidential or sensitive material, and providing interpretation at a broader spectrum of high-profile events.

Across the whole group, we will strengthen our in-house teams at all levels, working with recommendations from our recent Investors in People accreditation, and continuing to use staff input and evaluation to further improve our staff engagement, leadership and management, building a platform for our future success.

# Our People

**The expertise and engagement of our people are vital to the success of our business and it is of the utmost importance that we develop their capabilities and recognise their contributions.**

## *People and Skills*

*Our people are our greatest asset and we remain committed to investing in and engaging our staff.*

We initially achieved Investors in People accreditation in March 2010. Since then, we have undergone a 3-year rolling re-accreditation programme as part of our wider commitment to building staff engagement, successfully achieving re-accreditation in March 2013. Last year we exceeded our corporate target of improving our staff engagement score by 2%, achieving a 4% increase to 58% in the annual Your Say staff survey. This achievement also meets the civil service benchmark.

This improvement is the result of both corporate and business area initiatives. Between 2008 and 2012, and since we became a Trading Fund, we have implemented detailed best practice strategies to support the achievement of cultural change, improved business and organisational performance, effectiveness and efficiency. These predominantly covered workforce planning, recruitment, reward and performance management.

Underpinning these initiatives has been a considerable investment in staff development, including leadership and management behaviours which are a key driver of engagement. Looking ahead, we are committed to continuous improvement by reviewing our leadership and management development programmes to incorporate the shared services Civil Services Learning framework and implementing a new leadership engagement strategy.

We are also committed to implementing the Government's Civil Service Reform agenda aimed at improving capability, reducing bureaucracy and improving efficiency. We are currently working closely with the FCO on changes to some terms and conditions of employment, reviewing employment policies and procedures in light of civil service wide best practice guidance. This will also provide shared services opportunities, including a replacement enterprise resource platform.

## *Workforce Planning and Recruitment*

*Ensuring we maintain an effective and flexible workforce is crucial to the delivery of our business objectives*

Our workforce planning process is an integral part of our business planning and ensures that resourcing plans are aligned to changing business priorities. We aim to get the balance right between maintaining a core permanent workforce and having the flexibility and skills to bid for and implement new business opportunities. In doing so we will manage uncertainty in customer markets and minimise the potential for redundancies. Our professional and technical skills are unlike many parts of the civil service, and require us to utilise more short-term and specialist interim staff than is typical in Whitehall. The ratio of employees and contractor staff in 2012/13 averaged at 73:27. Our plan for the coming year is to increase the ratio of employees to interim staff.

We are committed to ensuring that our interim staff continue to be effectively managed and are procured efficiently through framework agreements. We are also implementing measures to monitor the tax arrangement of contractors in accordance with the Treasury guidance published in 2012. We will report the results of this review to the Cabinet Office and in future Annual Reports.

Although we continue to exert tight controls on staff resourcing, we are actively recruiting to a range of permanent and fixed-term roles. During the financial year, we made 78 internal and 95 external appointments (including fixed term contracts, transfers and loans). Over the same period, a number of additional offers were made to external candidates. Due to our vetting process however, these appointments will not commence until the financial year 2013/14. This reflects our success in growing the business and greater confidence in our future customer pipeline.

The external appointments include 10 new engineering apprentices who started last September as we continue our long-term investment in our workforce. Highly prized across the whole FCO family, our apprentices in engineering and IT play a vital role in the development of challenging projects around the world and in supporting the FCO's frontline diplomacy. Working with our partners at Milton Keynes College, our award-winning apprenticeship scheme is nationally recognised and continues to go from strength to strength.

We were included in the Top 100 Apprenticeship Employers list which was announced at the National Apprenticeship Awards in November 2012. The list only features businesses that have displayed the very highest standards of excellence in employing apprentices, so to be included is a real honour. We also reached the finals in the BAE Systems Large Employer of the Year category which is testament to the quality of our apprenticeship scheme. We will continue to invest in our apprenticeship schemes to ensure we obtain, and retain, essential skills now and for the future.

## *Talent Management*

In addition to developing talent through our apprenticeship schemes and leadership and management development programmes, we continue to allocate considerable funds to develop the business and technical skills of our people to meet changing customer requirements and markets. This is recognised in recent Your Say staff surveys where positive responses against the learning and development index are in line with the high performing civil service benchmark.

We have operated a talent management scheme for senior staff for some years and introduced a succession planning process covering all grades in 2010/11. We are now updating these to make them more effective, taking account of feedback from the business and new best practice guidance recently published by the Civil Service Employment Policy stream.

## *Diversity and Community Engagement*

We remain committed to promoting diversity and fair treatment of our staff. As a technical based organisation and with our prime location in Hanslope Park, we are faced with some difficult challenges in encouraging candidates from a wider spectrum of society. However, we continue our community engagement initiatives in the Milton Keynes area by working closely with local schools. We continue to play an active role in the Equal Choices scheme that is aimed at highlighting various career opportunities to disadvantaged school children. We have extended that work into the Westminster area, concentrating on apprenticeship events in particular. We also advertise opportunities widely to attract new people from different backgrounds.

We implemented a new Dignity at Work policy last October and will soon be reviewing our approach to promoting diversity against the recently published civil service diversity strategy.

## *Raising concerns*

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

We encourage them to report any acts they encounter in the course of their work that they believe to be illegal, improper or unethical. All such approaches are taken seriously and treated in confidence.

We will not tolerate the victimisation of anyone who comes forward to raise a genuine concern.

The Public Interest Disclosure Act 1998 provides legal protection for employees who make disclosures about suspected malpractice in the workplace. Guidance on raising concerns is freely available to our staff and, if anyone feels they are being asked to act in a way that is inconsistent with the Civil Service Code, they can discuss their concerns in confidence with specially nominated colleagues.

## *Health and Safety*

The health and safety of our people is vital and we are fully committed to promoting robust policies, procedures and standards. Our occupational safety and health performance is measured by a system of internal control, and last year we achieved an overall average audit score of 90%. We will use the audit findings, which have been agreed by the executive committee, to implement a programme of monitoring and improvement.

In 2011 we achieved external accreditation for our safety management and the executive committee are considering recommendations to go through a re-accreditation process in 2014.

The Corporate Health and Safety function and Property Management are leading a joint initiative in collaboration with the FCO to identify and develop a technology based solution for its safety management systems.

This initiative will realise several cross organisational objectives aimed at doing more with less and pave the way to drive future strategy in line with current industry and Health and Safety Executive thinking.

# Our Corporate Areas

**Our corporate functions underpin everything we do. The experience that our customers have while doing business with us is also crucial and we must have a close understanding of their needs, meet them efficiently and deliver the best possible value for money.**

## Improving customer service and reducing bureaucracy

*At every level, we strive to put customers at the heart of our business, and ensuring that our customers are satisfied remains central to our success. This year we again benchmarked our performance against similar organisations using the Institute of Customer Service's (ICS) customer satisfaction survey. We successfully met our Ministerial target of a customer satisfaction index of 72, gaining important information on where we perform well and where improvements are possible.*

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

This programme of testing has been significantly expanded in the last year and now captures the emotional side of the customer experience by asking Heads of Mission and Deputy Heads of Mission about their customer experience. By mapping out our customers' experience journey, we have identified various touch points along the way and this will provide us with the quality information that we need to keep improving our services and to maintain customer satisfaction at a high level.

That our frontline staff are fully engaged in the customer experience is crucial to our progress and we will continue to implement and improve our customer service training programme. We have invested in customer contact skills for front office staff by running several ICS endorsed 'First Impressions' courses. We also held a series of events during National Customer Service Week, including presenting Customer Service Awards to recognise our people's and teams' outstanding efforts in delivering customer service and have arranged to host the Civil Service Learning course, Delivering Excellent Customer Service, during June 2013.

Our continuing aim is to improve the way we manage the relationships with our customers by further embedding customer service ethos and practice in our organisation and to this end have published our Customer Service Policy during 2012/13.

We will continue to work in close collaboration with the FCO to identify what needs to change to rationalise and streamline the processes to improve the customer experience throughout our service delivery. One way we're doing this is via the establishment of designated FCO Services peer-to-peer contacts for senior decision makers and budget holders across the FCO. These relationship managers - Senior Relationship Executives - will aim to strengthen our existing working relationship with the FCO, helping us provide a more responsive and joined up service.

## *Delivering innovation*

Our innovation approach this year has been strategically focused. We have prioritised activity based on our assessment of the products and services we want to be able to offer to our customers over the life of our three year business plan.

Customer engagement around our product ideas is key to our decision making process, allowing us to focus our investment not just on customer need, but on ability and willingness to purchase across our customer markets.

We have invested in a diverse range of product developments including secure conference room technology, end user device compatibility for our cloud solutions and our PSN360 offering. We have also aligned our Research and Development more closely into a broader product development and end-to-end product management process.

## *Procurement and Commercial Contracts*

As our organisation continues to expand its wider market business and enter into increasingly successful and often complex commercial relationships, robust procurement and contract management processes are essential.

Last year our Procurement and Commercial Contracts Group (PCCG) was created, combining our procurement team and the client-facing commercial contracts team. A new role at executive level was created to head up this key group.

This year contracts have been established for legal and consultancy advisors to support the security programme to be delivered to the Kuwait Government. In addition, a strategic relationship charter has been agreed with Microsoft to support PSN360. This builds on the strategic partnering relationships that we already enjoy with Apple, Thales and DHL.

The team has also completed the preparatory work required to launch the new procurement competition to replace the current arrangements for the global movement of diplomatic material - 'Mercury 2014'. This will consolidate the important gains and efficiencies that FCO Services and the FCO have already delivered together. Mercury will identify a global logistics provider to help deliver an integrated global logistics network for diplomatic material whilst maintaining the level of security and service.

In addition to these achievements, PCCG has:

- Delivered a secure buildings labour contract to support works projects
- Met our savings target, significantly reducing overhead and corporate costs
- Made extensive use of existing government framework contracts, saving our staff time and exploiting economies of scale for price
- Introduced Bravo Solutions eTendering and evaluation software tool
- Drafted the joint Canada-UK Memorandum of Understanding for Enhancing Mutual Support at Missions Abroad
- Supported the development of the cloud service offering, developing commercial terms and conditions for the sale of Infrastructure as a Service (IaaS), Platform as a Service (Paas), and PSN360

## *Business Unit Support Services (BUSS)*

BUSS was formed in April 2012 to streamline transaction processing within the organisation. The team is responsible for Billing, Accounts Payable, Requisitioning, Credit Control, Card Services and Travel and is based within the Finance department.

BUSS exists to provide an efficient and accurate service to internal and external

customers. The team also measures business performance using Reciprocal Operating Level Agreements (ROLAS) and these measure agreed timing and quality of aspects of business performance.

In 2012/13 BUSS saved FCO Services approximately £200k by working more efficiently. The vision for the coming year is to incorporate more requisitioning into BUSS and to further improve the service offering.

### *Security and Information Assurance*

The Corporate Information and Security team (CIS) are responsible for four workstreams within the organisation:

- Information Assurance
- Information Management
- Internal IT Systems and Telephony
- Security

The introduction of compliance monitoring across these workstreams has led to a shift in emphasis. CIS will build on the strategies endorsed this year, continuing to lead on the development of solutions, building a better infrastructure and foundation for our information. Investment and resource will be required to deliver these much needed improvements.

Building on the internal IT agreements reached on Unclassified and Vetting laptops this year, CIS will develop further agreements on standalones and other classified internal systems. Security will be a primary focus for CIS over the coming year, including reviewing the impact of the new Government Security Classifications. An implementation plan will be developed covering all aspects of security and information assurance, including clear and concise guidance, and robust compliance measures. All four workstreams will continue to be embedded in the organisation to increase awareness and ensure compliance.

### *Business Continuity Planning (BCP)*

In 2011 FCO Services achieved the formal British Standards accreditation for Business Continuity BS25999. We successfully achieved re-accreditation in 2013 thereby confirming our commitment to a robust and resilient Business Continuity strategy for the organisation. The next three years will see further re-accreditation but under the revised BSI ISO22301 standard, an even more demanding test of BCP readiness.

## **Public interest matters**

### *Correspondence from the public*

**During the financial year we answered six FOI requests. Five of these were answered within statutory deadlines (including issuing extensions when required).**

### *Payment of suppliers*

**In May 2010 the HMG target to pay 90% of supplier invoices within 10 working days was replaced with a new target to pay 80% of supplier invoices within five working days. FCO Services supports this important government initiative, paying 88% of supplier invoices within five working days of receipt of a valid invoice in the financial year ending March 2013.**

### *Sickness absence*

**The average number of working days lost per employee due to sickness absence was 5.9 in 2012/13. We have continued to make improvements in managing stress-related and long-term absences, including the development of health surveillance training for managers and staff.**

# Review of our Financial Performance

*In its fifth year as a Trading Fund FCO Services has delivered another strong financial performance, meeting all its formal Ministerial targets. The pressure on its public sector customer budget has continued, and with it the need to develop and deliver good value for money, and innovative solutions.*

FCO Services has responded to this challenge by continuing to respond to pricing pressures, investing significantly in both research and development, continuing to manage its cost base carefully, and to make effective use of resources, maximising staff utilisation, particularly in the area of project delivery.

## **Financial Outturn 2012/13**

Total revenue achieved in 2012/13 was £141.2m which is an overall increase of £12.2m against revenues in the previous year of £129.0m. This increase is primarily attributable to significant project growth within our Estates and protective Security business to our FCO Customer. Pleasingly, our Vetting business also saw growth of 18% in wider market business, driven by the Olympics and also success in attracting a number of new customers.

The FCO Services' Trading Fund strategy has continued to be the delivery of services, both new and core, across a wide range of customers within government, in the UK and overseas. Business development performance across both our FCO and non-FCO markets has strengthened, seeing strong outturns in both sectors. On a year on year comparison, FCO revenue has increased some £8.2m and business derived from the wider market has increased some £4m.

FCO Services achieved a gross surplus before operating expenses of £35.3m, a return of 25.0% on revenue. This compares

with a gross surplus of £35.2m, a return of 27.3%. This reduction reflects our continued response to pricing pressures, and the investment in technical resource to support the developing Cloud offerings, for which revenue is forecast to come on stream strongly next financial year.

Operating expenses of £29.0m have been held at a similar level. They include £1.0m (2011/12 £0.9m) of research and development expenditure, and represent 20.5% (2011/12 22.5%) of revenue.

Overall FCO Services achieved an operating surplus before financing for 2012/13 of £6.3m, a return of 4.5% on revenue. This compares with a surplus before financing for 2011/12 of £4.6m, a return of 3.6%, after taking into account the cost of a Voluntary Exit Scheme of £1.5m.

The segmental performance analysis in note 3 to the Accounts highlights the impact of the investment in both staff and technology in the Operations Delivery Group to deliver Cloud solutions for government customers. While revenues have increased by £2.4m to £69.1m compared to the previous year, the surplus before financing has fallen from £3.6m in 2011/12 to £1.4m in the current year. The financial benefits of this investment will begin to be seen next year.

The Client Delivery group shows a much improved performance, with an increased level of revenue of £46.1m, and a surplus before financing of £2.9m (a return of 6.3%), compared to revenue of £36.8m and a deficit of £0.7m in 2011/12 (a negative return of 2%). The focus of the group has been on the delivery of secure estates projects, with careful management of resources to maximise efficiency and utilisation.



The Services and Logistics group showed an improved performance, with a surplus before financing of £2.0m (a return of 7.2%) compared to a surplus before financing of £1.8m in 2011/12 (a return of 6.5%). Revenue has increased by £0.8m, the majority of which relates to the delivery of vetting services.

### **Financing income and costs**

Interest of £97k was earned in the year from cash on deposit with the Government Banking Service, compared to a value of £116k in 2011/12.

Financing costs of £178k (2011/12 £293k) relate to interest on loans from the FCO and the year on year reduction arises from the repayments of the Working Capital and Vesting Day Loans.

The resulting net finance charge is £81k, compared to £177k in 2011/12.

### **Surplus for the year**

After taking into account the net cost of financing, FCO Services produced a surplus of £6.2m, a return of 4.4% on revenue. After deduction of the statutory dividend of £0.9m, the retained surplus for the financial year was £5.3m.

### **Net Assets**

At 31st March 2013, FCO Services' Statement of Financial Position showed total net assets of £32.8m against an opening year position of £27.1m, a positive movement of £5.7m.

The net assets comprise: non-current assets £9.3m (2011/12 £7.5m); inventories £2.8m (2011/12 £1.8m); cash and cash equivalents £32m (2011/12 £37.6m); and other net liabilities of £11.3m (2011/12 £19.8m).

### **Cash Generation**

The level of cash of £32m at 31 March 2013 is a reduction of £5.6m from the end of the previous financial year. This reduction in cash, together with the cash inflow generated

from the surplus and other non cash items of £8.9m, funded a net investment in net current assets of £6.6m; a net investment in non-current assets (mainly development assets) of £4.1m; repayment of £3.0m of FCO loans; and the payment of a statutory dividend of £0.7m, and of net interest of £0.1m.

### **Cash Management**

The effective credit management of customers has remained a focus for FCO Services throughout the year. Debtor days outstanding were 18 days at the end of March 2013 (2011/12 20 days).

FCO Services remains committed to the prompt payment of supplier invoices for goods and services received in accordance with the government's target of paying at least 80% of all properly rendered invoices from suppliers within five working days from receipt. For 2012/13, FCO Services achieved an average success rate in meeting this target of 88% (2011/12 92.2%).

Effective cash management ensured that liquidity remained strong, with a quick ratio of 1.7 at the end of March (2011/12 1.6).

## Performance against Formal Ministerial Targets

Long term goal	Short term objective	Key Performance Indicator	Target 2012/13	Result
We will be a financially successful sustainable business	To be a financially successful and commercially sustainable business for Government, delivering value through maximising opportunities with the FCO and expanding non FCO customer base	In year surplus before interest and tax	An in-year surplus before interest and tax producing a net margin of between 1% and 5%	4.5%
		Return on Capital Employed	A Return on Capital Employed of at least 3.5% (weighted average)	21.1 %
To put the customer at the heart of everything we do, driving innovation and delivery	To continually improve customer satisfaction in all aspects of our products and service delivery.	Customer satisfaction rating derived from an independent, quantitative customer survey	Customer satisfaction rating to be within or above the 2nd quartile in the customer satisfaction index, as produced by the Institute of Customer service	73.5 against a public sector (national) average score of 70
Processes, efficiency and effectiveness	To be an efficient organisation committed to continuous improvement in operational efficiency	Cost of corporate functions will be controlled in line with revenue	Cost of corporate functions as a percentage of revenue is less than 10%	8%
	To implement process improvements that enable effective measurement, understanding and control of the business	Utilisation rate for revenue earning staff (including work on customer bids and R&D)	A utilisation rate for revenue earning staff of between 75% and 80%	79%
People	To continually invest in staff to build a high performance, customer focussed and innovative culture	Employee engagement in FCO Services using Civil Service survey	Achieve a staff survey employee engagement score of 56%	58%

## **Financial Performance targets**

FCO Services' financial performance in 2012/13 has again been measured against two key financial performance indicators: In year surplus before interest, and Return on Capital Employed (ROCE).

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

FCO Services has met its formal target of a surplus of between 1% and 5% of revenue, achieving an actual result of 4.5% (2011/12 3.6%). This performance against the target has been achieved by a continued focus to maintain operational efficiency, especially in the areas of staff utilisation and the control of overheads in the Delivery Groups.

### **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 21.1% (2011/12 18.3%) compared against a weighted average target in accordance with HM Treasury guidance of 3.5%. Given the service based, non capital intensive nature of the business, ROCE is likely to remain significantly higher than 3.5%.

## **Non financial performance targets**

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

The results of the independent customer satisfaction survey completed in February 2013 indicate that FCO Services has achieved a second quartile position in the customer satisfaction index, as produced by the Institute of Customer Service.

### **Efficiency of corporate functions: target achieved**

The target cost of FCO Services' corporate functions as being no more than 10% of revenue has been achieved, with the cost of corporate areas representing 8% of revenue in 2012/13.

This is a new measure, introduced for the current financial year.

## **Utilisation rate: target achieved**

Our utilisation rate target of a rate between 75% and 80% has been achieved, with an average over the year of 79% utilisation achieved by revenue earning staff. Staff compliance with the prompt and accurate completion of time –recording has remained a focus of attention throughout the year.

### **Employee engagement: target exceeded**

By focusing on the implementation of local engagement action plans monitored by the Staff Engagement Programme Board, FCO Services engagement index score significantly increased by 4% to 58% in the 2012 Your Say staff survey. This exceeds the Ministerial target by 2%. In March 2013 FCO Services was also re-accredited with the Investors in People standard following a 3-years rolling review of all areas of the business.

## **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.

These Accounts have been audited by the Comptroller and Auditor General whose certificate and report appears on page 60. The total audit fee for 2012/13 is £100k (2011/12 £100k).

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

### **Christopher Moxey**

*Chief Executive and Accounting Officer*

*28 June 2013*

# 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 2013. The Board is comprised of both Non-Executive and Executive Directors and the relevant disclosures of each are set out below.

## *Remuneration policy for senior civil servants*

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

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

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- Government policies for improving the public services, including the requirement on departments to meet the output targets for the delivery of departmental services
- likely funds available to FCO Services from its trading relationship with the FCO and wider markets and the need to provide appropriate levels of service to customers in accordance with Service Level Agreements and contractual agreements
- the requirement to meet agreed efficiency or headcount targets; and

- individual performance, capability and competence as demonstrated through delivery.

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

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

At the end of the performance year, jobholders assess their own performance against the objectives. Their Reporting Officers then discuss their performance, summarise the result and make recommendations regarding the appropriate performance groups to the FCO's Pay Panel which determines pay reviews in accordance with prevailing Government and Cabinet Office policy.

## *Employment contracts for Executive Directors who are civil servants*

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

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

**Christopher Moxey** (Chief Executive and Accounting Officer) appointment was renewed on 6 February 2010.

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

**Andrew Coller** (Procurement and Commercial Contracts Director) was appointed on 25 March 2013 and holds an open-ended appointment until retirement.

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

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

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

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

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

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

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

On 15 October 2012 he was appointed as Commercial Director on a Fixed Term Contract for two years.

**Neil Masom OBE** (Interim Deputy Chief Executive) was appointed on 4 December 2012 on a Fee Paid basis for 104 days. He is paid through the FCO Services' payroll.

No compensation is payable for early termination.

## *Key Management Personnel*

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

## **Employment contracts for key management personnel who are civil servants**

**Richard Bishop** (Head of Procurement and Commercial Contracts Group) held an open-ended appointment until retirement. He resigned on 30 September 2012.

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

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

Badenoch and Clark provided the services of **Kerry Simmonds** as Major Projects Director from 1 April 2012. He resigned from this role on 10 February 2013.

## Executive Members' and Key Management Personnel Remuneration

	2012-13			2011-12		
	Salary	Performance Related payment	Total Remuneration	Salary	Performance Related payment	Total Remuneration
	£000	£000	£000	£000	£000	£000
Richard Bishop (to 30 September 2012)	35-40 (65-70 full year equivalent)	0-5	40-45 (70-75 full year equivalent)	65-70	0-5	65-70
Sarah Cevro	95-100	Nil	95-100	80-85 (95-100 full year equivalent)	Nil	80-85 (95-100 full year equivalent)
Andrew Collier (from 25 March 2013)	0-5 (95-100 full year equivalent)	Nil	0-5 (95-100 full year equivalent)	N/A	N/A	N/A
Philip Colley (note 2)	125 - 130	Nil	125 - 130	N/A	N/A	N/A
Neil Masom OBE (from 4 December 2012) (note 3)	N/A	N/A	N/A	N/A	N/A	N/A
Nigel Morris	75-80	Nil	75-80	75-80	Nil	75-80
Christopher Moxey	130-135	10-15	145-150	130-135	10-15	145-150
Daniel Payne	100-105	5-10	110-115	100-105	Nil	100-105
Kerry Simmonds (to 10 February 2013) (note 4)	N/A	N/A	N/A	N/A	N/A	N/A
Helen Sullivan (note 5)	80-85 (75 - 80 full year equivalent)	Nil	80-85 (75 - 80 full year equivalent)	70-75	Nil	70-75
David Williams	105-110	5-10	115-120	105-110	5-10	115-120
Band of Highest Paid Director's Total Remuneration (£'000)		175-180			145-150	
Median Total Remuneration		35,493			33,372	
Ratio (note 6)		5.0			4.4	

Note 1. Benefits in kind were received by Sarah Cevro to the value of £1,500 for Salary Sacrifice Child Care vouchers, no other executive member or key management personnel received any benefits in kind in 2012/13. Restatement to 2011/12 note: Benefits in kind were received by Sarah Cevro to the value of £400 for Salary Sacrifice Child Care vouchers, no other executive member or key management personnel received any benefits in kind in 2011/12.

Note 2. Badenoch and Clark provided the services of Philip Colley, in the role of Interim Commercial Director from 14 February 2012 until 14 October 2012. The total fees amounted to £75k-£80k (2011/12 £20k-£25k, which equates to £160k-£165k for a full year).

On 15 October 2012 he was appointed as Commercial Director on a Fixed Term Contract for two years and received £45k-£50k during the current financial year, at an annual rate of £105k-£110k.

Note 3. Neil Masom was appointed on a Fee Paid Contract from 4 December 2012. His payments are processed through the FCO Services' payroll. The total fees amounted to £45k-£50k, which would equate to £175k-£180k for a full year (2011/12 £Nil-£Nil)

For details of Neil's fees from 1 April 2012 to 30 November 2013 inclusive, refer to the 'Remuneration payments to Non-Executive Directors' table.

Note 4. Badenoch and Clark provided the services of Kerry Simmonds, who has assisted the organisation with a number of major projects. The total fees amounted to £125k-£130k, which would equate to £140k-£145k for a full year (2011/12 £135k-£140k).

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

Note 6. The median total remuneration ratio increase results from a change in the highest paid director.

The above table and notes have been subject to audit.

## Salary

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

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

## Performance Related Payments

Individual non-consolidated performance related payments (PRP) are made as part of the appraisal process. The table above shows the performance related payments paid in 2012/13.

## Benefits in kind

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

### *Executive members' and key management personnel pension benefits*

	Accrued pension at pension age as at 31/03/13 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/03/13	CETV at 31/03/12	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	£000
Richard Bishop (to 30 September 2012)	20-25 plus a lump sum of 60-65	0-2.5 plus a lump sum of 0-2.5	332	315	3	-
Sarah Cevro	10-15 plus a lump sum of nil	0-2.5 plus a lump sum of nil	167	131	23	-
Andrew Collier (from 25 March 2013)	10-15 plus a lump sum of nil	0-2.5 plus a lump sum of nil	174	174	Nil	-
Philip Colley (from 15 October 2012)	0-5 plus a lump sum of nil	0-2.5 plus a lump sum of nil	17	Nil	14	-
Nigel Morris	30-35 plus a lump sum of 95-100	0-2.5 plus a lump sum of 0-2.5	663	657	2	-
Christopher Moxey	15-20 plus a lump sum of nil	2.5-5 plus a lump sum of nil	288	227	42	-
Daniel Payne	10-15 plus a lump sum of nil	0-2.5 plus a lump sum of nil	90	67	12	-
Helen Sullivan	10-15 plus a lump sum of nil	0-2.5 plus a lump sum of nil	198	161	25	-
David Williams	25-30 plus a lump sum of nil	0-2.5 plus a lump sum of nil	363	313	20	-

The above table has been subject to audit.

## *Civil Service Pensions*

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

Employee contributions are salary-related and range between 1.5% and 3.9% of pensionable earnings for classic and 3.5% and 5.9% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2013. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos members build up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase Legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

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

### *Cash equivalent transfer values*

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



benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### *Real increase in CETV*

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

### *Non-Executive Directors*

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

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

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

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

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

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

**Wendy Barnes**, was renewed on 1 September 2012 on a two year contract as a Non-Executive Director. Appointed Chair of the Audit Committee from 1 January 2013.

**Stephen Hawker CB**, was renewed on 1 September 2012 on a two year contract as a Non-Executive Director.

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

**Neil Masom OBE** (Chair of the Audit Committee), was renewed on 1 August 2011 on a two year contract as a Non-Executive Director. He resigned on 30 November 2012.

**Sir Richard Stagg KCMG** (Non-Executive Chair), was appointed on a three year contract commencing on 1 June 2007 which has been extended to 31 March 2014.

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

## Remuneration payments to Non-Executive Directors

	2012-13	2011-12
	£000	£000
Sir Richard Stagg KCMG (note 1)	-	-
Andrew Mitchell CMG (note 1)	-	-
Wendy Barnes	15-20	15-20
Stephen Hawker CB (note 2)	15-20	15-20
David Kogan	15-20	15-20
Neil Masom OBE (to 30 November 2012)	10-15 (15-20 full year equivalent)	15-20

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

Note 2. Stephen Hawker also chaired the G2G Interim Board during FY 12/13 his fees in respect of this amounted to £10k-15k.

The above table and notes have been subject to audit.

### **Christopher Moxey**

*Chief Executive and Accounting Officer*

*28 June 2013*

# Annual Governance Statement

## 1. Scope of responsibility

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

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

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

## 2. The governance framework

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

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

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

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

The Board receives regular comprehensive reports detailing financial performance, sales and marketing plans, HR statistics and service delivery issues, ensuring that they are comprehensively informed of the state of the organisation. The Board also receives regular

reporting on risk management, health and safety and (through the work of the Audit and Risk Committee) FCO Services systems of internal control. The Board provides oversight and endorsement of the development of FCO services Corporate and Business Plans and receives regular updates throughout the year on FCO Services major strategic programmes.

The Board, under the direction of the Chair, has established an annual performance management process to evaluate the Board's overall performance and effectiveness, as well as the performance and contribution of Board members. This self-assessment format was agreed in 2008 and measures both behaviours and processes on a numerical scale with the option for further subjective views. The views expressed were overwhelmingly positive. Areas identified in the previous year's assessment included the way in which members engaged with the organisation's staff and stakeholders and it was recognised that good progress has been made over the course of 2012/13. The Board has held events with staff in Hanslope, and regular messages have been issued following Board meetings. In addition, a customer engagement framework has been developed, which will be rolled out next year. However, the Board recognises the need to introduce further improvements and will focus on doing so throughout 2013/14.

The Audit and Risk Committee supports the Board and Chief Executive in the management of risk, internal control, and assurance and governance. Meeting at least four times per year, in 2012/13 its membership consisted of three Non-Executive Directors (one serving as Chair) and a Finance representative from the FCO. In the latter half of the year the number of Non-Executive Directors fell to two, following the appointment of the Chair to the role of Interim Deputy Chief Executive of FCO Services. One of the Non-Executive Directors was appointed Chair, all meetings remained quorate and a new appointee is due to take

up their position in 2013/14. The Committee is also attended by the FCO Head of Internal Audit and the National Audit Office, as well as members of the Executive Committee. In September 2012 a review of the effectiveness of the Audit Committee was conducted and it was agreed that the Audit Committee would be re-named the Audit & Risk Committee in line with best practice and to reinforce the Committee's interest in risk.

In February 2014 the Board established the FCO Services G2G Oversight Sub-Committee to provide governance and management oversight of the Kuwait Security Project and to provide advice to the FCO Services Board and Chief Executive during the early phases of the programme.

The membership consists of the Chair, an FCO Services Non-Executive Director, an Independent Advisor specialising in regional knowledge, FCO Services Chief Executive and Accounting Officer, FCO Services Finance Director, FCO Services HR Director, FCO Services Client Delivery Director, representatives from the programme team and relevant FCO, and Home Office representatives.

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

# FCO Services' Board Attendance

Board Member	Possible Board Attendance 2012/13	Actual Board Attendance 2012/13
Sir Richard Stagg KCMG, Non-Executive Director and Chair	7	7
Neil Masom OBE, Non-Executive Director to 30 November 2012 Interim Deputy Chief Executive from 4 December 2013	7	6*
David Kogan, Non-Executive Director	7	4
Wendy Barnes, Non-Executive Director	7	5
Stephen Hawker CB, Non-Executive Director	7	6
Andrew Mitchell, CMG Non-Executive Director	7	3
Chris Moxey, Chief Executive and Accounting Officer	7	7
Danny Payne, Client Delivery Director	7	7
David Williams, Operations Director	7	7
Nigel Morris, Services and Logistics Director	7	6
Phil Colley, Commercial Group Director	7	7
Helen Sullivan, Finance Director	7	5
Sarah Cevro, Human Resources Director	7	5
Andrew Coller, Procurement and Commercial Contracts Director	0	0**

\* Neil Masom resigned as a Non-Executive Director and Chair of the Audit and Risk Committee on 30 November 2012. He was appointed as Interim Deputy Chief Executive on 4 December 2012. He therefore attended four meetings in his capacity of Non-Executive Director and two in his capacity of Interim Deputy Chief Executive.

\*\* Andrew Coller was appointed to the Executive on 25 March 2013 and was therefore not eligible to attend any Board meetings in 2012/13.

# Audit and Risk Committee Attendance

Audit Committee Member	Possible Audit Committee Attendance 2012/13	Actual Audit Committee Attendance 2012/13
Neil Masom OBE, Chair (Audit Committee Member until 12 December 2012)	3	3
Wendy Barnes, Non-Executive Director (Chair from January 2013)	5	5
Stephen Hawker CB, Non-Executive Director	5	5
Alison Currie, * FCO Finance Director (Audit Committee Member until 30 September 2012)	2	0
Christina Earls, FCO Chief Accountant & Finance representative (Audit Committee Member from 1 October 2012)	2	1
Susan Graham, FCO Deputy Finance Director & Finance representative (Audit Committee Member from 26 March 2013)	1	0

*\* Whilst unable to attend a number of Audit and Risk Committee meetings Alison Currie has maintained effective oversight outside of formal arrangements and has been represented at formal meetings by deputies. Susan Graham joined the Committee following her appointment to Deputy Finance Director.*

Owner and Customer Boards, established in 2011/12, continue to meet quarterly and are chaired by the Chief Operating Officer of the FCO, with the FCO Services' Accounting Officer also in attendance. This strengthened governance is continuing to improve the partnership between the two organisations, enabling them to support each other's strategic aims as effectively as possible.

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

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

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

The Internal Audit plan for 2012/13 was revised during the year to focus audit resource where it could provide best value. In total, 13 new audits were undertaken, and three follow-up audits. Of these, eight rated FCO Services risk management and controls for the area under review as “High” levels of assurance (up from five last year); there were six “Moderate” opinions, and two “Limited” opinions (up from one last year). This reflects an improving trend. Appropriate management effort is underway to strengthen the controls in the weaker areas.

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

model, a workshop was facilitated by the NAO where the committee reviewed its performance over the previous year and a number of actions resulted, including renaming the Audit Committee as the Audit and Risk Committee, to better cover the scope of interest.

The Financial Compliance Unit provided the Committee with valuable advice and reports on matters relating to the investigation and prevention of fraud, and continued to represent FCO Services on the Government ‘Counter-Fraud Champions’ Network.

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

Managing Information Risk continued to receive management attention during the year. FCO Services has achieved Level 3 maturity in the CESG supported IAMM evaluation. The Corporate Information Security Team has re-organised and the roles and governance structure is being reviewed to further enhance work in this area. In addition, 3rd party suppliers continue to be evaluated against their compliance with information management requirements and a questionnaire was sent out to a sample of suppliers which provided assurance.

The Committee was pleased with the progress made in 2012/13. FCO Services’ actions have demonstrated its commitment to the high standards of risk management and control demanded of a Government Trading Fund. There are a number of areas where further progress needs to be made, particularly in ensuring that audit actions are closed down as promptly as possible, but the Committee is confident that there is the will and capability in the Executive to address these.

## 4. Corporate Governance

FCO Services operates within the terms of its Framework Document which takes primacy in determining the responsibilities and accountabilities of the Secretary of State for Foreign & Commonwealth Affairs, the FCO and FCO Services. We will shortly be undertaking a review and update of the Framework Document to ensure it remains current and in line with best practice.

In addition to this, FCO Services Corporate Governance Document sets out the Corporate Governance applied within FCO Services (set out in section 2 above) - the design of which has drawn upon the guiding principles published in “The Corporate Governance Code” and “The Audit Committee Handbook”. The document is reviewed on an annual basis and has been internally assessed by the Board Secretary against the “Corporate Governance Code” published in July 2011 and “Managing Public Money”. This assessment concluded that FCO Services corporate governance complied with all relevant aspects of the code. Any departures were aspects only relevant to departmental/ministerial Boards and not applicable to the operations of FCO Services.

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

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

All identified 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 and Risk Committee so they can ensure that it remains up-to-date and relevant, that controls are strengthened in areas of greatest exposure and that risk management processes are operating effectively.

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



## 6. The risk and control framework

### 6.1 Risk management framework

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

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

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

Our risk management approach is designed to achieve a cost-effective balance between mitigation and acceptance of risk, with targets set for individual risks at corporate

level. Our risk management process supports the identification, quantitative and qualitative assessment, ranking and reporting of risks in a consistent way that clearly assesses the significance of the risk against our corporate risk appetite. This approach enables us to understand the scale of the risks we face and to respond in an appropriate, commensurate manner.

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

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

### 6.2 System of internal control

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

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

- the Executive Committee, which meets regularly to consider the strategic direction, assess key monitoring information and review corporate risks.
- the Audit and Risk 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. At the annual performance review the Audit Committee was renamed to cover Risk, in order to more accurately reflect its area of responsibility.
- the Health and Safety Committee which meets a minimum of twice a year to consider all aspects of FCO Services' Health and Safety policy and performance, supported by sub-committees for the main operating divisions within the business and clear accountabilities for managers throughout the organisation.
- an annual process of target and budget setting through the Business Plan.
- monthly monitoring of key performance measures and indicators, including comprehensive financial and HR data and project reports.
- formal business reviews of operational and financial performance three times year.
- project management reviews and controls designed to ensure the effective management of key programmes and projects using project management methodologies and intranet-based tools.
- a system of cascaded delegations for capital and revenue expenditure and authority to contract, supported by clear mandate letters, enforced through system controls and exception reports.
- individual approval of capital (including research and development) expenditure projects, supported by appropriate business cases, by the Commercial Committee.
- annual letters of assurance provided by members of my Executive Team, supported by assurances from their senior managers and information asset managers, providing documented assurances of compliance with their operational risk management and internal control responsibilities, identifying any perceived weaknesses and actions to address these.
- a programme of internal audits delivered to Government Internal Audit Standards, providing regular reports and an overall annual opinion on risk management, control and governance within FCO Services.
- external audit provided by the National Audit Office (NAO) who provide internal control comments in their management letters and other reports.
- since January 2011, a Quality Management System covering 10 of our processes, which defines and controls the processes used to deliver services to customers, and audits them to identify continuous improvement opportunities. In addition, a number of internal processes have been reviewed as part quality best practice.
- a series of security-focused governance groups, notably, the Security Committee which meets quarterly and is chaired by the AO, the JSMP (Joint Security Management Panel) which reviews security issues across FCO and FCO Services, and the Cyber Security Steering Group, which meets on a monthly basis.
- other specific risk reviews, including Health and Safety reviews and commissioned third party reviews of particular policies and processes.

### 6.3 Management of information risk

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

All staff and contractors are required to complete the mandatory e-learning 'Protecting Information' and 'Counter Fraud Bribery and Corruption' courses.

During 2012/13 the SIRO formally reviewed the Information Assurance governance and reporting model in place across the organisation. Specifically the review focused on:

- Cabinet Office mandated and FCO Services' designated IA roles and responsibilities;
- IA responsibilities of existing appointed officers - re-appointment letters being issued with updated Terms of Reference;
- Additional IS / Security related roles required by the Organisation;
- Existing IA related meetings – Terms of Reference, appropriateness and attendance;
- Evaluation of the existing reporting structure – to the Executive Committee and the FCO Services Security Committee;
- IA and associated training relevant to each IA role.

Aligned with the review of FCO Services' governance and reporting structure, an internal project is underway to review the existing Information Asset Manager (IAM) network. The

review will ensure the organisation has in place effective, strategically placed IAMs with a clear focus on responsibilities in support of the IAOs.

Following a year of consolidation, FCO Services successfully completed the 2013 CESG Supported Self Assessment against the Cabinet Office Information Assurance Maturity Model. FCO Services achieved a full level 3 maturity across all areas. This was an improvement on the 2012 assessment, where exceptions were reported against Firecrest Disaster Recovery(DR) and Digital Obsolescence. The review team recognised that work is in hand to address the risks posed by Digital Obsolescence. The team also recognised the continued risk posed by limited DR arrangements, accepting that, although outside FCO Services' control, the risk has been accepted and kept under review.

The CESG Supported Self Assessment, together with the outputs from the SIRO reviews, will form the basis of a strong and focused plan of action to further strengthen controls around information assurance in 2013/14.

FCO Services is fully compliant with the mandatory requirements on information security and assurance that are set out in the Cabinet Office Security Policy Framework.

A Corporate Knowledge Management Strategy has been endorsed by the Executive Committee. Work is underway to deliver this important initiative.

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

FCO Services has cyber security measures in place to protect its IT infrastructures from Cyber attack. These include Physical Access Control, Boundary Control (both internal and external), and staff training.

There have been no reported personal data handling breaches during the year.

## 7. Annual risk assessment

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

### Customer

Pipeline information is managed on a customer basis with each customer being assigned a Senior Relationship Executive (SRE) and a named Account Manager or Sales lead. These assigned personnel have regular meetings with the customer which helps to form the view of both longer term customer aspirations and budgets alongside more immediate prospects. SREs formally report on a regular basis to the Commercial Committee. To build on the success of the SRE network, we are planning to increase their number substantially to enable more frequent discussions and a better combined understanding of customer requirements.

The introduction shortly of a Dynamics CRM database will lead to a more comprehensive view of pipeline and related information, enabling the production of more in depth and timely customer management information.

Customer satisfaction is regularly monitored and we have further refined the “pulse tests”, and the ongoing annual Customer Satisfaction survey, giving us an independent benchmark against other organisations both in government and the commercial sector.

We have met our Ministerial target for customer satisfaction, achieving a score of 73.5 in the index assessment conducted independently by the Institute of Customer Service. This compares to a public services (national) average of 72.8. Improvements in how we handle customer complaints, overall timeliness, and ease of doing business with us, have all helped us achieve this goal.

We will continue to focus on further improving the billing process, the speed of certain service elements and the development of a more comprehensive complaint gathering process.

A major part of our strategy in sustaining our revenue streams is based on ensuring we respond to our customers' changing needs. A significant example of this is the development of the Regional Technical Support Service (RTSS), in collaboration with our principal customer, the Foreign & Commonwealth Office (FCO).

The RTSS programme will see a fundamental change to the way FCO Services provides technical and logistical support to the FCO overseas network. During 2013/14 the current discrete lines of service will transition to a 'one stop shop' support arrangement, providing a more efficient and better value for money global service to the FCO. This change represents a major challenge but with it opportunity to further cement the relationship between FCO Services and its principal customer on the provision of mission critical (essential) services.

### London Olympics 2012

Last year we reported on the preparations underway to ensure that FCO Services could continue to deliver its services to customers during the period of the Olympic Games, as defined in our 'London 2012 Response Plan'.

Our Logistics Delivery Group contributed to the 'Operation Stepchange' initiative in February 2012 to test reduced vehicle use in London and following that exercise, developed detailed plans for the Games period. By re-scheduling activity to take advantage of the period when all road restrictions were lifted, we were able to move material between sites easily and hence maintain services without any noticeable disruption to users. In addition, we were able to secure vehicle access permits for some of the Logistics fleet and they made it possible for the teams to be able to respond to urgent customer requirements during the periods of road closures.

A subsequent lessons learned session identified co-operation with LOCOG and TfL via the FCO, clear communication with our customers, and careful planning, as the main factors that avoided any major disruption to services during London 2012.

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

Another key part of our strategy is to support the Government's policy interests, particularly such cross government initiatives as the development of Government-to-Government agreements.

During the course of 2012/13 we have been working with the FCO, UKTI and the Home Office amongst others to develop a Government-to-Government (G2G) agreement with the state of Kuwait, under which UK Government would contract with UK Industry on Kuwait's behalf to specify and procure equipment and technology necessary to support the Kuwait Security Programme (KSP). A Letter of Mutual Intent (LOMI) was signed between the governments of Kuwait and the UK in November 2012 setting out the intention and principles in progressing to a formal G2G Agreement during the course of 2013.

G2G initiatives are new to FCO Services and carry varying levels of bilateral and financial risk. Accordingly, a target operating model has been designed and agreed by Ministers along with a phased approach to achieving it. The model has been designed to manage the risks to HMG (and FCO Services) in delivering this programme. FCO Services has created a Sub-Committee to the main Board to provide oversight and assurance on setting up the new operating model, the details of which can be found in section 2 of this statement. Cross Whitehall governance structures have been designed and are in the process of being implemented to ensure appropriate cross departmental working to supervise the programme.

### **ICT Transformation**

Last year we reported that we had undertaken a significant investment programme to further safeguard our future through the development of cloud services at various security tiers, ILO to IL3 (Restricted tier). This development programme is nearing completion and has delivered a number of innovative cloud offerings that are well positioned to enable public sector customers to reduce the cost of their ICT. However, as we recognised last year, this is a new market for FCO Services which has required significant capital investment, a number of major delivery projects, and the need for tailored commercial processes, to support the new operating model. A review by the Internal Audit Department was commissioned to evaluate the operating model to provide additional assurance as to market readiness.

The audit was helpful and identified a number of actions to strengthen governance over the project review process, and to ensure the new commercial process is working as efficiently as possible. Much of this remedial action has already been completed and, while our processes will be under continued review, a follow up audit in 2013/14 will be undertaken to confirm corrective action has been effective.

Further, as a business which is now undertaking significant investment programmes in research and development, we recognise the need to ensure that we have robust controls over approval and monitoring of underlying business cases. During the year we carried out reviews of both our research approval process and governance. Consequently, we strengthened our processes around and review of both research and development projects. We will continue to ensure these improvements to our governance and control framework are fully embedded next year.

## **Bag Services**

During the year we conducted an internal audit of the Secure Bag Service. A number of recommendations were made to strengthen the security of the service, including improvements to vehicle security and management oversight. Several of these recommendations have already been implemented, and a follow up audit in 2013/14 will report on the progress made and any outstanding actions.

## **Safe working**

FCO Services adopts the FCO duty of care policy when working abroad on FCO premises, but as we reported last year, we recognise that our growth of non-FCO revenue streams requires an extension to this policy. An FCO Services working group was set up and has made good progress, obtaining explicit, written agreement from the FCO on the provision of support for FCO Services, its staff and contractors when working on FCO and wider market activity. This includes access to key facilities, including medical assistance and access to suitable accommodation, transport and communication networks.

The health and safety of our employees continues to be of paramount importance to us. We are committed to robust health and safety planning and the promotion of effective health and safety policies, procedures and standards.

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

Compliance with the safety management system is monitored through internal audit and inspection processes, together with reactive data from accident and incident

reports. These indicators provide FCO Services with a set of metrics to assess the overall status of compliance with health and safety standards. Audit findings generate action plans and a programme of monitoring and improvement activities.

## **Business Continuity**

Business continuity remains an important focus for us. FCO Services achieved certification against British Standard for Business Continuity Management (BS25999) in May 2011, and has continued to demonstrate compliance to this standard in July 2012 and again in April 2013. We will transition from BS25999 to the new International Standard ISO 22301 in 2014.

Business continuity plans are maintained to recover from any disruptive incident affecting the day to day running of our business. Site resilience has been strengthened by a contract we now have in place for fall back office accommodation.

As the nature of our business changes, we are aware that we may want to review the arrangements in place for the recovery of our desktop enterprise services.

## **Corporate Knowledge Management**

We are required to meet our statutory and legislative obligations for information handling. A Corporate Knowledge Management strategy has been developed, agreed, and published. This sets out the direction of the organisation both in terms of electronic and paper records, dealing with legacy issues as well as looking at how best to meet electronic requirements in the future. A delivery plan to meet this strategy is being developed.

An Information Systems (IS) strategy was agreed and published and linked to the Corporate Knowledge Management strategy. The IS Governance process ensures that any information assurance or management requirements are captured early in the process and followed through

to completion. A new Intranet is being developed to enhance user access and centrally manage corporate news and host policies, processes and guidance.

### **Enterprise platform**

FCO Services shares an Oracle platform with its owner, the FCO. As the current version of Oracle will not be supported from April 2015, the FCO has been working with the Cabinet Office to agree a re-procurement solution, which is likely to be a technical upgrade to Release 12.

Timescales for the upgrade are challenging, with Business process mapping already underway, and user acceptance testing scheduled from Aug 2014. A detailed project plan is being developed by an FCO Services systems team to ensure all internal stakeholders are appropriately engaged, that implementation deadlines are met, and risks mitigated.

### **Asset management**

We recognised in last year's Annual Governance Statement the importance of safeguarding all the physical assets of the business (including non-current assets, inventory and tooling) and having a single process owner to cover all asset related controls. We have now commenced a project to deliver improvements to include centrally defined and controlled policies and processes for ordering and safeguarding physical assets and clear guidelines and enabling tools to improve control over physical assets.

### **VAT compliance**

Following on from last year's internal audit review of VAT compliance, we implemented a work programme to improve process and compliance, including employing a VAT expert resource to further strengthen our controls around VAT. A follow up internal audit review carried out during this financial year has endorsed the actions we have taken and provided a high level assurance on the effectiveness of the current controls around VAT processes.

### **Fraud awareness**

In response to the Cabinet Office report 'Tackling Fraud and Error in Government' and the need for Departments to raise awareness of this important issue, we took part in the government led 'Fraud Awareness' initiative (Fraud: Spot It, Stop It) in 2012/13.

In November 2012 a one week focused campaign (Fraud Awareness Week) was undertaken which included specific communications and presentations to all staff. All staff were invited to complete a short fraud awareness questionnaire and required to undertake the mandatory e-learning course 'Counter Fraud, Bribery and Corruption'.

Fraud Awareness clinics were also held throughout the balance of the year, facilitated by members of the FCO's Financial Compliance Unit. The induction process for all new staff now includes a Fraud Awareness presentation.

### **Staff engagement**

Staff engagement is essential to our being able to operate as a successful organisation.

By focusing on the implementation of local engagement action plans monitored by the Staff Engagement Programme Board, FCO Services engagement index score significantly increased by 4% to 58% in the 2012 Your Say staff survey. This is in line with the Civil Service median.

The underlying risk is that staff engagement and motivation levels could adversely affect overall business performance. FCO Services' long term aspiration is to shift from being a middle ranking to a high performing organisation as measured by the Civil Service People Survey. This will be underpinned by the development of a Leadership Engagement Strategy, and by reviewing and improving key people management policies that have implemented in recent years.

In April 2013, FCO Services was successfully re-accredited with the Investors in People standard following a three year rolling review of all areas of the business.

## Contractors and agency staff

FCO Services continues to use a significant number of contractors and agency staff to deliver its broad range of services, supplementing both the skill set and capacity of permanent staff. Interims are an essential part of our workforce, providing flexibility for development of new business bids, the delivery of projects and covering key vacancies, as well as sourcing specialists skills that are not readily available through the usual employment market.

We recognise the risk in becoming too dependent on interim, contractor staff. We continue to examine and manage the cost and tenure of this part of our workforce, ensuring that procedures are in place to effectively manage contractor replacement and the internal transfer of skills.

Separately, following HM Treasury's review of the tax arrangements of public sector appointees in May 2012 FCO Services took unilateral action to flow down an additional contract clause securing the right to obtain assurances over the compliance of individual Contractors with HMRC regulations.

We formally surveyed our framework suppliers regarding their assurance earlier this year requiring our individual contractors to confirm that:

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

An update on the status of the individuals identified in the original review by HM Treasury and the outcomes of assurance process are set out in the tables below.

**Table 1 : For off-payroll engagements at a cost of over £58,200 per annum in place at 31 January 2012**

	FCO Services
Number in place on 31 January 2012	138
Of Which	
Number that have since come onto the payroll	7
Number that have since been re-negotiated/re-engaged, to include contractual clauses allowing the department to seek assurance as to their tax obligations	105*
Number that have not since been re-negotiated/re-engaged, and therefore continue without contractual clauses allowing the department to seek assurance as to their tax obligations	0
Number which have come to an end	26
Total	138

*\*All FCO Services contracts from May 2012 onwards include contractual clauses allowing the department to seek assurance as to their tax obligations.*



**Table 2: For all new off-payroll engagements between 23 August 2012 and 31 March 2013 for more than £220 per day and more than 6 months**

Number of new engagements ( including contract renewals)	148
Of Which	
Number of new engagements ( including renewals) which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	148
Of Which	
Number for whom assurance has been requested and received	120*
Number for whom assurance has been requested but not received	0
Number that have been terminated as a result of assurance not being received	0
Total	120

*\*13 contractors joined the organisation before 31 March 2013 but since the assurance process started, who are in scope. These will be picked up when we next run the assurance process. 15 have left the organisation*

## 8. Overall summary

The Head of Internal Audit has reported to me a strengthening position in relation to risk management, control and governance, based on the evidence from individual audit reviews in the current 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 further the framework of internal control and risk management.

**Christopher Moxey**

*Chief Executive and Accounting Officer*

*28 June 2013*

# 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  
28 June 2013*

# 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 2013 under the Government Trading Funds Act 1973.*

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

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

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

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

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

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

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

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

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

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

## Opinion on regularity

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

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of FCO Services' affairs as at 31 March 2013 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

## Opinion on other matters

In my opinion:

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

## Matters on which I report by exception

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

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

## Report

I have no observations to make on these financial statements.

## Amyas C E Morse

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

2 July 2013

# Statement of Comprehensive Income

for the year ended 31 March 2013

	Note	2012/13 £000	2011/12 £000
Revenue	2	141,172	128,991
Cost of sales	5	(105,914)	(93,745)
<b>Gross surplus</b>		<b>35,258</b>	35,246
Operating expenses	5	(28,924)	(29,076)
<b>Operating surplus</b>		<b>6,334</b>	6,170
(Loss)/profit on disposal of property, plant and equipment		(10)	0
<b>Surplus for the financial year before voluntary exit scheme</b>		<b>6,324</b>	6,170
Voluntary exit scheme	4(c)	9	(1,538)
<b>Surplus before financing</b>		<b>6,333</b>	4,632
Financing income	6	97	116
Financing costs	6	(178)	(293)
<b>Net financing</b>		<b>(81)</b>	(177)
<b>Surplus for the financial year</b>		<b>6,252</b>	4,455
Dividend	7	(945)	(735)
<b>Retained surplus for the financial year</b>		<b>5,307</b>	3,720
<b>Other comprehensive net income</b>			
Net gain on the revaluation of property, plant and equipment		343	43
<b>Total comprehensive income for the financial year</b>		<b>5,650</b>	3,763

All income and expenditure are derived from continuing operations.

The notes on pages 66 to 86 form part of these accounts.

# Statement of Financial Position

as at 31 March 2013

	Note	2012/13 £000	2011/12 £000
<b>Non-current assets</b>			
Intangible assets	8	369	892
Property, plant and equipment	9	8,943	6,637
<b>Total non-current assets</b>		<b>9,312</b>	7,529
<b>Current assets</b>			
Inventories	10	2,823	1,778
Trade and other receivables	11(a)	21,014	17,712
Cash and cash equivalents	12	32,049	37,636
<b>Total current assets</b>		<b>55,886</b>	57,126
<b>Total assets</b>		<b>65,198</b>	64,655
<b>Current liabilities</b>			
Trade and other payables	13(a)	(30,286)	(34,649)
<b>Total current liabilities</b>		<b>(30,286)</b>	(34,649)
<b>Total Assets less current liabilities</b>		<b>34,912</b>	30,006
<b>Non-current liabilities</b>			
Provisions due after one year	15	(206)	-
Financial liabilities	16	(1,902)	(2,852)
<b>Total non-current liabilities</b>		<b>(2,108)</b>	(2,852)
<b>Assets less liabilities</b>		<b>32,804</b>	27,154
<b>Taxpayers' equity</b>			
Public dividend capital		4,981	4,981
General reserve		152	56
Revaluation reserve		321	74
Government grant reserve		-	-
Income and expenditure account		27,350	22,043
<b>Total taxpayers' equity</b>		<b>32,804</b>	27,154

The notes on pages 66 to 86 form part of these accounts.

**Christopher Moxey**  
 Chief Executive and Accounting Officer  
 28 June 2013

# Statement of Cash Flows

## for the year ended 31 March 2013

	Note	2012/13 £000	2011/12 £000
<b>Cash flows from operating activities</b>			
Surplus on ordinary activities before dividend payable		6,252	4,455
Adjustments for non-cash transactions	17	2,697	1,695
Net interest payable	6	81	177
Increase in inventories		(1,045)	(347)
Increase in trade and other receivables		(3,302)	(5,180)
less movements in receivables relating to items not passing through the income statement			
- Accrued deposit interest		(3)	1
(Decrease) / increase in trade and other payables		(4,363)	2,106
less movements in payables relating to items not passing through the income statement			
- Working capital loan from FCO reclassified between non-current liabilities and current liabilities		2,000	-
- Dividend payable		(210)	(163)
- Accrued loan interest		62	59
Increase in provisions		206	-
<b>Net cash inflow from operations</b>		<b>2,375</b>	<b>2,803</b>
<b>Cash flows from investing activities</b>			
Purchases of intangible assets	8	(98)	(575)
Purchases of property, plant and equipment	9	(4,095)	(2,916)
Disposals of property, plant and equipment		56	13
<b>Net cash outflow from investing activities</b>		<b>(4,137)</b>	<b>(3,478)</b>
<b>Cash flows from financing activities</b>			
Loans repaid to FCO		(2,950)	(2,951)
Interest paid		(242)	(352)
Interest received		102	116
Dividend paid		(735)	(572)
<b>Net financing</b>		<b>(3,825)</b>	<b>(3,759)</b>
<b>Net decrease in cash and cash equivalents in the period</b>		<b>(5,587)</b>	<b>(4,434)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	12	<b>37,636</b>	42,070
<b>Cash and cash equivalents at the end of the period</b>	12	<b>32,049</b>	37,636

The notes on pages 66 to 86 form part of these accounts.

# Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2013

	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 2011	4,981	23	64	248	18,075	23,391
<b>Changes in taxpayers' equity for 2011/12</b>						
Unrealised net surplus on revaluation of property, plant and equipment			43			43
General reserve transfer - depreciation charge difference in year on revalued cost basis compared to historic cost basis		33	(33)			-
Release to Income and Expenditure Account of Government Grants due to Change in Accounting Policy				(248)	248	-
Retained surplus for the financial year	-	-	-	-	3,720	3,720
Total recognised income and expense for 2011/12	-	33	10	(248)	3,968	3,763
Balance at 31 March 2012	4,981	56	74	-	22,043	27,154
<b>Changes in taxpayers' equity for 2012/13</b>						
Unrealised net surplus on revaluation of property, plant and equipment			343			343
General reserve transfer - depreciation charge difference in year on revalued cost basis compared to historic cost basis		96	(96)			-
Release to Income and Expenditure Account of Government Grants due to Change in Accounting Policy				-	-	-
Retained surplus for the financial year	-	-	-	-	5,307	5,307
Total recognised income and expense for 2012/13	-	96	247	-	5,307	5,650
<b>Balance at 31 March 2013</b>	<b>4,981</b>	<b>152</b>	<b>321</b>	<b>-</b>	<b>27,350</b>	<b>32,804</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 related to property, plant and equipment. Due to a change in accounting policy in the year ended 31st March 2012 to reflect IPSAS 23 (Revenue from Non-Exchange Transactions) the reserve was released in full to the Income & Expenditure Account. The Income and Expenditure Account is used to account for the accumulated surplus of the Trading Fund.



# Notes to the Accounts

## 2012/13

### 1. Accounting policies

#### 1.1 Basis of accounting

These financial statements have been prepared in accordance with the Accounts Direction issued by HM Treasury on 18 December 2012, pursuant to section 4(6)(a) of the Government Trading Funds Act 1973, which requires the Trading Fund to comply with the accounting principles and disclosure requirements of the 2012/13 Government Financial Reporting Manual (FReM) and Trading Funds Accounts Guidance, as issued by HM Treasury.

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

#### 1.2 Accounting Convention

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

#### 1.3 Revenue

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

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

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

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

#### 1.4 Dividend

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

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

#### 1.5 Value added tax

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

#### 1.6 Operating leases

Leases are regarded as operating leases, unless substantially all risks and rewards of ownership of a lease are borne by FCO

Services. Lease payments under operating leases are recognised as an expense on a straight-line basis over the term of the lease.

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

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

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

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

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

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

### *1.8 Property, plant and equipment*

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

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

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

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

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

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

### *1.9 Intangible assets*

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

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

Future economic benefit has been used as the criteria in assessing whether an intangible asset meets the definition and

recognition criteria of IAS 38 where assets do not generate income. IAS 38 defines future economic benefit as, 'revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity.'

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

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

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

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

### *1.10 Research and development*

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

the respective project-related costs are treated as if they were incurred in the research phase only and expensed.

### *1.11 Government grants*

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

### *1.12 Bad debts provision*

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

### *1.13 Provisions*

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

### *1.14 Pension Costs*

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

### 1.15 Foreign exchange gains and losses

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

### 1.16 Contingent liabilities

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

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

### 1.17 Jointly controlled assets

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

## 2. Revenue

	2012/13 £000	2011/12 £000
Foreign and Commonwealth Office	90,374	82,215
Other UK Government bodies and other UK and International organisations	50,798	46,776
	<b>141,172</b>	128,991

## 3. Segmental Reporting

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

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

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

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

<b>Analysis of Operating Surplus by Service Delivery Group</b>	<b>Client Delivery</b>	<b>Operations</b>	<b>Services &amp; Logistics</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>2012/13</b>				
External revenue	46,083	69,091	25,998	141,172
Internal revenue	-	-	1,889	1,889
<b>Total revenue</b>	<b>46,083</b>	<b>69,091</b>	<b>27,887</b>	<b>143,061</b>
Cost of sales	(31,835)	(51,491)	(19,909)	(103,235)
Depreciation	(109)	(1,354)	(281)	(1,744)
Amortisation	(5)	(288)	(24)	(317)
Impairments	-	(618)	-	(618)
Internal cost	(1,653)	(236)	-	(1,889)
<b>Total cost</b>	<b>(33,602)</b>	<b>(53,987)</b>	<b>(20,214)</b>	<b>(107,803)</b>
<b>Gross surplus</b>	<b>12,481</b>	<b>15,104</b>	<b>7,673</b>	<b>35,258</b>
Operating expenses	(9,621)	(13,638)	(5,658)	(28,917)
Depreciation	(1)	(2)	(1)	(4)
Amortisation	(1)	(2)	(1)	(4)
<b>Total Operating Expenses</b>	<b>(9,623)</b>	<b>(13,642)</b>	<b>(5,660)</b>	<b>(28,925)</b>
<b>Surplus before financing</b>	<b>2,858</b>	<b>1,462</b>	<b>2,013</b>	<b>6,333</b>
<b>2011/12*</b>				
External revenue	36,839	66,688	25,464	128,991
Internal revenue	1	-	1,585	1,586
<b>Total revenue</b>	<b>36,840</b>	<b>66,688</b>	<b>27,049</b>	<b>130,577</b>
Cost of sales	(25,321)	(48,435)	(18,807)	(92,563)
Depreciation	(31)	(803)	(253)	(1,087)
Amortisation	-	-	-	-
Impairments	1	(103)	7	(95)
Internal cost	(1,448)	(138)	-	(1,586)
<b>Total cost</b>	<b>(26,799)</b>	<b>(49,479)</b>	<b>(19,053)</b>	<b>(95,331)</b>
<b>Gross surplus</b>	<b>10,041</b>	<b>17,209</b>	<b>7,996</b>	<b>35,246</b>
Operating expenses	(10,763)	(13,439)	(6,178)	(30,380)
Depreciation	(1)	(38)	(12)	(51)
Amortisation	-	(128)	(55)	(183)
<b>Total Operating Expenses</b>	<b>(10,764)</b>	<b>(13,605)</b>	<b>(6,245)</b>	<b>(30,614)</b>
<b>Surplus before financing</b>	<b>(723)</b>	<b>3,604</b>	<b>1,751</b>	<b>4,632</b>

\* The prior year analysis has been adjusted to provide the further segmental detail as required under 2012/13 FReM  
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<b>Analysis of Assets less Liabilities by Service Delivery Group</b>	<b>Client Delivery £000</b>	<b>Operations £000</b>	<b>Services &amp; Logistics £000</b>	<b>Corporate £000</b>	<b>Total £000</b>
<b>2012/13</b>					
<b>Segment Assets</b>					
Intangible assets	138	180	49	2	369
Property, plant and equipment	444	7,396	1,073	30	8,943
Inventories	1,804	433	586	-	2,823
Trade and other receivables	13,411	3,174	3,926	503	21,014
Cash and cash equivalents	-	-	-	32,049	32,049
<b>Segment Liabilities</b>					
Current liabilities	(12,296)	(6,072)	(2,624)	(9,294)	(30,286)
Provisions	-	-	-	(206)	(206)
Non current financial liabilities	-	-	-	(1,902)	(1,902)
<b>Segment assets less liabilities</b>	<b>3,501</b>	<b>5,111</b>	<b>3,010</b>	<b>21,182</b>	<b>32,804</b>
<b>2011/12</b>					
<b>Segment Assets</b>					
Intangible assets	126	712	41	13	892
Property, plant and equipment	422	5,196	1,010	9	6,637
Inventories	974	317	487	-	1,778
Trade and other receivables	7,524	4,207	5,434	547	17,712
Cash and cash equivalents	-	-	-	37,636	37,636
<b>Segment Liabilities</b>					
Current liabilities	(9,592)	(5,403)	(2,841)	(16,813)	(34,649)
Provisions	-	-	-	-	-
Non current financial liabilities	-	-	-	(2,852)	(2,852)
<b>Segment assets less liabilities</b>	<b>(546)</b>	<b>5,029</b>	<b>4,131</b>	<b>18,540</b>	<b>27,154</b>

## 4. Staff numbers and costs

### 4(a) Staff numbers

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

<b>Staff numbers</b>	<b>Permanent</b>	<b>Other*</b>	<b>Total</b>
<b>2012/13</b>			
Service Delivery	702	283	985
Sales & Marketing	26	20	46
Corporate Services	95	39	134
<b>Total Staff Numbers</b>	<b>823</b>	<b>342</b>	<b>1,165</b>
Capitalised Staff **	(4)	(11)	(15)
<b>Net Staff Numbers</b>	<b>819</b>	<b>331</b>	<b>1,150</b>
<b>2011/12</b>			
	Permanent	Other*	Total
Service Delivery	741	185	926
Sales & Marketing	30	12	42
Corporate Services	85	18	103
	856	215	1,071

\*Other comprises agency staff and fee paid officers.

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

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

	Permanent** £000	Other* £000	2012/13 Total £000
Salaries / agency staff and fee paid officers	34,649	26,047	60,696
Social security costs	2,576	42	2,618
Other pension costs	4,964	-	4,964
<b>Total staff costs</b>	<b>42,189</b>	<b>26,089</b>	<b>68,278</b>
Capitalised staff costs	(259)	(1,489)	(1,748)
<b>Total net staff costs</b>	<b>41,930</b>	<b>24,600</b>	<b>66,530</b>
	Permanent £000	Other* £000	2011/12 Total £000
Salaries / agency staff and fee paid officers	34,220	17,800	52,020
Social security costs	2,497	41	2,538
Other pension costs	5,091	-	5,091
<b>Total staff costs</b>	<b>41,808</b>	<b>17,841</b>	<b>59,649</b>
Capitalised staff costs	(137)	(1,239)	(1,376)
<b>Total net staff costs</b>	<b>41,671</b>	<b>16,602</b>	<b>58,273</b>

\*Other comprises agency staff and fee paid officers.

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



#### 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 other departures agreed		Total number of exit packages by cost band	
	2012/13	2011/12	2012/13	2011/12
<£10,000	-	-	-	-
£10,000 - £25,000	-	-	10	10
£25,000 - £50,000	-	-	8	8
£50,000 - £100,000	-	-	8	8
£100,000 - £150,000	-	-	3	3
£150,000 - £200,000	-	-	-	-
<b>Total number of exit packages by Type</b>	-	-	29	29
<b>Total resource cost (£'000)</b>	-	-	1,433	1,433

The value on the statement of financial position of (£9k) is a credit which relates to 2011/12

2011/12 - The value on the statement of financial position of £1,538k includes £105k of payments which related to 2010/11

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

#### 4(d) Pensions

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

For 2012/13, employers' contributions of £4,950,890 were payable to the PCSPS (2011/12 £5,071,622) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based

on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2012/13 to be paid when the member retires and not the benefits paid during this period to existing pensioners. Pension contributions for Inward Seconded Staff have been included in agency staff costs.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £17,110 (2011/12 £19,322) 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 £952 (2011/12 £1,060), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees. Pension contributions for Inward Seconded Staff have been included in agency staff costs. Contributions due to the partnership

pension providers at the Statement of Financial Position date were £nil (2011/12 £nil).

Contributions prepaid at that date were £nil (2011/12 £nil).

In the 12 months to March 2013 one individual (2011/12 no individuals) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £943 (2011/12 £nil).

## 5. Cost of sales and operating expenses

	2012/13			2011/12		
	Cost of sales £000	Operating expenses £000	Total £000	Cost of sales £000	Operating expenses £000	Total £000
Net staff costs	25,300	16,630	41,930	25,503	16,168	41,671
Agency staff and fee paid officers*	20,143	4,457	24,600	13,559	3,043	16,602
Training and recruitment	326	368	694	437	453	890
Travel	10,988	591	11,579	9,190	875	10,065
Consultancy	-	-	-	2	-	2
Professional services*	1,883	642	2,525	1,445	401	1,846
Communications	1,264	921	2,185	1,511	398	1,909
Supplies, services & facilities management **	31,432	3,822	35,254	31,227	4,803	36,030
Work in progress decrease	-	-	-	-	-	-
Freight	6,131	-	6,131	6,252	-	6,252
Maintenance	5,300	434	5,734	2,959	1,112	4,071
Operating leases - land & buildings	-	18	18	-	-	-
Operating leases - other	-	18	18	-	8	8
Accommodation charges***	468	731	1,199	478	747	1,225
(Profit)/loss on currency exchange	-	(5)	(5)	-	7	7
Other	-	189	189	-	727	727
Depreciation	1,744	4	1,748	1,087	51	1,138
Amortisation of grant income	-	-	-	-	-	-
Amortisation of intangible assets	317	4	321	-	183	183
Impairment losses on fixed assets	318	-	318	95	-	95
Impairment losses on intangible assets	300	-	300	-	-	-
Auditors' remuneration and expenses (no non-audit work)	-	100	100	-	100	100
<b>Total costs</b>	<b>105,914</b>	<b>28,924</b>	<b>134,838</b>	93,745	29,076	122,821

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

\*\* Includes £2,121,000 in respect of management charges from the FCO (2011/12 £2,076,000).

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

The total amount of research and development expenditure recognised as an expense during the period was £956,000 (2011/12 £917,000). This includes staff costs and an appropriate recovery of overheads.

## 6. Financing income and costs

	2012/13 £000	2011/12 £000
<b>Financing income</b>		
Government Banking Service interest	97	116
	<b>97</b>	116
<b>Financing costs</b>		
Working Capital Loan interest	(40)	(121)
Vesting Day Loan interest	(134)	(172)
Other Interest Payable	(4)	-
	<b>(178)</b>	(293)
<b>Net financing</b>	<b>(81)</b>	(177)

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

## 7. Dividend

	2012/13 £000	2011/12 £000
Statutory dividend	945	735
Discretionary dividend	-	-
Dividend payable	<b>945</b>	735

The dividend is payable to the Foreign and Commonwealth Office.

## 8. Intangible assets

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

\*Additions are stated after a prior year correction of £36.5k which reduced the balance. A prior year adjustment was not made as the value of the adjustment was not considered material to the financial statements.

## 8. Intangible assets (continued)

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

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

## 9. Property, plant and equipment

	Assets under construction	Fixtures	Information technology	Transport equipment	Plant and machinery	Total
	£000	£000	£000	£000	£000	£000
<b>2012/13</b>						
<b>Cost or valuation</b>						
At 1 April 2012	1,901	287	3,813	1,451	4,818	12,270
Additions*	3,365	154	379	100	97	4,095
Assets brought in to use	(1,386)	-	1,151	-	235	-
Transferred to intangible fixed assets	-	-	-	-	-	-
Disposals	-	-	(34)	(109)	(64)	(207)
Revaluation	-	-	599	10	(9)	600
As at 31 March 2013	3,880	441	5,908	1,452	5,077	16,758
<b>Depreciation</b>						
At 1 April 2012	-	14	1,694	923	3,002	5,633
Provided during the year	-	13	1,021	161	553	1,748
Disposals	-	-	(34)	(54)	(53)	(141)
Impairments	120	-	203	-	-	323
Revaluation	-	-	250	7	(5)	252
As at 31 March 2013	120	27	3,134	1,037	3,497	7,815
<b>Net book value</b>						
As at 31 March 2013	3,760	414	2,774	415	1,580	8,943
As at 31 March 2012	1,901	273	2,119	528	1,816	6,637
Owned as at 31 March 2013	3,760	414	2,774	415	1,580	8,943

All assets have been revalued at 31 March 2013 using appropriate indices.

\*Additions are stated after a prior year correction of £40.8k which reduced the balance. A prior year adjustment was not made as the value of the adjustment was not considered material to the financial statements.

## 9. Property, plant and equipment (continued)

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

## 10. Inventories

	2012/13 £000	2011/12 £000
Raw materials and consumables	2,823	1,778
Work in progress	-	-
	<b>2,823</b>	<b>1,778</b>
Amount of inventory write (back)/down	<b>(15)</b>	67

## 11. Trade receivables and other current assets

### 11(a) Analysis by type

	2012/13 £000	2011/12 £000
<b>Amounts falling due within one year:</b>		
Trade receivables	10,302	11,009
VAT	-	-
Other receivables	34	210
Prepayments and accrued income	10,678	6,493
	<b>21,014</b>	<b>17,712</b>

Included within prepayments and accrued income is £5,673,000 from the FCO (2011/12 £3,608,000).

### 11(b) Intra-Government balances

	2012/13 £000	2011/12 £000
Foreign and Commonwealth Office	11,285	9,544
Other central government bodies	4,694	4,906
Local authorities	90	57
Public Corporations	48	16
Subtotal: intra-government bodies	<b>16,117</b>	14,523
Balances with bodies external to government	<b>4,897</b>	3,189
Total trade receivables and other current assets	<b>21,014</b>	<b>17,712</b>



## 12. Cash and cash equivalents

	2012/13 £000	2011/12 £000
Balance at 1 April	37,636	42,070
Net change in cash and cash equivalents	(5,587)	(4,434)
Balance at 31 March	<b>32,049</b>	37,636

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	2012/13 £000	2011/12 £000
<b>Amounts falling due within one year:</b>			
Trade payables		3,023	4,854
Accruals*		12,409	11,274
Payments on account **		11,374	11,657
Other payables***		729	889
VAT		855	2,289
Dividends payable		945	735
Loans repayable in one year	16	951	2,951
		<b>30,286</b>	34,649

\* Classification re-statement of prior year. Also, included within accruals is £373,000 (2011/12 £556,000) due to FCO in respect of payroll.

\*\* Included within payments on account is £7,663,000 from the FCO (2011/12 £9,577,000).

\*\*\* Classification re-statement of prior year. Also, included in other payables is £744,000 (2011/12 £624,000) due to FCO in respect of management charges and accommodation.

### 13(b) Intra-Government balances

	2012/13 £000	2011/12 £000
Foreign and Commonwealth Office	13,077	20,812
Other central government bodies	3,813	4,006
Local Authorities	26	14
Public Corporations	-	1
Subtotal: intra-government bodies	16,916	24,833
Balances with bodies external to government	13,370	9,816
<b>Trade payables and other current liabilities</b>	<b>30,286</b>	<b>34,649</b>

### 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

	2012/13 £000	2011/12 £000
<b>Buildings</b>		
Expiry within one year	-	-
Expiry after 1 year but not more than 5 years	-	-
Expiry thereafter	102	111
	102	111
<b>Other:</b>		
Expiry within one year	3	1
Expiry after 1 year but not more than 5 years	-	8
Expiry thereafter	-	-
	3	9

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

## 15. Provision for liabilities and charges

	2012/13 £000	2011/12 £000
Balance at 1 April	-	-
Provided in the year	206	-
Provisions reversed in the year	-	-
Balance at 31 March	206	-

## 16. Financial liabilities

	2012/13 £000	2011/12 £000
<b>Loans</b>		
Repayable in under a year	951	2,951
Repayable in one to two years	951	951
Repayable in two to five years	951	1,901
Repayable after five years	-	-
	1,902	2,852

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	2012/13 Due after 12 Months £000
Vesting Day Loan	2,853	4.03%	01/04/08	951	1,902
Working Capital Loan	-	4.01%	01/04/08	-	-
	2,853			951	1,902

## 17. Adjustments for non-cash transactions

\* Disclosure re-statement of prior year.

		2012/13 £000	2011/12 £000
	<b>Note</b>		
Loss on disposal of property, plant and equipment		10	-
Amortisation	8	321	183
Adjustment to prior year intangible asset cost	8	-	279
Depreciation	9	1,748	1,138
Impairment of tangible assets*	5 & 9	323	126
Revaluation Impairment of tangible assets**	5	(5)	(31)
Impairment of intangible assets	8	300	-
		<b>2,697</b>	<b>1,695</b>

## 18. Capital commitments

Contracted capital commitments not provided in these accounts

	2012/13 £000	2011/12 £000
Property, plant and equipment	393	180
Intangible assets	-	16
	<b>393</b>	<b>196</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 2013 contingent liabilities existed in respect of employment £82,702 (2011/12 £50,000) and commercial disputes £Nil (2011/12 £Nil). While the outcome of these matters cannot be precisely foreseen it is anticipated the matters will be resolved within the next financial year.

## 21. Financial instruments

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

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

## **Credit risk**

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

## **Liquidity risk**

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

## **Interest rate risk**

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

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

## **Foreign currency risk**

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

## **22. Losses and special payments**

There were no costs falling into the categories of losses and special payments in 2012/13. (2011/12 cost falling into these categories were below the £250,000 level requiring separate disclosure).

## **23. Related party transactions**

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

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

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

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

## **24. Events after the reporting period**

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

The Accounting Officer authorised these Financial Statements for issue on 28 June 2013.

# FCO Services commentary on sustainability performance 2012/13

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

*This is the third year in which FCO Services as well as other Government Departments, including the FCO, have reported sustainable operations performance and associated expenditure within their Annual Reports and Accounts. The purpose is to increase transparency and accountability, by systematically reporting performance against the government's sustainability targets, and related expenditure.*

## **Sustainable Operations and Sustainable Procurement**

### *Strategy and Governance*

1. Given the Government's commitment to sustainable development, FCO Services attaches importance to reducing the environmental impact of its own operations and procurement. This is in accordance with FCO Services commitment to reducing environmental impacts as well as reducing costs and making efficiencies, where possible.
2. FCO Services' commitment to sustainability is reflected in its obligation to meet the Government's Greening Government Commitments (GGC) targets. FCO Services' performance against the GGC targets is monitored in conjunction with the FCO. FCO Services manages its environmental impacts under the FCO's Environmental Management System (EMS); this is formally accredited through the British Standards Institute (BSI) ISO 14001.

### *Sustainable operations and summary of performance: 2012/13*

1. GGC targets apply to the FCO's UK operations only, but also cover the sustainability impact from FCO Services (as well as Wilton Park Conference Centre). FCO Services is making good progress in meeting their share, contributing to the FCO's targets. In 2012/13 there has been a marked improvement in FCO Services' performance in its carbon emissions.
2. All sustainability figures in this report relate to FCO Services' performance only. Financial figures relate to FCO Services' expenditure in some areas, and their proportionate share and related impact. This performance measurement is also normalised to allow comparison between years and across departments and other public bodies.
3. Reporting on GGC targets and carbon offsetting is compulsory for all Government Departments. As tenants of the FCO, FCO Services is committed to aligning to these targets, and supporting the FCO by meeting its contribution to these targets. The methodology for the split has been fully agreed with the FCO and uses headcount as a basis for calculating the respective elements and to apportion the effects.

4. This report covers the environmental impacts within the scope of the GGC targets and carbon emissions associated with the Prime Ministerial policy that Departments purchase off-sets for international flights originating in the UK. The GGC data applies to FCO Services UK operations only, and non-wider market impacts.
5. FCO Services greenhouse gas emissions reduced by 1% in 2012/13 (after adjustments for the wider market impacts). The number of domestic flights fell by 55%. Waste arising has decreased by 21%. Office paper procurement rose by 14%. The amount of waste recycled increased by 17%, and water consumption fell by 5%. Measures to enhance biodiversity continue at our Hanslope Park site.
6. The FCO Services fleet is one area that has made significant changes to improve its carbon footprint in the last year. The fleet (made up of 42 vehicles) in various categories, 10 of which are hybrids or alternative low fuel specified with a CO<sub>2</sub> (g/km) below the low tax threshold of 109g/km. In addition, the environmental impact has been reduced by consolidating consignments for delivery and collection. HGV trailers operate on “road friendly Air suspension” which not only permits us to carry fragile consignments, but also reduces wear and tear and fuel consumption. These trailers are technically aerodynamically designed to reduce wind drag by up to 13%, this in-turn increases fuel efficiency. Our vehicles are also fitted with “Ad-blu” in the fuel tanks; this is an additive which mixes with the current onboard diesel within the fuel system and reduces 85% of the nitrogen oxide into harmless water vapour. Future plans include extending the fleet with additional lorries; these will exceed the Euro Emission standard from EU standard Class IV to Class V.
7. FCO Services remains on track to meet its contribution of the GGC targets for greenhouse gas emissions, domestic flights, water and waste reduction. Performance against the SOGE targets is summarised in the table on the next page:

Impact	2012/13 Performance	Target for 2014/15 (unless other year stated) FCO Services contributes to these targets	On/off track to meet target
Greenhouse gas emissions from UK estate and domestic air travel	2783 tonnes of CO2 equivalent (tCO2e)	14,520 tCO2e (a reduction of 25% on 2009/10 emissions)	On track
Estate energy expenditure	£679,124		
Number of domestic flights	13	588 flights (a 20% reduction on 2009/10 flights by 2015)	On track
Vehicle and domestic flight travel expenditure	£296,174		
CRC Energy Efficiency Scheme expenditure	£10,608 (£28,788, provision made in accounts to include accrual for 2011-12)		
Office water consumption	9.5 cubic metres per FTE	>6m3 per FTE = poor practice 4m3 – 6m3 per FTE = good practice <4m3 per FTE = best practice	On track for best practice at Old Admiralty Building. Off-track for good practice at King Charles Street building and Hanslope Park
Office water expenditure	£14,420		
Waste arising	162 tonnes	947 tonnes (a reduction of 25% on 2009/10 waste arising)	On track
Total waste disposal expenditure	£34,820		
Paper consumption	6,832 A4 reams equivalent	37,609 A4 reams equivalent (a reduction of 10% on 2010/11 consumption).	Met
Expenditure on GCOF carbon offsets for UK originated international flights	£3,395		
Emissions associated with those international flights	4992 tCO2		

*\*This figure is based on a straight line estimation for the last quarter of the year, and refers to the amount of carbon FCO Services purchased to offset its international flights. The actual amount is 2,143 tCO2, excluding wider markets and 3,314 tCO2 altogether.*



## Normalised Performance

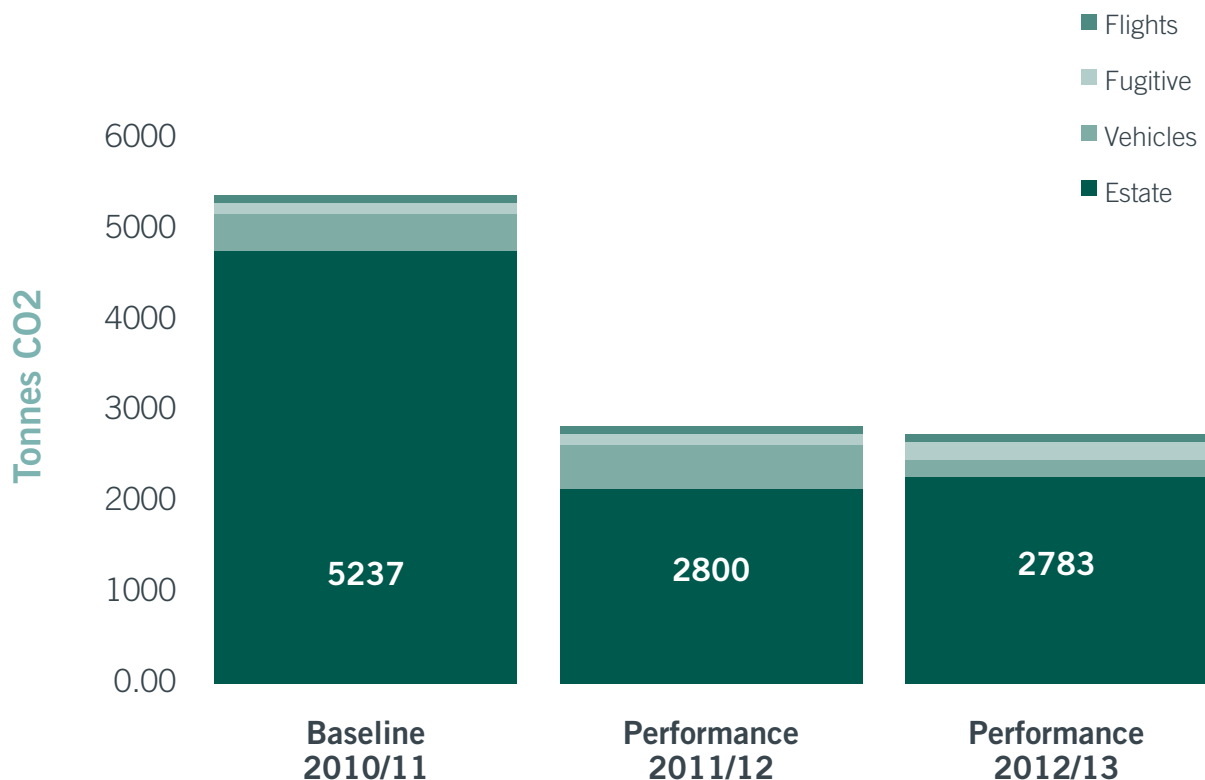
8. As a Trading Fund, FCO Services' emissions will always, to a large extent, be driven by customer demand for its services. This may inevitably result in increased effects on the environment if customer demand drives additional activity in the future. As a result our wider market impacts i.e. those associated with work for organisations other than the FCO, have been excluded. An exemption case (submitted to DEFRA) in the latter half of the year confirmed that these emissions should not be included in formal reporting; To allow like-for-like comparison between years and organisations, all data has been re-baselined (from 2009-10) on this basis. In addition, environmental impacts have been normalised by dividing consumption by both headcount and expenditure. This produces simple indicators of like-for-like comparison for the years ahead.
9. The expenditure figure is derived from FCO Services total spend, excluding wider market impacts. The Full Time Equivalent (FTE) staff number, excluding wider market impacts, equates to 65% of the total FCO Services FTE; this includes contractors and agency personnel as well as staff working on FCO premises in the UK plus FTE visitors to UK premises.

Impact	Per £ Expenditure	Per Full Time Equivalent (FTE)
Greenhouse gas emissions	49 grams CO2e per £ of expenditure	3.5 tonnes of CO2e per FTE
Office water consumption	0.0001 cubic metres per £ of expenditure	9.5 cubic metres per FTE
Waste arising	2.9 grams per £ of expenditure	205 kg per FTE

Greenhouse Gas Emissions		2012/13		
		kWh/miles/no.	tCO2	GBP (£)
Greenhouse gases:	Electricity (Non-Renewable)	4,412,287	2,296	£430,454
	Electricity (Renewable)	0	0	0
	Gas	324,270	60	£12,063
	Heating Oil	57,479	16	£1,143
	Biodiesel	580,260	1	£58,439
	Biomass	138,820	0	0
	District Heating	1,012,874	269	£177,025
	Fugitive	-	14	-
	Domestic flights	3,341	1	£982
	Train	47,473	4	£20,478
	Private mileage	222,247	76	£93,429
	Fleet	52,442	18	£86,136
	Chauffeur Service	2,555	1	£32,159
	Car Hire	39,788	12	£11,239
	Taxis	64,394	15	£54,594
<b>TOTALS:</b>		6,525,990 kWh 432,240 Miles	2783	£975,298

## Graphical Analysis

### Total CO2e



### **Performance Commentary (Including Targets)**

FCO Services Greenhouse Gas emissions fell by 1% in 2012/13 largely due to an increase in heating emissions. This small decrease was partly due to the colder winter and partly to raising office heating temperatures from 19-21C. Staff comfort levels at 19C were too low due to cold radiating directly through the large, thin, single-glazed windows of the listed buildings we occupy.

### **Controllable Impacts Commentary**

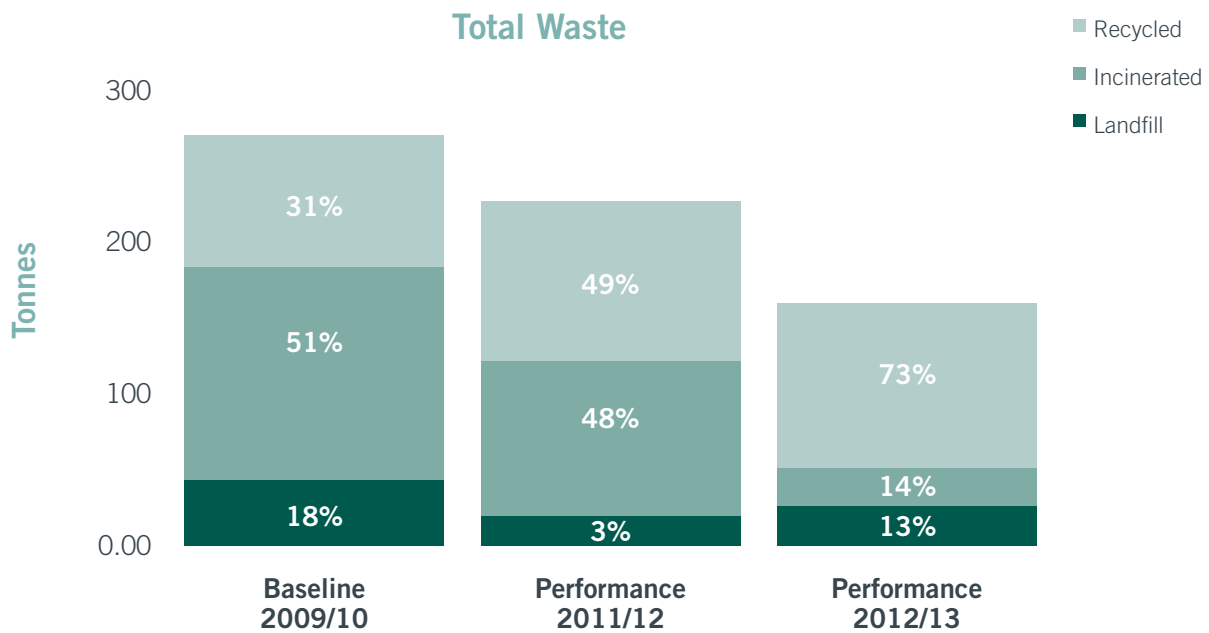
FCO Services' direct impacts are mainly from fossil fuels and electricity. These are being reduced through a combination of energy efficiency measures and converting some boilers so as to run off non-fuel crop biodiesel. In addition, the continued investment and expansion of the hybrid fleet continues to reduce emissions.

### **Future Measures**

We expect to meet our share of the GGC greenhouse gas target through supporting the FCO's estate rationalisation; identifying savings opportunities in various areas including the newly installed automatic metering, and installation of energy efficient equipment such as further LED lighting. The on-going ICT re-procurement should lead to significant improvements in the energy efficiency of the data-centres. As tenants of the FCO, FCO Services could also benefit from the fact that the FCO is also exploring longer term options for generating renewable energy on site.

Waste			2012/13	
			Tonnes	GBP (£)
	Total Waste		162	£34,820
	Hazardous waste		8	£2,290
	Total waste by method of disposal	Landfill	21	£5,549
		Reused/Recycled	117	£19,782
Incinerated/Energy from waste		23	£9,489	

### Graphical Analysis



### Performance Commentary (Including Targets)

FCO Services' waste has been estimated based on a percentage of total FCO waste, using headcount as a basis; total FCO Services' waste decreased by 21% on last year (and 34% on baseline year). There have been significant reductions in incinerated waste and an increase in the volume of waste recycled.

### Controllable Impacts Commentary

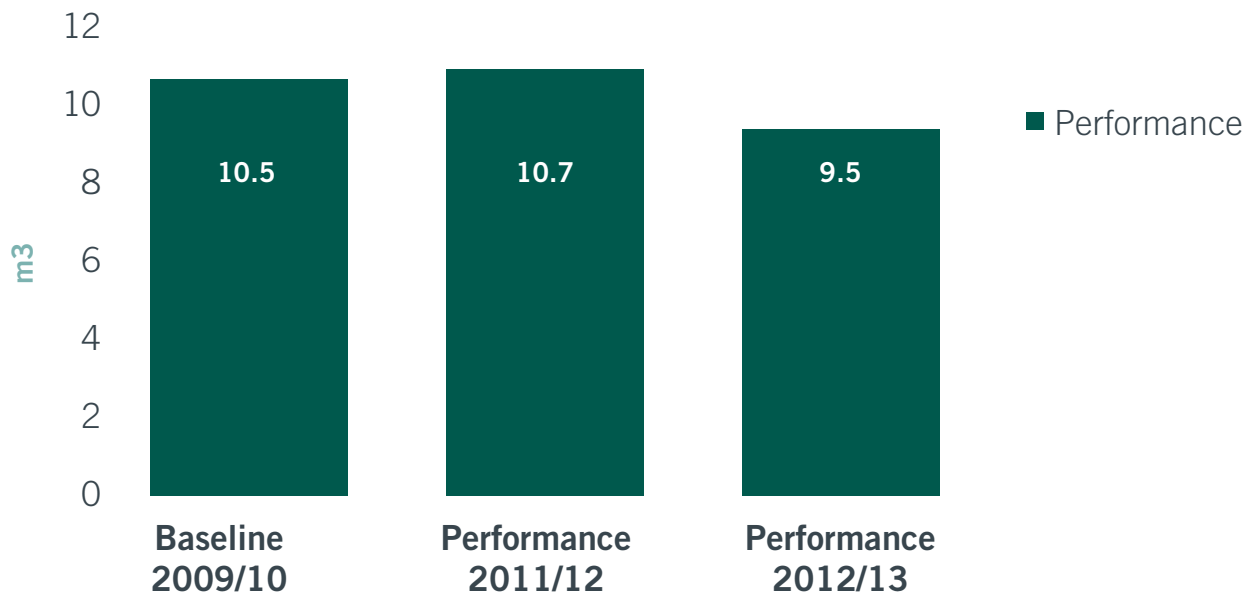
FCO Services has limited control over waste it uses as office accommodation is supplied by the FCO. However, it ensures, through its procurement process, the use of 100% recycled paper products, and encourages more sustainable waste solutions where possible.

FCO Services (Secure Disposals) recycled 1400 printer cartridges; the cartridges were reused and the cardboard recycled. The total weight diverted from landfill equates to between 1400-2100kg (based on boxed cartridges weighing between 1-1.5kg). This raised £25,964 which went to various charities.

Finite Resource Consumption - Water			2012/13	
			Cubic metres	GBP(£)
	Office Water Consumption	Supplied	7,469	£14,420
	Non-Office Water Consumption	Supplied	2670	£4,333
Total		Supplied	10,139	£18,753

**Graphical Analysis**

**Office Water Consumption all buildings (m3 per person)**



**Performance Commentary (Including Targets)**

Office water consumption decreased from 10.7m3 per FTE to 9.5m3 per FTE; this is a marked improvement, although consumption remains high, above the target and benchmark (where between 4-6m3/FTE is considered good practice). An evaporative cooling plant in a 'Non-Office' data-centre consumes a significant volume of water, and there are already plans to quantify the amount by sub-metering.

**Controllable Impacts Commentary**

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

## Biodiversity

FCO Services are tenants of the FCO, and as such have no direct influence in this area. However, there are some points worthy of noting. The FCO have no site of special scientific interest on its estate, and therefore no formal sustainable operations in the government estate. The FCO has, however, improved its commitment to biodiversity in 2012/13 through a positive management approach to existing habitats, species and landscaping at its Hanslope Park site.

Enhancement and preservation of the Ha-Ha wall has been undertaken in 2013, along with re-landscaping of the pasture area adjacent to the Ha-Ha wall. The FCO Services on site nursery continues to promote habitats for birds and insects and staff are actively involved in bird feeding on site.

## People and Initiatives

Staff are periodically informed of FCO Services performance through various communications channels. In addition, initiatives such as Earth Hour Switch off, Cycle to Work and Metropolitan Police Bike Safety Events are actively promoted and participated in by our staff. In addition, car sharing is actively promoted at our Hanslope Park site.

FCO Services staff also form part of the FCO's Environmental volunteers and collaborate in pan government initiatives including Closed Loop Paper Reduction, to encourage better more efficient printing.

## 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.

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

## Notes

1. FCO Services (along with Wilton Park) are included in the figures of the FCO report because they are included in the FCO's sustainability targets. The sustainability impacts of FCO Services (or the FCO's) overseas operations are not included.
2. Fugitive emissions refer to the air conditioning, refrigerants and cooling systems for data centres.
3. The respective costs for energy, water and some waste are not paid for by FCO Services, but form part of our tenancy with the FCO. The tables in the report reflect FCO Services' proportion of these, as well as our carbon impact; this equates to 16% except in the case of domestic flights where FCO Services' actual flights are reported.
4. The greenhouse gas figures exclude carbon emissions associated with one wider market server hosting service at the FCO's Hanslope Park site. With the agreement of Defra, DECC and OGC, responsibility for reporting those emissions were contractually passed to the customer. Estate electricity consumption includes electricity consumed in charging FCO Services owned electric vehicles. Some emissions from official train, underground, bus or coach travel have not yet been base-lined or reported.
5. Defra conversion factors have been used to calculate carbon emissions. Some totals include estimates where actual readings could not be taken. The methodology and calculations for each estimate is documented.
6. The greenhouse gas emission figures are non-weather corrected.
7. The expenditure figures relate to FCO Services' UK operations only and include VAT. FCO Services purchase fuel for the fleet (except electricity for electric vehicles).
8. The expenditure figure used for normalising the sustainability data includes all FCO Services' wider market (non FCO) revenue; this equates to £50.8m.
9. Expenditure on GCOF carbon offsets represents carbon offsets purchased to offset FCO Services' air travel originating in the UK in 2012/13. The requirement for offsets for the last quarter of 2011/12 was estimated on a straight line basis.
10. Under CRC Energy Efficiency Scheme rules, the FCO must purchase CRC allowances for all CRC qualifying emissions on its estate, including the emissions of its tenants. As a tenant FCO Services has made a provision to reimburse the FCO £10,602 for 2012/13 (and £18,180 accrued for 2011-12) CRC allowance costs.



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## FCO SERVICES

Part of the Foreign and Commonwealth Office

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